



**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT**

FINANCIAL STATEMENTS

JUNE 30, 2010

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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**STATE OF NEWMEXICO
HUMAN SERVICES DEPARTMENT
OFFICIAL ROSTER**

June 30, 2010

Name	Title
Kathryn Falls	Cabinet Secretary
Charissa Saavedra	Deputy Secretary
Mark Reynolds	Acting General Counsel
Elaine Olah, MBA	Director, Administrative Services
	Deputy Director, Administrative Services
Donna Sandoval, MBA	Deputy Director, Administrative Services
Danny Sandoval	Acting Director, Income Support
Helen Nelson	Deputy Director, Income Support
Ted Roth	Acting Deputy Director, Income Support
Michael Rogers	Acting Director, Child Support Enforcement
Stephen Klump	Deputy Director, Child Support Enforcement
Kathleen Valdes	Acting Director, Medical Assistance
Julie Weinberg	Deputy Director, Medical Assistance
Bob Beardsley	Director Behavioral Health Services
Linda Roebuck	Deputy Director Behavioral Health Services
Harrison Kinney	Acting Chief Information Officer
Brian Pietrewicz	Deputy Director, Information Technology Division
Eluid Martinez	Deputy Director, Information Technology Division
Kristina Lawson	Inspector General
Randy Scott	Human Resources Manager
Corinne Jameson	

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Independent Auditors' Report

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas,
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, and each major fund, of the New Mexico Human Services Department (Department) as of and for the year ended June 30, 2010 which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the fiduciary fund as of June 30, 2010 and the budgetary comparison schedules presented as required supplemental information for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the New Mexico Department of Human Services are intended to present the financial position, and the changes in financial position and, where applicable, cash flows, of only that portion of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas,
New Mexico State Auditor
Santa Fe, New Mexico

June 30, 2010, and the changes in its financial position, or, where applicable, its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Department as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary fund of the Department as of June 30, 2010, in conformity with accounting principles generally accepted in the United States of America. Finally, in our opinion, the budget comparison schedules referred to above present fairly in all material respects, the budget comparison for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico

and

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. In addition, the schedules listed as supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements referred to above. These schedules have been subjected to the auditing procedures applied by us in the audit of the financial statements referred to above and, in our opinion, such information is fairly presented, in all material respects, in relation to the financial statements referred to above taken as a whole.

Mess Adams LLP

Albuquerque, New Mexico
December 14, 2010

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010**

A. INTRODUCTION

Management's Discussion and Analysis (MD&A) is required supplementary information that is included to explain the Department's financial statements. It also presents management's diagnostic summary of the Department's finances for the fiscal year ended June 30, 2010. It should be read together with the financial statements, which follow it.

B. FINANCIAL STATEMENTS EXPLAINED

The Department's Basic Financial Statements (BFS) are presented in four parts, in the following order:

1. Department-Wide Financial Statements,
2. Fund Financial Statements,
3. Budgetary Comparison Statements, and
4. Notes to the Basic Financial Statements.

Department-Wide Financial Statements

The department-wide financial statements include the first two financial statements, the *Statement of Net Assets (Deficit)* and the *Statement of Activities*. These statements report information on all of the financial activities and resources of the Department as a whole except for information applicable to fiduciary activities. Fiduciary activities represent funds held in trust for others under the Child Support Enforcement program. These funds are not included in the resources available to support the Department's governmental activities. Governmental activities are financed by general revenue appropriations and private foundation and federal grants.

The *Department-Wide Statement of Net Assets (Deficit)* reports the assets of the Department and the corresponding claims and liabilities against those assets at June 30, 2010. The difference between the value of the assets and the liabilities is reflected as the value of the net assets. Increases or decreases in net assets measure whether the financial position of the Department improved or deteriorated. Net assets legally limited to a particular use are reported as restricted. Unrestricted net assets are assets that can be used to fund operating expenses in future years.

The *Department-Wide Statement of Activities* reports the expenses of providing healthcare services and financial assistance to eligible New Mexico residents, and the cost of general government operations of the Department, with a comparison of the program revenues obtained to finance them, and the general revenues made available to fund the difference. The statement also reports the change in net assets during the 2010 fiscal year.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

B. FINANCIAL STATEMENTS EXPLAINED (CONTINUED)

The Department's activities are grouped into the functional programs. The healthcare services program within the Medical Assistance Division is primarily funded under the Centers for Medicare and Medicaid (CMS) program administered by the U.S. Department of Health and

Human Services (DHHS). The behavioral health services programs are funded by the DHHS

Substance Abuse and Mental Health Services Administration (SAMHSA), Center for Substance Abuse Treatment (CSAT) and the State of New Mexico. Financial assistance programs are funded by the U.S. Department of Agriculture, the DHHS Administration for Children and Families, and the State of New Mexico. General government costs include the costs of administering the healthcare and financial assistance programs, and the costs of administering the Child Support Enforcement and Behavioral Health Services programs. General revenues are made available to the Department through appropriations from the State General Fund and other special funds, as well as, through amounts transferred from other state and local agencies that participate in the healthcare and financial assistance programs.

Fund Financial Statements

The Fund Financial Statements that follow the department-wide financial statements report on the financial position and changes in financial position of the individual funds used by the Department. Funds are separate accounting entities used in government accounting to segregate transactions according to the sources of funding and to demonstrate legal compliance with the restrictions that may be imposed on those financial resources. The Department uses two types of funds to account for its financial activities: Governmental Funds and Fiduciary Funds.

Governmental Funds are used to account for the finances of the governmental activities reported in the department-wide financial statements. The Department uses two types of governmental funds: a *general fund* to account for activities not required to be accounted for in other funds, and *special revenue funds*, to account for collection and expenditure of earmarked and restricted fund resources. Please refer to note 2 to the Financial Statements (page 24) for an explanation of these funds.

Fiduciary Funds are used to account for resources the Department holds for others. The Department uses one fiduciary fund (Fund 978), which is an *agency fund* used to hold child support payments collected from non-custodial parents until the payments are remitted to the custodial parents or third parties. The finances of this fund are reported in a separate Statement of Fiduciary Net Assets (page 22). The resources of this fund are excluded from the Department Wide Financial Statements because they cannot be used to finance the Department's operations.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

B. FINANCIAL STATEMENTS EXPLAINED (CONTINUED)

Reconciliation of Department-Wide Financial Statements to Fund Financial Statements

Differences in amounts reported in the department-wide financial statements versus in the fund financial statements result from the different measurement focus and basis of accounting used. The measurement focus used for governmental funds is based on budgetary control and the flow of resources in the current year. A reconciliation of differences between department-wide and fund financial statements is provided in separate schedules that detail the differences in accounting treatment.

The budgetary comparison statements furnish a budget-to-actual comparison for all governmental funds to report compliance with the approved budget. The budget amounts reported are those in the *Original Budget* and in the final *Amended Budget*, which reflects all legal adjustments, made to the budget since the start of the fiscal year. The *Budgetary Actual* amounts are stated on the same basis as the budget figures.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide detailed information to support and explain key financial information presented in the department-wide and fund financial statements. The notes provide information on the activities of the Department, on the bases of accounting used, and on accounting policies reflected in the financial statements, in addition to clarifying key financial information. They are integral to understanding the financial statements.

C. SUPPLEMENTAL INFORMATION

Supplemental Information is provided to demonstrate reconciliation of cash balances to the State Treasurer, to detail the open Joint Powers Agreements, to report the change in assets and liabilities of the agency fund, to review budgetary comparisons, and to report the details of federal grant awards and expenditures. The information is provided in compliance with federal and state reporting requirements.

D. ANALYSIS OF THE DEPARTMENT'S FINANCES AS A WHOLE

The Department reports in compliance with GASB 34, and we are pleased to provide comparative financial information for fiscal years 2008 through 2010. Management has not attempted to recast this information, except as adjusted in preparation of the fiscal year 2010 financial statements and information.

Fund balance is an important indicator to the performance of the Department over the past year. At the end of Fiscal Year 2010, the department fund balance is abnormal. It became evident in

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

D. ANALYSIS OF THE DEPARTMENT'S FINANCES AS A WHOLE (CONTINUED)

Fiscal Year 2010 that there were problems in reconciling federal reports and expenditures reported in the financial statements. The extent of the discrepancy for the Medical Assistance Program totaled \$103 million. The discrepancy is recognized as a liability in 2010 until \$54 million of the total is approved by the federal government for reporting/reimbursement and the source of the remaining \$49 million is identified. See Note 18 to the Financial Statements, *Deficit Fund Balance*, for further discussion.

Net Assets and Changes in Net Assets

Table 1 summarizes the net assets in Governmental of the Department for the fiscal year ended June 30, 2010, with comparative balances for the fiscal years ended June 30, 2009 and June 30, 2008.

Table 1 - Net Assets

	2010	2009	2008	2009 to 2010	%
	Governmental	Governmental	Governmental	Increase/ (Decrease)	Change
	Activities	Activities	Activities		
Assets:					
Current assets	\$322,517,191	\$498,813,821	607,960,821	(176,296,630)	-35%
Non-current assets	1,686,412	4,208,003	4,870,350	(2,521,591)	-60%
Total assets	324,203,603	503,021,824	612,831,171	(178,818,221)	-36%
Liabilities:					
Current liabilities	409,846,247	490,769,931	604,278,147	(80,923,684)	-16%
Long-term liabilities	-	-	-	-	-
Total liabilities	409,846,247	490,769,931	604,278,147	(80,923,684)	-16%
Net Assets:					
Invested in capital assets - net of related debt	1,686,412	4,208,003	4,870,350	(2,521,591)	-60%
Restricted for Grant Programs	5,246,041	12,438,493	7,819,651	(7,192,452)	-58%
Unrestricted	(92,575,097)	(4,394,603)	(4,136,977)	(88,180,494)	2007%
Total Net Assets (deficit)	(85,642,644)	12,251,893	8,553,024	(97,894,537)	-799%

The Department's net investment in capital assets totaled \$1,686,412 at June 30, 2010. Amounts reflected in this category are not available to fund future spending. The Department uses these assets to provide services. The decrease in the Department's capital assets is discussed below under the heading G. *Capital Assets and Debt Management*.

Net Assets decreased by 799% to a deficit net asset balance of (\$85,642,644). Decline is primarily due to decreases in total assets of \$178,818,221 and decreases in total liabilities of \$80,923,684. Total Assets decreased due to improved federal reimbursement that reduced year-end receivables in the Medical Assistance and Financial Assistance Programs; the use of funds previously reserved for grant programs; and reduced year-end commodities inventory. The Total Liabilities decrease is

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

D. ANALYSIS OF THE DEPARTMENT'S FINANCES AS A WHOLE (CONTINUED)

attributed to increased *Unearned Federal Revenue and Due to External Parties* and offset by decreased reversion and decreased liabilities to the state general fund Investment Pool and payables to other state agencies. The Department did not include in its 2010 Budget the amount needed to pay the liabilities pertaining to future compensated employee vacation, sick, and compensatory leave.

Restricted net assets represent resources that are subject to both state and federal restrictions on how they can be spent. The majority of these resources can only be spent on Human Services programs (medical care and financial assistance). In addition, restricted net assets are restricted for expenditure in subsequent years, reflecting state appropriations and federal grants made in the current and prior fiscal years that are to be carried forward for expenditure in fiscal year 2011 and subsequent years.

Table 2 - Changes in Net Assets

	2010	2009	2008	2009 to 2010	% Change
	Governmental Activities	Governmental Activities	Governmental and Business Activities	Increase/ (Decrease)	
Revenues					
<i>Program Revenues:</i>					
Charges for Services	77,200,349	59,863,152	66,405,739	17,337,197	29%
Federal funds	3,837,477,427	3,356,656,503	2,795,242,001	480,820,924	14%
Total Program Revenues	3,914,677,776	3,416,519,655	2,861,647,740	498,158,121	15%
<i>General Revenues & Special Items:</i>					
State Appropriation, net	683,588,226	762,723,793	835,343,358	(79,135,566)	-10%
Transfer from Other State Agencies	124,663,175	142,370,383	117,178,792	(17,707,208)	-12%
Total Revenues	4,722,929,177	4,321,613,831	3,814,169,890	401,315,346	9%
Expenses:					
Healthcare services	3,828,735,392	3,484,513,628	3,122,389,005	344,221,764	10%
Financial Assistance	676,931,461	491,937,174	365,705,383	184,994,287	38%
General Government	315,156,861	341,464,160	325,058,833	(26,307,299)	-8%
Total Expenses	4,820,823,714	4,317,914,962	3,813,153,221	502,908,752	12%
Increase (Decrease) in Net Assets	(97,894,537)	3,698,869	1,016,669	(101,593,406)	-2747%
Net assets-beginning of year	12,251,893	8,553,024	7,536,355	3,698,869	43%
Net assets-end of year	(85,642,644)	12,251,893	8,553,024	(97,894,537)	-799%

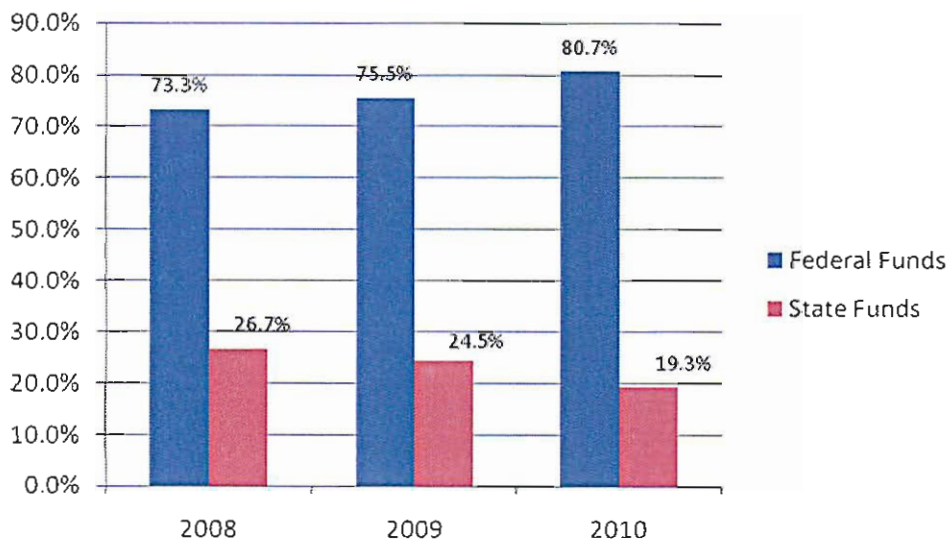
Table 2 presents the detail changes in net assets from 2008 to 2010. Net assets decreased to (\$85,642,644), a 799% decrease from 2009. Table 2 reflects a 15% growth in total program revenues primarily due to the increased federal funding in Medical Assistance Program and the Supplemental Nutritional Assistance Program (SNAP) from the American Recovery and Reinvestment Act (ARRA) funds. The increase in federal funding resulted in a decrease in state appropriations and transfers from other state agencies by 19% and 12% respectively.

STATE OF NEW MEXICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

D. ANALYSIS OF THE DEPARTMENT'S FINANCES AS A WHOLE (CONTINUED)

Expenditure increases to the Medicaid Program reflect the Program's projections for increased enrollment, utilization and the increased federal medical assistance percentage (FMAP) as a result of the ARRA matched by available *Other Revenue*. Total expenditures increased by 10% or \$344.2 Million to a total \$3.8 Billion. Expenditures increased in the Financial Assistance Programs by 38% from 2009. Total expenditures increased by \$185 million to a total of \$677 million. The increase in Financial Assistance programs was principally due to increase support for the Supplemental Nutrition Assistance Program (SNAP) grant funds from the ARRA and increased caseload and expenditures in the Temporary Assistance to Needy Families (TANF) program.

Figure 1
Changes in Federal and State Revenues



The comparison of the Department's federal and state revenues over the past three years is shown in **Figure 1**. As this chart demonstrates, just over eighty percent (80.7%) of the Department's revenues came from federal funds, an increase from 75.5% in 2009. The remaining 19.3% matching funds were comprised of State general revenue appropriations, reimbursements from other state agencies, miscellaneous revenues and transfers.

The heavy reliance on federal funding and in particular Recovery Act funding, and the size of the Department's overall budget, subject the Department to significant external oversight of its program and fiscal operations. The detail amounts of grant funded expenditures can be seen in the Schedule of Expenditures of Federal Awards (SEFA) on page 66.

STATE OF NEW MEXICO
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010

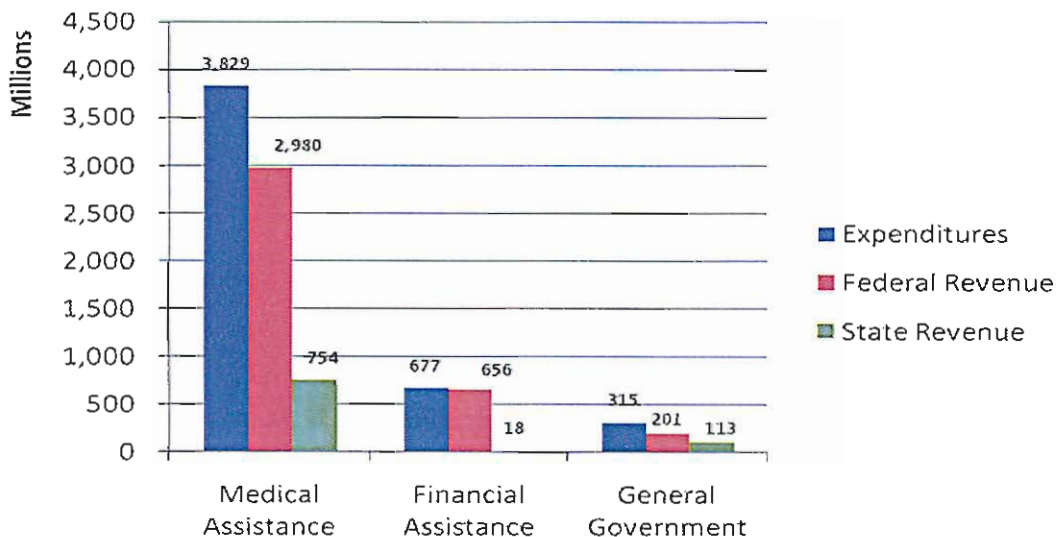
D. ANALYSIS OF THE DEPARTMENT'S FINANCES AS A WHOLE (CONTINUED)

The *Statement of Activities* reports program, matching state revenue and direct expenses for the Department's governmental activities. Direct expenses are those directly associated with a program. Program revenues include reimbursements by other agencies for payment of services provided to clients on their behalf, as well as grants that are designated to meet operational requirements of the programs.

Governmental Activities

Costs not covered by program revenues are covered by the sources of general revenues (money provided by the state's tax payers) that primarily include state appropriations and transfers from other state agencies. The Bar Chart in **Figure 2** shows the relationship of governmental direct expenses to program revenues for fiscal year 2010.

Figure 2 – Total Expenditures and Revenues



The total costs of all the Department's governmental activities this year was \$4,820,823,714. Of these total costs, 79% were for medical assistance services provided to eligible residents of the state, primarily under the Medicaid program of which 78% was financed by federal grants, and general revenues and charges for services funded 22%. Most of the state appropriations are committed to match the federal government's share of the costs of the medical assistance program.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget Compared to Amended Budget

Differences between the original budget and the final amended budget were a result of various budget adjustments and appropriations. The agency budgeted federal funds, miscellaneous revenues, fund balance, and the reauthorization of computer systems enhancement funds, and the associated certified federal financial participation. In SFY10 the agency did not reduce General Fund and associated federal funds as a result of budget solvency reductions authorized by the New Mexico Legislature and the Governor as it did in FY09; in FY10 the solvency reductions were implemented through an Executive Order. The General Fund savings implemented as a result of the Executive order and 5 furlough days were returned to the General Fund through reversion at year end. The total reversion attributable to the Executive order and Furloughs was \$29,335,600

There were some adjustment to non-recurring budgets established as multiyear budgets in SFY09 in fund (890) to budget and track the American Recovery and Reinvestment Act (ARRA) funds appropriated to New Mexico. Other significant budget increases occurred in the Medicaid program budget, and the Supplemental Nutrition Assistance Program (SNAP) budget resulting from increases in federal funds.

A brief overview of the major initiatives and activities that required budget adjustments are as follows:

- Solvency reductions were implemented through Executive Order totaling \$29,335,600 and will return to the General Fund through the HSD FY10 reversion.
- \$27,075,120 in budget increases was processed in Fund 890 attributable to Federal ARRA funds. The funding was for SNAP Admin (\$1,121,959), General Assistance (\$2,000,000) from the Governor's Stabilization fund, The Emergency Food Assistance Program (TEFAP) (\$163,839) and Temporary Assistance for Needy Families (TANF) (\$23,789,322). Some of the original budgets established in SFY09 for ARRA were multiyear appropriations for FY 09, 10 and 11 making the adjustment in SFY10 less than FY09.

Original Budget Compared to Amended Budget

- One Budget Adjustment was processed in FY10 totaling \$50,754 to transfer funds between categories in fund 901 for computer enhancement projects. Expenditures for the ISD2 project were limited in SFY 10 as the Department evaluated the direction of the project and sought approval of an Implementation Advanced Planning Document from our Federal Partners.
- Other significant increases for federal programs not attributable to ARRA were Low Income Heating and Energy Assistance Program (LIHEAP) increase of \$10,520,193, SNAP benefits increases of \$125,530,000 driven by caseload increases, \$3,700,000 in TANF appropriated as a Section 6 Supplemental in the Laws of 2010.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

E. GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

- Special Session Appropriation were also budgeted in FY10 as follows: In the Medicaid program two appropriations from the FY09 Regular Session were modified during the regular session were also budgeted in FY10. One of the appropriations was for the Developmental Disability (DD) waiver of \$4,000,000 GF. The other appropriation was for Children's Behavioral Health for \$1,500,000 in GF. Both of these appropriations were re-authorized for the Medicaid program shortfall vacating the requirement that the funds be used for DD and Children's Behavioral Health.

Below are highlights of adjustments.

- Category transfers and increases to address shifts in priorities were prepared in Program Support to: fund costs associated with personnel expenditures in the Division; and budgeted a federal grant to fund data production for Behavioral Health services.
- Federal funds were increased in Medical Assistance Administration Budget to recognize the federal funds associated the two GF appropriations reauthorized for the Medicaid Program shortfall in SFY10 (\$22,235,754), increase federal funds to flow through to other state agencies for their respective Medicaid programs (\$2,395,789).
- Two budget adjustments were processed in the Medicaid Program: One adjustment was required to fund the cost of the Mi Via Waiver and Personal Care Option (PCO) program management and the other was required to reduce the budget from Tobacco Settlement payments to the Medicaid program. Revenues from this source were overestimated during the last legislative session.
- Income Support administration budget was realigned by \$800,000 to meet the Contractual Services requirements for the program.

Amended Budget Compared to Actual Expenditures and Revenues

- In Fund 052 the total revenue exceeded total expenditures by \$3,560,683 which is largely driven by the reversion which was implemented through Executive Order.
- In Fund 974 total revenues and total expenditures equaled each other reflecting the nature of the flow through of the LIHEAP program which has no match requirement.
- In Fund 975 total revenues exceeded total expenditures by \$1,138,962 which is amount that will be retained in fund balance for the Interim Assistance Reimbursement (IAR). This was authorized by the legislature to allow these funds to be used for the GA Program in subsequent fiscal years
- In fund 976 expenditures exceeded revenues by \$88,407,560 which is attributable to Medicaid program under reporting and a year-end adjustment of ARRA federal revenue. *See Footnote 18 and Management Response to Audit Finding 10-09.*
- In Fund 890 total revenues and total expenditures equaled each other reflecting the nature of the flow through of the ARRA federal funds.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

F. CAPITAL ASSETS AND DEBT MANAGEMENT

Capital Assets

The Department's investment in capital assets as of June 30, 2010, amounted to \$1,686,412 net of accumulated depreciation. This investment in capital assets includes automobiles, equipment and machinery, data processing, and furniture and fixtures. The total decrease in the Department's investment in capital assets for the current period was 60%. The loss on capital assets due to disposal of \$2,001,082, the majority was data processing equipment, was responsible for the overall decrease in capital assets.

Total depreciation expense for the year was \$908,622. All depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Capital Assets for the Department are presented in Note 4 on page 33 to illustrate changes from the prior year.

Debt

At June 30, 2010 the Department had no long-term debt resulting from borrowing.

G. THINGS AFFECTING THE DEPARTMENT'S FUTURE

State Economy

The decline in state revenues, further budget reductions and increased compliance efforts over Recovery Act funds received by the Department will continue to be significant in Fiscal Year 2011. Action by the Department of Finance reduced FY 2011 budgets in response to declining General Fund Estimates in August 2010. General Fund Estimates presented on December 2, 2010 indicates some improvement, however the outlook for FY 2012 is still bleak. January 1, 2011 will see a new administration seated and significant programmatic reductions could result.

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act funding available to the Department was will largely expire in the first quarter of Fiscal Year 2011. ARRA funding for Medicaid Program Recovery Act funding will continue through June 30, 2011 with decreased FMAP was extended through the last two quarter of state fiscal year 2011, at stepped down rates for the last two quarter. The State continues to experience a high demand for public assistance benefits and with the loss of Recovery Act funding the Department in 2011 and 2012 will have to evaluate reductions to programs and the impact to the citizens of New Mexico.

Reporting requirements under ARRA will continue through Fiscal Year 2011 and will be subject to additional federal reviews and audits for all programs affected including Medicaid, SNAP, Child Support Enforcement and the Community Services Block Grant. The Department has completed several initiatives to address the increased reporting requirements of the Recovery Act funds and must continue these efforts into the next two fiscal years with reduced resources.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

G. THINGS AFFECTING THE DEPARTMENT'S FUTURE (CONTINUED)

Eligibility System Replacement

Replacement of the Department's Integrated Service Delivery eligibility system (ISD2) is a top priority. The system has been operating since 1986, with program modules that were developed in the 1970's. The system runs on a mainframe, using legacy technologies, with maintenance and operations costs that exceed \$6 million per year. The ISD2 computer system is already extremely complex, as it contains over 2 million data elements and determines eligibility for benefits valued at over \$3.3 billion per year through over 40 categories of assistance, each with different eligibility rules and frequently changing requirements. The New Mexico Human Services Department (HSD) serves 1 in 3 New Mexicans; the ISD2 system plays a critical role in providing these services.

Continuing to rely on ISD2 risks catastrophic system failure. This could potentially impact benefit delivery for over 800,000 eligible individuals. Failure to meet standards set by Federal and State authorities would expose the Department and the State to substantial legal and financial liability. Even a short amount of down-time could result in financial liability that would far exceed the projected replacement costs of the existing system.

Health Care Reform, meanwhile, imposes additional requirements and timelines. If ISD2 is not replaced, HSD will not be able to comply with the Federal mandates for having a Healthcare Insurance Exchange in place by January 1, 2014. Failure to meet HCR requirements could impact the delivery of health care for over 600,000 recipients. The requirements are: the Medicaid module needs to be in testing by 1/2013 to meet Health Care Reform requirements and the System must be in production by 1/2014.

The ISD2 system supports the administration of public assistance programs to include:

Temporary Assistance to Needy Families (TANF)/New Mexico Works (NMW); Supplemental Nutrition Assistance Program (SNAP); Over 30 medical assistance (Medicaid) programs; State Funded Cash Assistance Programs (General Assistance); Low Income Home Energy Assistance Program (LIHEAP); and the Refugee Cash Assistance Program (RCA). ISD2 provides business support for the following functionality: Eligibility Determination and Benefit Calculation, General Case Maintenance Tools, NMW Case Management, Client Notice Generation, Establishment of Benefit Claims, Communication with Tribal Entities.

Federal Patient Protection and Affordable Care Act (PPACA)

Decisions on the implementation of Patient Protection and Affordable Care Act (otherwise known as Healthcare Reform (HCR)) will have policy and operational implications for the Department. After enactment of PPACA, Governor Richardson created the Office of Health Care Reform *in the* Human Services Department and appointed a leadership team comprised of the Secretaries of the Human Services Department, Department of Health, Department of Workforce Solutions, Taxation and Revenue

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010**

G. THINGS AFFECTING THE DEPARTMENT'S FUTURE (CONTINUED)

Department, Department of Information Technology, Children Youth and Families Department, Aging and Long Term Services Department, Indian Affairs Department, Department of Finance and Administration, Public Education Department, and Higher Education Department, the Superintendent of the PRC Division of Insurance, the Directors of the Risk Management Division of the General Services Department, Worker's Compensation Administration and the Women's Health Advisory Council and a representative from the Governor's Office. In a presentation to the Legislative Health and Human Services Committee, on November 8, 2010 the following points were described.

- Eligibility for Medicaid will be expanded to 133% FPL (138% FPL with 5% income disregard)
- Assuming 57% percent participation among the newly eligible, 145,024 individuals will be participating as new Medicaid enrollees in 2019 * -represents a 52.6% reduction in NM's uninsured.
- Assuming 75% percent participation among the newly eligible, 201,855 individuals will be participating as new Primary cost of Medicaid expansion will be borne by the federal government (100% FMAP for "newly eligible" from 2014 through 2016; FMAP reaches 90% in 2020 and stays there).
- Requirement of health care coverage will help enroll those who are eligible today for Medicaid but not enrolled –primarily about 62,000 children.
- Health reform includes a MOE requirement that prohibits states from changing current Medicaid eligibility levels, procedures and methodologies until January 2014 for adults and October 2019 for children
- Newly eligible must receive at least a benchmark benefit package
- Health Care Reform (HCR) will significant change the way HSD conducts business Medicaid enrollees in 2019 * -represents a 77.1% reduction in NM's uninsured.

H. CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

The Department's financial statements are designed to present users with a general overview of the Department's finances and to demonstrate the Department's accountability. If you have any questions about the report or need additional information, contact the Department's CFO, Elaine Olah, at Administrative Services Division, NM Human Services Department, PO Box 2348, Santa Fe, New Mexico 87504-2348.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
DEPARTMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2010**

	Total Governmental Activities
ASSETS	
Current assets	
Cash	\$ 58,274
Interest in the State Treasurer General Fund Investment Pool	34,880,535
	<u>34,938,809</u>
Receivables	
Federal grants	252,008,579
Due from external parties	174
Accounts receivable - net	20,461,484
Due from other state agencies	14,921,082
Net receivables	<u>287,391,319</u>
Supplies and commodities inventory and other	187,063
Total current assets	<u>322,517,191</u>
Capital assets - net	<u>1,686,412</u>
Total assets	<u>324,203,603</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued payroll	21,851,175
Healthcare services payable	210,924,276
Due to State Treasurer General Fund Investment Pool	3,730,274
Reversion payable to State General Fund	32,875,015
Compensated absences	4,354,600
Other liabilities	595,934
Due to other state agencies	25,358,458
Unearned federal revenue	40,645,002
Due to external parties	1,096,828
Due to other entities	<u>68,414,685</u>
Total liabilities	<u>409,846,247</u>
Net assets (deficit)	
Invested in capital assets	1,686,412
Restricted for special programs	5,246,041
Unrestricted (deficit)	<u>(92,575,097)</u>
Total net assets (deficit)	<u>\$ (85,642,644)</u>

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
DEPARTMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Healthcare services	\$ 3,828,735,392	68,016,205	2,980,457,036	(780,262,151)
Financial assistance	676,931,461	5,183,367	656,012,014	(15,736,080)
General government	315,156,861	4,000,777	201,008,377	(110,147,707)
Total governmental activities	4,820,823,714	77,200,349	3,837,477,427	(906,145,938)
General Revenues				
State General Fund appropriations				716,210,500
Reversion of State General Fund appropriations - 2010				(32,622,274)
Transfers from other state agencies				124,663,175
Total general revenues and transfers				808,251,401
Change in net assets				(97,894,537)
Net assets - beginning of year				12,251,893
Net assets (deficit) - end of year				\$ (85,642,644)

See Notes to Financial Statements.

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2010

	General (05200)	ARRA (89000)	Data Processing Appropriations (90100)	Income Support L Warrants (97400)	Income Support N Warrants (97500)	Medical Assistance (97600)	Total Governmental Funds
ASSETS							
Cash	\$ 500	-	-	-	-	57,774	58,274
Interest in the State Treasurer General Fund Investment Pool	-	2,453,065	3,703,085	75,558	4,389,967	24,258,860	34,880,535
	500	2,453,065	3,703,085	75,558	4,389,967	24,316,634	34,938,809
Receivables							
Federal grants	48,057,999	21,455,111	374,105	364,216	5,144,488	176,612,660	252,008,579
Accounts receivable - net	465,994	-	-	-	9,779	19,985,711	20,461,484
Due from other funds	1,099,211	187	791	32,567	535,310	4,904,405	6,572,471
Due from other state agencies	699,052	-	-	-	-	14,222,030	14,921,082
Net receivables	50,322,256	21,455,298	374,896	396,783	5,689,577	215,724,806	293,963,616
Supplies and commodities inventory, other	187,063	-	-	-	-	-	187,063
Total assets	\$ 50,509,819	23,908,363	4,077,981	472,341	10,079,544	240,041,440	329,089,488
LIABILITIES AND FUND BALANCES							
Accounts payable and accrued payroll	\$ 15,079,585	212,032	52,397	160	4,838,652	1,668,349	21,851,175
Healthcare services payable	-	19,732,728	-	-	-	191,191,548	210,924,276
Due to State Treasurer General Fund Investment Pool	3,730,274	-	-	-	-	-	3,730,274
Reversion payable to State General Fund	3,837,384	-	64,001	-	3,947,075	25,026,555	32,875,015
Other liabilities	370,487	-	4,209	-	21,912	199,326	595,934
Due to other funds	2,523,126	3,963,603	92	218,379	40,903	923,022	7,669,125
Due to other state agencies	24,450,090	-	-	253,802	-	654,566	25,358,458
Deferred federal revenue	38,525	-	-	-	-	40,606,477	40,645,002
Due to other entities	143,489	-	-	-	92,039	68,179,157	68,414,685
Total liabilities	50,172,960	23,908,363	120,699	472,341	8,940,581	328,449,000	412,063,944
Commitments and contingencies							
Fund balances (deficit)							
Reserved for inventory	187,063	-	-	-	-	-	187,063
Reserved for special programs	149,796	-	3,957,282	-	1,138,963	-	5,246,041
Unreserved - undesignated	-	-	-	-	-	(88,407,560)	(88,407,560)
Total fund balances (deficit)	336,859	-	3,957,282	-	1,138,963	(88,407,560)	(82,974,456)
Total liabilities and fund balances	\$ 50,509,819	23,908,363	4,077,981	472,341	10,079,544	240,041,440	329,089,488

See Notes to Financial Statements.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
RECONCILIATION OF DEPARTMENT-WIDE STATEMENT
OF NET ASSETS TO GOVERNMENTAL
FUNDS BALANCE SHEET
Year Ended June 30, 2010**

Amounts reported for governmental activities in the
Statement of Net Assets are different because

Fund balances (deficit) of governmental funds	\$ (82,974,456)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,686,412
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	<u>(4,354,600)</u>
Net assets (deficit) of governmental activities	<u><u>\$ (85,642,644)</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2010

	General (05200)	ARRA (89000)	Data Processing Appropriations (90100)	Income Support L Warrants (97400)	Income Support N Warrants (97500)	Medical Assistance (97600)	Total Governmental Funds
Revenues							
Federal grants	\$ 200,036,285	420,301,305	972,092	17,814,118	518,594,814	2,679,758,813	3,837,477,427
Other revenues	6,350,439	-	-	-	2,833,705	68,016,205	77,200,349
Total revenues	206,386,724	420,301,305	972,092	17,814,118	521,428,519	2,747,775,018	3,914,677,776
Expenditures-current							
Healthcare services							
Contractual services	-	-	-	-	-	7,983,127	7,983,127
Healthcare services	-	300,698,223	-	-	-	3,503,383,191	3,804,081,414
Total healthcare services	-	300,698,223	-	-	-	3,511,366,318	3,812,064,541
Financial assistance							
Personal services	-	4,122,761	-	-	936,307	-	5,059,068
Contractual services	-	6,172,664	-	-	14,019,026	-	20,191,690
Financial assistance	3,077,542	110,096,236	-	17,706,453	517,774,381	-	648,654,612
Other operating costs	-	985,859	-	140,232	-	-	1,126,091
Total financial assistance	3,077,542	121,377,520	-	17,846,685	532,729,714	-	675,031,461
General government							
Personal services	97,208,525	-	-	-	-	-	97,208,525
Contractual services	102,180,509	-	1,400,342	-	-	-	103,580,851
Other operating costs	36,726,024	-	293,735	-	-	-	37,019,759
Total general government	236,115,058	-	1,694,077	-	-	-	237,809,135
Expenditures-capital outlay	144,248	225,562	18,303	-	-	-	388,113
Total expenditures	239,336,848	422,301,305	1,712,380	17,846,685	532,729,714	3,511,366,318	4,725,293,250
Excess (deficiency) of revenue over expenditures	(32,950,124)	(2,000,000)	(740,288)	(32,567)	(11,301,195)	(763,591,300)	(810,615,474)
Other financing sources (uses)							
State General Fund appropriations	108,414,179	-	-	32,567	16,387,233	591,376,521	716,210,500
Transfers in from other state agencies	758,550	2,000,000	1,900,000	-	-	120,004,625	124,663,175
Transfers out to other state agencies	(74,661,923)	-	-	(1,900,000)	-	(16,670,851)	(93,232,774)
Reversions - 2010	(3,584,643)	-	(64,001)	-	(3,947,075)	(25,026,555)	(32,622,274)
Total other financing sources (uses)	30,926,163	2,000,000	1,835,999	(1,867,433)	12,440,158	669,683,740	715,018,627
Net change in fund balances	(2,023,961)	-	1,095,711	(1,900,000)	1,138,963	(93,907,560)	(95,596,847)
Fund balance, beginning of year	2,360,820	-	2,861,571	1,900,000	-	5,500,000	12,622,391
Fund balances (deficit), end of year	\$ 336,859	-	3,957,282	-	1,138,963	(88,407,560)	(82,974,456)

See Notes to Financial Statements.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
RECONCILIATION OF DEPARTMENT-WIDE STATEMENT OF
ACTIVITIES TO GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2010**

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

Changes in fund balance of governmental funds	\$ (95,596,847)
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. This is the amount of capital outlay expenditures which were capitalized in the statement of net assets.	388,113
Depreciation expenses not recorded in the governmental funds	(908,622)
Transfer of capital assets to another agency	(2,001,082)
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the net change in compensated absences during the year.	<u>223,901</u>
Changes in net assets of governmental activities	<u><u>\$ (97,894,537)</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
STATEMENT OF FIDUCIARY NET ASSETS-AGENCY FUND 978
June 30, 2010**

ASSETS

Current Assets

Interest in the State Treasurer General Fund	
Investment Pool	\$ 1,527,928
Other receivables, net of an allowance of \$2,194,080	714,400
Due from other state agencies	19
Due from external parties	1,096,828
Total Assets	\$ 3,339,175

LIABILITIES

Current Liabilities

Deposits held in trust for others	\$ 2,625,333
Other liabilities	713,668
Due to external parties	174
Total Liabilities	\$ 3,339,175

See Notes to Financial Statements.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 1. ORGANIZATION AND PURPOSE

The State of New Mexico Human Services Department (Department) is the primary provider of social welfare services to the citizens of New Mexico (State). Specific programs accomplish a number of services including income support, medical assistance, behavioral health, food stamp distribution, commodity distribution and child support enforcement.

The chief executive of the Department is the Department Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's cabinet. The Department's functions are administered by the Office of the Secretary, and through the Behavioral Health Services, Child Support Enforcement, Medical Assistance, and Income Support Divisions. Overall support is provided by the Administrative Services Division; technical support is provided by the Information Technology Division. There are no component units of the Department.

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. Even though the Governor appoints the Department Secretary, the Secretary has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and is primarily accountable for fiscal matters. The Department is part of the primary government of the state of New Mexico, and its financial data is included with the financial data in the state of New Mexico's Comprehensive Annual Financial Report. These financial statements present financial information that is attributable to the Department and does not purport to present the financial position of the State of New Mexico.

Legislation and regulations at all levels of government have affected, and are likely to continue to affect, the operations of the Department. As a department of the state of New Mexico, the Department is exempt from paying federal income tax.

As the primary provider of social welfare programs in New Mexico, the Department is dependent on governmental funding and appropriations. For the year ended June 30, 2010, federal revenue represented 81% of the Department's total revenue.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Department have been prepared in conformity with generally accepted accounting principles (GAAP) for governmental units pursuant to the statements of the Governmental Accounting Standards Board. The Department has elected not to apply pronouncements of the Financial Accounting Standards Board issued subsequent to November 30, 1989. The more significant accounting policies of the Department are described below.

Department-Wide and Fund Financial Statements

The department-wide financial statements include two statements: the statement of net assets and the statement of activities. The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the Department.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. The functions of the Department have been defined as healthcare services, financial assistance, and general government. Healthcare services consists primarily of transactions in funds 97600 and 89000, and financial assistance consists primarily of transactions in funds 97400 and 97500. Transactions in all other funds have been classified as general government.

Program revenues include (1) charges to applicants for provision of healthcare services, financial assistance, and government services and (2) operating grants and contributions. Program revenues included in the statement of activities reduce the cost of the function to be financed from general revenues. Items not properly identified as program revenues are reported instead as general revenues.

The Department reports all direct expenses by program in the statement of activities. Direct expenses are those clearly identifiable with a function. All indirect expenses are recorded in the general government functional expense category.

Fund Accounting

The Department uses funds to report on its financial position and the changes in financial position. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Funds of the Department are classified into two categories: governmental and fiduciary.

Governmental Funds are used to account for most of the Department's general activities, including the collection and disbursement of earmarked monies (special revenue funds). The General Fund is used to account for all activities of the Department not required to be accounted for in other funds. Special Revenue Funds account for the use of restricted resources.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The Fiduciary Fund is used to account for assets held on behalf of outside parties or on behalf of other funds within the Department. Agency funds generally are used to account for assets that the Department holds on behalf of others as their fiscal agent. The Department's fiduciary fund (fund 978) does not receive any funding from the state or federal government. Costs of administering fund 978 are recorded in the Department's General Fund.

Separate financial statements are provided for governmental funds and the fiduciary fund. In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, the fiduciary funds are excluded from the department-wide financial statements as they do not represent resources available to fund the Department's programs. Major individual governmental funds are reported as separate columns in the fund financial statements. Funds 90100 and 97400 are included as major funds as the Department desires to highlight the funds.

The Department presents the following governmental funds, all of which are major:

Fund 05200 - General Fund

General Fund is used to account for the general operations of the Department in carrying out its specific functions and behavioral health services. Sources of revenue are primarily from state appropriations and federal grants (to fund program administrative costs). Unexpended state appropriations in fund 05200 revert back to the State General Fund for reappropriation. The Department determines reversions by tracking expenditures for special appropriations and contributions separately.

Fund 89000 - Special Revenue Fund (American Recovery and Reinvestment Act-ARRA)

The ARRA fund is used to track special appropriations related to ARRA. Fund 89000 and the R series of appropriation codes were created for agencies receiving federal stimulus funds. The ARRA codes are used for the processing of all transactions relating to ARRA funds. For fiscal year 2010 funding is 100% federal in fund 89000.

Fund 90100 - Special Revenue Fund (General Appropriation Act of 2003, Laws of 2003, Chapter 76)

Data Processing Appropriations is used to track special appropriations for specific information technology projects. Unexpended state appropriations in fund 90100 revert back to the State General Fund for reappropriation when the appropriation period expires. Appropriations in this fund are multi-year appropriations.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fund 97400 - Special Revenue Fund (Section 6-5-9 NMSA 1978)

Income Support L Warrants is used to account for "L" Warrants. "L" Warrants are issued to Low Income Home Energy Assistance Program vendors for energy assistance to qualified clients, various other vendors for work, educational assistance, and child care provided to qualified clients. Unexpended state appropriations in fund 97400 revert back to the State General Fund for reappropriation.

Fund 97500 - Special Revenue Fund (Section 6-5-9 NMSA 1978)

Income Support N Warrants is used to account for "N" Warrants. "N" Warrants are issued to the State Treasurer's Office (STO) to pay the electronic transactions for food benefits and financial assistance. These manual warrants are based on the actual draws made by clients on a daily basis. System generated "N" Warrants are issued to General Assistance clients when the client requires benefits before they receive the EBT card. Unexpended state appropriations in fund 97500 revert back to the State General Fund for reappropriation.

Fund 97600 - Special Revenue Fund (Section 6-5-9 NMSA 1978)

Medical Assistance is used to account for the "P" Warrants. "P" Warrants are issued to all vendors who provide Medicaid services to eligible clients. Unexpended state appropriations in fund 97600 revert back to the State General Fund for reappropriation. Medicaid payments may be expended by the Department for Medicaid obligations incurred in prior fiscal years.

In addition to the governmental funds, the Department maintains the following fiduciary fund:

Fund 97800 - Agency Fund

Child Support Enforcement is a fiduciary agency fund. The Fund is used to record the receipt of child support payments from noncustodial parents. The funds received from the noncustodial parents are transmitted to custodial parents. None of the funds recorded in fund 97800 are used to support the Department's programs.

The Child Support Enforcement Division (CSED) aids New Mexico residents in obtaining support from noncustodial parents who have not made payments for their dependent children. In a number of these cases, the child is a recipient of financial assistance, and some of the payments collected from the parent may be retained by the Department as reimbursement of financial assistance to the child under other programs.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The Department estimates that noncustodial parents owe custodial parents a significant amount of past due support. An allowance for doubtful accounts has been recorded equal to the full amount owed by the noncustodial parents that the Department estimate will be uncollectible resulting in a net receivable balance of zero in these financial statements. A significant portion of the amount is payable either to third parties such as the individual on whose behalf the payment was originally required or the U.S. Department of Health and Human Services for cases in which a child is receiving financial assistance from that department.

Basis of Accounting

The government-wide financial statements and agency funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance (deficit) for these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for all governmental funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 60-day availability period is used for revenue recognition for all governmental fund revenues. Those revenues susceptible to accrual are primarily amounts due from the federal government and other state agencies. Expenditures are recorded when the related fund liability is incurred.

Specifically, all revenues are recognized as follows:

1. State general fund appropriations, which must be used in a specified manner, are recognized when authorized, all eligibility requirements have been met, and the resources are available. Certain special appropriations require project approval from the Department of Information Technology. The Department considers this part of the eligibility requirements and does not recognize the revenue until the approval is obtained.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

2. Federal and other grants revenues are recognized when the applicable eligibility criteria, including time requirements, are met and the resources are available. Resources received for which applicable eligibility criteria have not been met are reflected as deferred revenues in the accompanying financial statements.
3. Issuances of food stamps to recipients, all of which are electronic, are reflected as expenditures with corresponding federal revenue recognized at that time.

Cash and Cash Equivalents

For purposes of presentation in the financial statements, the Department considers cash deposits and the Interest in the State Treasurer General Fund Investment Pool to be cash equivalents.

Capital Assets

Capital assets, which include automobiles, equipment (including software), machinery, furniture and fixtures, are reported in the government-wide financial statements. Assets are capitalized by the Department if the cost of the item is more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The Department purchases and produces computer software. The direct cost of materials and services consumed in developing computer software, including payroll costs, are capitalized.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Automobiles	4 to 10 years
Equipment and machinery	5 to 10 years
Data processing	3 to 7 years
Furniture and fixtures	7 to 10 years

Supplies and Commodity Inventories

Supplies and commodity inventory is valued at an average unit cost which approximates the lower of cost or market method. Issuances of commodities to recipients are reflected as expenditures with corresponding federal revenue recognized at that time.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Other Liabilities

Other liabilities consist primarily of estimated program liabilities.

Compensated Absences

State employees may elect to be paid for accrued sick leave in excess of 600 hours at a rate equal to 50% of their hourly rate, not to exceed 120 hours (60 net hours can be paid) per fiscal year. In the case of retiring employees, up to 400 net hours of sick leave can be paid at a rate equal to 50% of their hourly rate. The Department has accrued a liability for sick leave in the government-wide financial statements.

The Department has accrued a liability for vacation pay which has been earned but not taken by Department employees. In the event of termination or retirement, an employee is reimbursed for accumulated vacation up to 240 hours plus compensatory time. Such leave has been accrued for in the governmental activities column of the department-wide statement of net assets in the accompanying financial statements. Accrued vacation is calculated based on pay rate plus required taxes.

Due to State Treasurer General Fund Investment Pool

The due to State Treasurer General Fund Investment Pool represents primarily warrants issued and outstanding. This occurs as federal grant funds cannot be drawn down until after warrants have been issued.

Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt) – is intended to reflect the portion of net assets which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Assets – are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use. Such restrictions are legally enforceable.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Unrestricted Net Assets – represent unrestricted liquid assets.

For the department-wide financial statements, it is the policy of the Department that restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Other Revenues and Transfers

Other revenues consist primarily of the state's portion of reimbursements for previous overpayments of benefits.

Transfers in from (out to) other state agencies and governmental units are recorded as other financing sources (uses).

Budgetary Data

The Department prepares budgets for its governmental funds, which are subject to approval by the New Mexico Department of Finance and Administration (DFA), based upon the appropriations made by the State Legislature. Budgets are controlled at the appropriation unit level (personal services, employee benefits, etc.), and amendments affecting a category are approved by DFA and the Legislative Finance Committee (LFC). Expenditures may not exceed appropriations at this level.

The unexpended balances of the State General Fund appropriation to the Department are to be reverted to the State General Fund at the end of each fiscal year. The Department also receives funding from various special and supplemental appropriations. The language of a particular appropriation determines when it lapses and whether or not unexpended balances revert to the State General Fund.

The budgets for the governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) except that Pursuant to Chapter 6, Article 10, Section 4(B) NMSA 1978, appropriations to the Department for Medicaid payments may be expended for Medicaid obligations for prior fiscal years.

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 disclosures 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.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Healthcare Services Payable

Healthcare expenditures are accrued in the period during which services are provided and are based, in part, on estimates of accrued services provided but not yet reported by the providers to the Department. Healthcare services payable in the accompanying financial statements are estimates of payments to be made to providers for reported claims and for claims not yet reported to the Department. Management develops these estimates using actuarial methods based upon historical data for payment patterns, cost trends, utilization of healthcare services, and other relevant factors. When estimates change, the Department records the adjustment in healthcare services expense in the period the change in estimate occurs. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts recorded. While the ultimate amount of claims and the related payments are dependent on future developments, the Department believes that the reserves for claims are adequate to cover such claims and expenditures.

**NOTE 3. CASH AND INTEREST IN THE STATE TREASURER GENERAL FUND
INVESTMENT POOL**

The interest in the State Treasurer General Fund Investment Pool is in accounts that are pooled with other state funds on deposit in the State Treasurer's name at commercial banking and other financial institutions. Information regarding the adequacy of collateralization of deposits is not known to individual agencies and is the responsibility of the State Treasurer. To obtain pledged collateral, investment risk, and insurance coverage information for the Department's State Treasurer deposits, a copy of separately issued financial statements can be obtained from the State Treasurer's Office. At June 30, 2010, fund 05200 had balances due to the State General Fund Investment Pool primarily due to outstanding warrants that have not been presented.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 3. CASH AND INTEREST IN THE STATE TREASURER GENERAL FUND
INVESTMENT POOL (CONTINUED)**

In accordance with Chapter 6, Article 10 NMSA 1978, annotated, the Department is required to deposit its funds with the New Mexico State Treasurer or, in special circumstances, in bank accounts approved by the New Mexico State Treasurer. The Department can withdraw its funds from the State Treasurer as needed and therefore considers them to be cash equivalents. All earnings on deposits are retained by the State General Fund; therefore, from the Department's perspective, the cash balances are non-interest bearing and stated at cost.

The cash balance on deposit with Wells Fargo Bank as of June 30, 2010 that exceed the Federal Deposit Insurance Corporation (FDIC) insured coverage of \$250,000 is fully collateralized with securities pledged by the respective Bank. Detail of pledged collateral specific to this agency is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the State Treasurer's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such authorized bank accounts.

Following is a reconciliation of the amounts reflected by the bank and State Treasurer to the amounts reflected in the accompanying financial statements:

	Fund	State Treasurer/ Bank Balances	Reconciling Items	Department Balances
Due to State Treasurer General Fund Investment Pool	05200	\$ (3,730,274)	-	(3,730,274)
Interest in the State Treasurer General Fund Investment Pool				
ARRA	80900	2,453,065	-	2,453,065
Data processing appropriations	90100	3,703,085	-	3,703,085
Income support - L Warrants	97400	75,558	-	75,558
Income support - N Warrants	97500	4,389,967	-	4,389,967
Medical assistance - P Warrants	97600	24,501,949	(243,089)	24,258,860
Total governmental funds		35,123,624	(243,089)	34,880,535
Child support enforcement - K Warrants	97800	1,528,136	(208)	1,527,928
		\$ 36,651,760	\$ (243,297)	\$ 36,408,463
Other cash balances				
Petty cash		500	-	500
Wells Fargo Bank		57,774	-	57,774
Total other cash balances		\$ 58,274		58,274

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 4. CAPITAL ASSETS

Governmental Activities:

	June 30, 2009	Additions	Deletions	June 30, 2010
Capital Assets				
Automobiles	\$ 1,000,387	-	(46,155)	954,232
Equipment and machinery	1,019,125	16,836	(198,163)	837,798
Data processing	8,807,292	371,277	(4,295,061)	4,883,508
Furniture and fixtures	103,627	-	(7,625)	96,002
Total capital assets	<u>10,930,431</u>	<u>388,113</u>	<u>(4,547,004)</u>	<u>6,771,540</u>
Accumulated depreciation				
Automobiles	(777,144)	(62,933)	46,155	(793,922)
Equipment and machinery	(913,179)	(50,255)	198,163	(765,271)
Data processing	(4,976,720)	(783,581)	2,293,979	(3,466,322)
Furniture and fixtures	(55,385)	(11,853)	7,625	(59,613)
Total accumulated depreciation	<u>(6,722,428)</u>	<u>(908,622)</u>	<u>2,545,922</u>	<u>5,085,128</u>
Total capital assets – net	<u>\$ 4,208,003</u>	<u>(520,509)</u>	<u>(2,001,082)</u>	<u>1,686,412</u>

Current year depreciation expense of \$696,986 was allocated entirely to the general government function in the government-wide statement of activities.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2010, accounts payable and accrued expenses consisted of the following:

	Contractual Services	Job Training Services	Management Information Systems	Grant Recipients	Total
Major Governmental Funds					
General Fund (05200)	\$ 15,079,585				15,079,585
ARRA Fund (89000)	212,032				212,032
Data Processing					
Appropriations (90100)	2,397		50,000		52,397
Income Support L Warrants (9740)				160	160
Income Support N					
Warrants (97500)	4,801,018	37,634			4,838,652
Medical Assistance (97600)	1,668,349				1,668,349
	<u>\$ 21,763,381</u>	<u>37,634</u>	<u>50,000</u>	<u>160</u>	<u>21,851,175</u>

NOTE 6. ACCRUED COMPENSATED ABSENCES

Accrued compensated absences consist of the following:

	June 30, 2009	Additions	Deletions	June 30, 2010
Annual leave	\$ 4,203,062	2,678,216	2,911,047	3,970,231
Sick leave	113,397	125,241	166,152	72,486
Compensatory time	262,042	231,561	181,720	311,883
Total compensated absences	<u>\$ 4,578,501</u>	<u>3,035,018</u>	<u>3,258,919</u>	<u>4,354,600</u>

Resources of the Department's General Fund will be utilized to liquidate the compensated absences liability which is expected to be liquidated in the coming year.

The Department has recorded all of the accrued compensated absences as a current liability on the statement of net assets.

NOTE 7. UNSETTLED PROVIDER COST REPORTS AND UNFILED CLAIMS

In-state institutional health care providers that provide services to the Department's Medicaid clients are required to submit cost reports to the state's audit agent on an annual basis. The reports provide support for the cost of client care for which the health care provider has been reimbursed. The Department has engaged a third-party audit agent to review these cost reports for the final settlement of claimed costs.

Cost reports up to fiscal year ending June 30, 2010 are 88% completed according to the policy outlined by the Department. Cost reports filed after this date are pending review, approval of audit adjustments, and final settlement. The Department estimated and recorded the amounts it expects to pay or receive upon final settlement of these cost reports.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 8. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Department's various programs are subject to audit by applicable agencies of the U.S. Government. The Department is also subject to a variety of claims and lawsuits that arise from time to time. Results of such audits, claims and lawsuits may or may not result in losses to the Department. In accordance with generally accepted accounting principles contingent liabilities and commitments are recorded as charges to expenditures when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. As of June 30, 2010, the Department was not aware of any audit exceptions, which could have a material effect on the Department's financial position or results of operations. The Department is aware of one lawsuit which could have a material effect of the Department's financial position. In ResCare v. HSD et al, filed in the First District Court of New Mexico, ResCare, a former Medicaid contractor has sued the department for "breach of contract and unjust enrichment" regarding alleged unpaid claims. Legal counsel for the Department currently estimates potential liability to be approximately \$1.3 million. Legal counsel's professional opinion is that the Department will prevail in the lawsuit and will not actually incur the liability.

In connection with conducting single audit procedures, certain amounts have been identified as questioned costs. These cost represent amounts associated with the identified findings, but do not represent amounts that have been disallowed by the federal granting agency.

NOTE 9. PENSION PLAN-PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Human Services Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Human Services Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Human Services Department's contributions to PERA for the fiscal years ending June 30, 2010, 2009 and 2008 were \$10,863,171, \$12,575,019, and \$11,637,838, respectively, which equal the amount of the required contributions for each fiscal year.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 10. SPECIAL APPROPRIATIONS

Special, Deficiency, and Specific appropriations during the year consisted of the following:

	Short Purpose	Period	Original Appropriation	Cumulative Expenditures 6/30/10	Amount to be Reverted	Unencumbered Appropriations	
Fund 052-General Fund							
	CYFD Domestic Violence	Domestic Violence Projects	March 2008 to June 2012	\$ 2,000,000	2,000,000	-	-
			Fund 052 total	<u>\$ 2,000,000</u>	<u>2,000,000</u>	-	-
Fund 901-Data Processing Appropriations							
	DRA YES- NM	Deficit Reduction Act Information changes in the Information Technology Division	July 2008 to June 2011	\$ 402,500	165,241	-	237,259
			July 2007 to June 2012	2,000,000	410,963	-	1,589,037
	ISD2 Refresh (HSD3)	Convert current Human Services systems into layered structure HSD3	July 2005 to June 2010	1,000,000	939,252	60,748	-
	ISD2 Refresh (HSD3)	Convert current Human Services systems into layered structure HSD3	July 2007 to June 2012	1,500,000	-	-	1,500,000
	LIHEAP	Continued funding for replacement of ISD computer system	May 2010 to June 2012	1,900,000			1,900,000
	EDMS	Computer Enhancement – Implement Multi-agency system for imaging and Archiving documents (EDMS)	July 2004 to June 2010	1,200,000	1,196,747	3,253	-
			Fund 901 total	<u>\$ 8,002,500</u>	<u>2,712,203</u>	<u>64,001</u>	<u>5,226,296</u>
Fund 976-Medical Assistance							
		Shortfall in Medical Assistance	July 2009 to June 2010	\$ 4,000,000	4,000,000	-	-
		Shortfall in Medical Assistance	July 2009 to June 2010	1,500,000	1,500,000	-	-
		Tobacco Settlement Funds	July 2009 to June 2010	4,000,000	4,000,000	-	-
			Fund 976 total	<u>\$ 9,500,000</u>	<u>9,500,000</u>	-	-

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

**NOTE 11. POST-EMPLOYMENT BENEFITS-STATE RETIREE HEALTH
CARE PLAN**

Plan Description. Human Services 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 Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013, the contribution rates for employees and employers will rise as follows:

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 11. POST-EMPLOYMENT BENEFITS-STATE RETIREE HEALTH CARE PLAN (CONTINUED)

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY 11	1.666%	.833%
FY 12	1.834%	.917%
FY 13	2.000%	1.000%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Human Services Department's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$927,144, \$961,016 and \$893,656, respectively, which equal the required contributions for each year.

NOTE 12. LEASE COMMITMENTS

The Department has commitments greater than one year in duration for office space and equipment under operating lease agreements requiring minimum future lease payments as follows:

2011	\$ 17,316,629
2012	17,116,133
2013	15,036,462
2014	12,759,152
2015	11,958,860
2016 – 2020	42,857,534
2021 – 2024	16,008,479
Total	<u>\$ 133,053,249</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 12. LEASE COMMITMENTS (CONTINUED)

Total rent expense for office space and equipment for the fiscal year ended June 30, 2010 was as follows:

Office space	\$ 16,130,084
Equipment	<u>1,242,035</u>
Total	<u>\$ 17,372,119</u>

NOTE 13. REVERSION PAYABLE TO STATE GENERAL FUND

Unexpended cash balances of the Department's governmental funds are subject to reversion to the State's General Fund unless they are multi-year appropriations or the appropriation periods are specifically extended by act of the Legislature. Funds held on behalf of others in the Department's Child Support Enforcement Fund are excluded from reversion because monies in the Fund do not belong to the Department or the State. During the fiscal year ending June 30, 2010, the Department reverted \$124,778,308 pertaining to fiscal year 2009 and \$31,136 pertaining to fiscal year 2007 and 2006. The Department also reverted \$1,200,000 in fiscal year 2010 for returned funds from fiscal year 2008 and prior. The Department accrued a \$29,567,450 liability for reversions specifically related to fiscal year ending June 30, 2010, which includes \$148 for a stale-dated warrant. The \$1,890 shown for fiscal year 2008 below is a stale-dated warrant also. The amount to be reverted to the State General Fund for the stale-dated warrants may be less than shown due to federal participation. The reversion payable by fund, program and appropriation period were as follows:

Prior Fiscal Years

Fund 052	General Fund	Fiscal Year 2008	\$ 1,890
Fund 976	Medical Assistance	Fiscal Year 2008	<u>3,054,972</u>
			<u>\$ 3,056,862</u>
Fund 052	General Fund	Fiscal Year 2009	<u>\$ 250,703</u>

Current Fiscal Year

Fund 052	General Fund	Fiscal Year 2010	\$ 3,835,494
Fund 901	Data Processing	Fiscal Year 2010	64,001
Fund 975	Income Support	Fiscal Year 2010	3,947,075
Fund 976	Income Support	Fiscal Year 2010	69,883
Fund 976	Medical Assistance	Fiscal Year 2010	<u>21,901,700</u>
			<u>\$ 29,818,153</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 14. TRANSFERS IN AND TRANSFERS OUT

State Agency/Fund	Business SHARE Unit	Fund No.	Purpose	General Fund (05200)	ARRA Funds (89000)	Data Processing (90100)	Medical Assistance (97600)	Income Support (97400) (97500) (97600)	Total
Transfers in									
Income Support	63000	97400	Continue Computer Upgrade	\$ -	-	1,900,000	-	-	1,900,000
Department of Health	66500	06100	Medicaid and TANF Services	-	-	-	64,814,048	-	64,814,048
Aging and Long Term Services	62400	04900	Services to Elderly	-	-	-	802,972	-	802,972
Dept. of Finance and Administration	34100	02100	County Supported Medicaid Fund (Admin	758,200	-	-	24,515,105	-	25,273,305
Dept. of Finance and Administration	34100		Refund – Federal Lobbyist	350	-	-	-	-	350
Dept. of Finance and Administration	34100	62000	Tobacco Settlement	-	-	-	5,015,000	-	5,015,000
Dept. of Finance and Administration	34100	62000	Additional Tobacco Settlement	-	-	-	20,857,500	-	20,857,500
Dept. of Finance and Administration	34100	62000	Additional Tobacco Settlement	-	-	-	4,000,000	-	4,000,000
Dept. of Finance and Administration	34100	62000	Government Stabilization	-	2,000,000	-	-	-	2,000,000
				<u>\$ 758,550</u>	<u>2,000,000</u>	<u>1,900,000</u>	<u>120,004,625</u>	<u>-</u>	<u>124,663,175</u>
State General Fund Appropriation									
Dept. of Finance and Administration	34100	62000	Appropriation	<u>\$ 108,414,179</u>	<u>-</u>	<u>-</u>	<u>591,376,521</u>	<u>16,419,800</u>	<u>716,210,500</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 14. TRANSFERS IN AND TRANSFERS OUT (CONTINUED)

State Agency/Fund	Business Unit	SHARE Fund No	Purpose	General Fund (05200)	Income Support (97400)	Medical Assistance (97600)	Total
Transfers out							
Data Processing	63000	90100	Continue Computer Upgrade	\$	1,900,000		1,900,000
Children, Youth, and Families Department	69000	06700	Medicaid Case Management	1,245,164	-	-	1,245,164
Children, Youth, and Families Department	69000		Domestic Violence Capital Outlay	2,000,000	-	-	2,000,000
Children, Youth, and Families Department	69000	06700	CMHS-Domestic Violence	79,430	-	-	79,430
Children, Youth, and Families Department	69000	06700	TANF-Domestic Violence	3,600,000	-	-	3,600,000
Children, Youth, and Families Department	69000	49100	TANF-Child Care & Training	39,619,300	-	-	39,619,300
Children, Youth, and Families Department	69000	06700	Employment & Training	420,000	-	-	420,000
Children, Youth, and Families Department	69000	06700	TANF-Pre-K Program	1,500,000	-	-	1,500,000
Children, Youth, and Families Department	69000	06700	Employment & Training Child Care	41,000	-	-	41,000
Children, Youth, and Families Department	69000		Children's Program	426,273	-	-	426,273
Children, Youth, and Families Department	69000		Home Visiting	500,000	-	-	500,000
Children, Youth, and Families Department	69000	06700	Payment to Public Providers	-	-	(7,722)	(7,722)
Department of Health	66500	06100	Payment to Public Providers	-	-	16,678,573	16,678,573
Department of Health	66500	06104	Public Health Division	1,280,557	-	-	1,280,557
Department of Health	66500	06100	Medicaid-EPSDT	786,666	-	-	786,666
Department of Health	66500	06100	Medicaid-Families First	421,104	-	-	421,104
Department of Health	66500	06100	Medicaid-LTSD-DHI	3,500,773	-	-	3,500,773
Department of Health	66500	06100	Medicaid-Nurse Aide Training	46,000	-	-	46,000
Department of Health	66500	06100	Medicaid-FIT	11,622	-	-	11,622
Department of Health	66500	06100	Medicaid-PASARR	595,840	-	-	595,840
Department of Health	66500		Medicaid-Population Survey	10,211	-	-	10,211
Department of Health	66500		Medicaid-DE Waiver	593,105	-	-	593,105
Department of Health	66500		Medicaid-MF Waiver	220,173	-	-	220,173
Department of Health	66500		Medicaid-DD Waiver	6,369,999	-	-	6,369,999
Department of Health	66500		Medicaid-Aids Waiver	124,000	-	-	124,000
Department of Health	66500		Medicaid-Early Childhood Program	12,500	-	-	12,500
Department of Health	66500		Medicaid-ICF for MR and Long Term Care	1,210,038	-	-	1,210,038
Department of Health	66500		Medicaid-Maternal Child Health Initiative	643,710	-	-	643,710
Department of Health	66500		Medicaid-WDI	191,950	-	-	191,950
Department of Health	66500		Medicaid-Admin Claiming	1,301,850	-	-	1,301,850

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 14. TRANSFERS IN AND TRANSFERS OUT (CONTINUED)

State Agency/Fund	Business Unit	SHARE Fund No	Purpose	General Fund (05200)	Income Support (97400)	Medical Assistance (97600)	Total
Transfers out (Continued)							
Department of Health	66500	06104	Refugee CMA-Health Screening	\$ 123,519	-	-	123,519
Aging and Long Term Care Department	62400	04900	Medicaid-Administration	2,190,000	-	-	2,190,000
Aging and Long-Term Services Dept, NM	62400	04900	TANF-Gold Mentor	717,271	-	-	717,271
Commission on the Status of Women	60100	04300	TANF-Job Skills	1,371,696	-	-	1,371,696
Developmental Disabilities Planning Council	64700	07900	Medicaid-Baby-Net	75,000	-	-	75,000
Public Education Department	92400		Medicaid-WDI	321,311	-	-	321,311
Public Education Department	92400		Medicaid-DVR Services	158,088	-	-	158,088
Public Education Department	92400		TANF-Pre-K Program	1,500,000	-	-	1,500,000
Public Education Department	92400		TANF-Grads Reality	250,000	-	-	250,000
Governors Commission on Disability	64500	05800	Medicaid-WDI	63,382	-	-	63,382
Office of Work Force Training & Development	63500	32900	Medicaid-WDI	139,877	-	-	139,877
City Of Albuquerque			ACT Services	(408)	-	-	(408)
University of New Mexico	96900		Medicaid ARC	120,000	-	-	120,000
University of New Mexico	96900	23300	Medicaid-Envision NM	880,922	-	-	880,922
				<u>\$ 74,661,923</u>	<u>1,900,000</u>	<u>16,670,851</u>	<u>93,232,774</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 15. DUE TO/FROM OTHER STATE AGENCIES

Due to other state agencies

State Agency	Business Unit	Purpose	General Fund (05200)	Income Support (97400)	Medical Assistance (97600)	Total
Aging & Long-Term Services Department	62400	Long-term elderly care	1,111,144	-	-	1,111,144
Children, Youth, and Families Department	69000	Medicaid and TANF Services	11,413,448	-	435,577	11,849,025
DD Planning Council	64700	Determine disability eligibility	17,762	-	-	17,762
Department of Health	66500	TANF-Domestic Violence	8,854,366	-	218,989	9,073,355
Department of Information Technology	36100	Support Services	1,682,008	-	-	1,682,008
Department of Workforce Solutions	63100	Workforce development	55,111	-	-	55,111
Division of Vocational Rehabilitation	64400	Determine disability eligibility	136,373	-	-	136,373
General Services Department	35000	Support Services	111,136	-	-	111,136
Governor's Commission on Disability	64500	Medicaid and TANF Services	18,404	-	-	18,404
New Mexico Mortgage Finance Authority		TANF Services	187,500	253,802	-	441,302
NM Commission on the Status of Women	60100	Female Workforce Development	295,746	-	-	295,746
Public Education Department	92400	TANF Services	327,345	-	-	327,345
State Records Center and Archives	36900	Support Services	1,151	-	-	1,151
University of New Mexico		Envision NM	238,596	-	-	238,596
			<u>\$ 24,450,090</u>	<u>253,802</u>	<u>654,566</u>	<u>25,358,458</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 15. DUE TO/FROM OTHER STATE AGENCIES (CONTINUED)

Due from other state agencies

State Agency	Business Unit	Purpose	General Fund (05200)	Income Support (97400)	Medical Assistance (97600)	Total
Taxation and Revenue Department	33300	Reimbursement for shared facilities	\$ 2,546	-	-	2,546
Aging & Long-Term Services Department	62400	Reimbursement for shared facilities, and BI	4,832	-	193,196	198,028
Children, Youth and Families Department	69000	Reimbursement for Transformation Grant	597,704	-	-	597,704
Department of Corrections	77000	Reimbursement for shared facilities	15,546	-	-	15,546
Department of Finance and Administration	34100	County Supported Medicaid Funds	64,855	-	2,096,998	2,161,853
Department of Health	66500	Behavioral Health invoices, CCIC programs	12,079	-	11,931,836	11,943,915
NM Veteran's Commission	67000	Reimbursement for shared facilities	1,490	-	-	1,490
			<u>\$ 699,052</u>		<u>14,222,030</u>	<u>14,921,082</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 16. RISK MANAGEMENT

The Department, as a state agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. The Department pays annual premiums to the Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverage to protect the State of New Mexico’s property and assets; and
3. Fringe benefit coverage’s for State of New Mexico employees.

During the 2010 fiscal year, the Department paid Risk Management \$2,367,190 in insurance premiums. The Department’s loss exposure is limited to \$1,000 deductible. After consulting with legal counsel concerning pending litigation and claims, the Department believes that the outcome of pending litigation should not have a materially adverse effect on the financial position or operations of the Department. In addition, for the years ended June 30, 2010, 2009 and 2008, the Department had no claims for which the Risk Management Division has returned as “not covered” that would become the responsibility of the Department.

NOTE 17. RESERVED FOR SPECIAL PROGRAMS

The fund balance reserved for special programs is comprised of the following:

Fund 052	
Robert Wood Johnson Grant (restricted by donor)	\$ 54,994
DASIS funding – Behavioral Health (restricted)	<u>94,802</u>
Fund 052 total	<u>149,796</u>
Fund 901	
Deficit Reduction Act (Laws of 2008, Chapter 3, Section 5, Item 72)	
YES- NM	\$ 237,259
ISD2 Refresh	595,938
Electronic Data Management System	1,224,085
LIHEAP to ISD computer system (Laws of 2010, Chapter 6, Section 7)	<u>1,900,000</u>
Fund 901 total	<u>3,957,282</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

NOTE 17. RESERVED FOR SPECIAL PROGRAMS (CONTINUED)

Fund 975

Unexpended SSA reimbursements (Laws of 2010, Chapter 6 Section7)	<u>\$ 1,138,963</u>
Fund 975 total	<u>1,138,963</u>
 Grand total	 <u>\$ 5,246,041</u>

NOTE 18. DEFICIT FUND BALANCE

The Medical Assistance Fund (97600) is in a deficit fund balance of \$88,407,560 as of June 30, 2010. The unusual balance results from recognizing a discrepancy in reporting of expenditures and reimbursement requests for the Medical Assistance Program totaling \$103 million; \$54.8 million of the total has been reconciled. The following Table details how the liability is recorded in the financial statements.

Medicaid Program Under-Reporting

Source of Discrepancy	Amount	Resolution
Requiring waiver of two-year filing limit	\$40,801,235	Record as Deferred Revenue**
Within two-year filing limit	2,305,195	Report to federal government in December 2010
Over-Requested Reimbursement	10,722,847	Record as Due to the Federal Government**
Under-Requested Reimbursement	<u>977,095</u>	Request additional federal funds
Total Reconciled	54,806,372	
 Un-Reconciled Difference	 48,512,527	 Record as Due to the Federal Government**

** Items impacting fund balance

The Department will continue to retrace transactions that may have resulted in under-reporting for all quarters between 2004 and 2009. Upon completion the Department will present a request for all identified under-reported items that exceed the two-year filing limit to the federal government for consideration. If approved for reimbursement the Department will reclassify the deferred revenue as current year federal revenue. The recording of the \$100 million as a liability in 2010 is a change in estimate of federal revenue and results in a decrease to federal revenue of \$100 million for 2010. If the Department is unsuccessful in its request to the federal government to waive the two year filing limit or is unable to resolve the remaining un-reconciled difference, a deficiency appropriation will be required.

REQUIRED SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
PROGRAM SUPPORT PROGRAM-P522
GENERAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted	Variance
	Original	Final	Amounts (Budgetary Actual)	Positive (Negative)
REVENUES:				
Fund Balance	\$ -	-	-	-
Miscellaneous	-	-	-	-
Federal grants	26,911,100	26,911,100	26,229,492	(681,608)
Other	3,543,300	3,565,122	2,897,134	(667,988)
TOTAL REVENUES	30,454,400	30,476,222	29,126,626	(1,349,596)
EXPENDITURES:				
Current:				
Personnel services and benefits	17,658,200	17,875,900	17,222,025	653,875
Contractual services	11,852,800	11,635,100	11,182,321	452,779
Healthcare Services	-	-	-	-
Other Cost	15,272,500	15,294,322	14,138,392	1,155,930
TOTAL EXPENDITURES	44,783,500	44,805,322	42,542,738	2,262,584
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	14,379,100	14,379,100	14,379,100	-
Compensation Package	-	-	-	-
Supplemental	-	-	-	-
Transfers - in from other state agencies	-	-	-	-
Transfers Out:				
Transfers - out to other state agencies	(50,000)	(50,000)	-	50,000
Reversion	-	-	(865,019)	(865,019)
TOTAL OTHER FINANCING SOURCES (USES)	14,329,100	14,329,100	13,514,081	(815,019)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ -	-	97,969	97,969

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
CHILD SUPPORT PROGRAM-P523
GENERAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted	Variance
	Original	Final	Amounts (Budgetary Actual)	Positive (Negative)
REVENUES:				
Fund Balance	\$ -	-	-	-
Miscellaneous	-	-	-	-
Federal grants	21,225,400	21,225,400	19,975,419	(1,249,981)
Other	3,667,600	3,667,600	2,142,855	(1,524,745)
TOTAL REVENUES	24,893,000	24,893,000	22,118,274	(2,774,726)
EXPENDITURES:				
Current:				
Personnel services and benefits	21,112,200	21,112,200	18,394,849	2,717,351
Contractual services	7,581,700	7,071,700	6,424,589	647,111
Healthcare Services	-	-	-	-
Other Cost	5,108,900	5,618,900	5,496,484	122,416
TOTAL EXPENDITURES	33,802,800	33,802,800	30,315,922	3,486,878
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	8,909,800	8,909,800	8,909,800	-
Compensation Package	-	-	-	-
Supplemental	-	-	-	-
Transfers - in from other state agencies	-	-	-	-
Transfers Out:				
Transfers - out to other state agencies	-	-	-	-
Reversion	-	-	(712,152)	(712,152)
TOTAL OTHER FINANCING SOURCES (USES)	8,909,800	8,909,800	8,197,648	(712,152)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ -	-	-	-

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
MEDICAL ASSISTANCE PROGRAM-P524
GENERAL APPROPRIATIONS
June 30, 2010**

	Budgeted Amounts		Budgeted Amounts (Budgetary Actual)	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Fund Balance	\$ -	-	-	-
Miscellaneous	-	-	-	-
Federal grants	2,550,513,600	2,571,800,460	2,500,411,795	(71,388,665)
Other	64,490,000	64,490,000	68,108,724	3,618,724
TOTAL REVENUES	2,615,003,600	2,636,290,460	2,568,520,519	(67,769,941)
EXPENDITURES:				
Current:				
Personnel services and benefits	10,877,500	11,277,500	11,024,040	253,460
Contractual services	26,419,500	35,277,737	27,695,231	7,582,506
Healthcare Services	3,183,109,500	3,200,476,920	3,200,476,920	-
Other Cost	3,019,300	2,819,300	2,126,174	693,126
TOTAL EXPENDITURES	3,223,425,800	3,249,851,457	3,241,322,365	8,529,092
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	538,594,200	544,691,286	544,691,286	-
Compensation Package	-	-	-	-
Supplemental	-	-	-	-
Transfers - in from other state agencies	133,943,000	135,380,500	120,762,824	(14,617,676)
Transfers Out:				
Transfers - out to other state agencies	(64,115,000)	(66,510,789)	(37,903,729)	28,607,060
Reversion	-	-	(23,694,396)	(23,694,396)
TOTAL OTHER FINANCING SOURCES (USES)	608,422,200	613,560,997	603,855,985	(9,705,012)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ -	-	(68,945,861)	(68,945,861)

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
INCOME SUPPORT PROGRAM-P525
GENERAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted	Variance
	Original	Final	Amounts (Budgetary Actual)	Positive (Negative)
REVENUES:				
Fund Balance	\$ -	-	-	-
Miscellaneous	-	-	-	-
Federal grants	505,626,300	651,062,223	624,702,556	(26,359,667)
Other	4,157,900	4,157,900	4,039,675	(118,225)
TOTAL REVENUES	509,784,200	655,220,123	628,742,231	(26,477,892)
EXPENDITURES:				
Current:				
Personnel services and benefits	53,503,000	53,003,000	49,142,454	3,860,546
Contractual services	24,263,400	25,125,064	22,361,269	2,763,795
Other Cost	429,614,400	574,688,659	549,554,216	25,134,443
TOTAL EXPENDITURES	507,380,800	652,816,723	621,057,939	31,758,784
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	47,485,900	47,485,900	47,485,900	-
Compensation Package	-	-	-	-
Transfers - in from other state agencies	-	-	-	-
Transfers Out:				
Transfers - out to other state agencies	(49,889,300)	(49,889,300)	(49,642,785)	246,515
Reversion	-	-	(4,388,444)	(4,388,444)
TOTAL OTHER FINANCING SOURCES (USES)	(2,403,400)	(2,403,400)	(6,545,329)	(4,141,929)
EXCESS (DEFICIENCY) OF				
REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER				
FINANCING SOURCES (USES)				
	\$ -	-	1,138,963	1,138,963

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
MEDICAID BEHAVIORAL HEALTH PROGRAM-P766
GENERAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted Amounts (Budgetary Actual)	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Fund Balance	\$ -	-	-	-
Miscellaneous	-	-	-	-
Federal grants	227,943,600	225,223,986	201,260,273	(23,963,713)
Other	-	-	-	-
TOTAL REVENUES	227,943,600	225,223,986	201,260,273	(23,963,713)
EXPENDITURES:				
Current:				
Healthcare Services	290,374,000	281,557,300	255,571,772	25,985,528
Other Cost	-	-	-	-
TOTAL EXPENDITURES	290,374,000	281,557,300	255,571,772	25,985,528
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	62,430,400	56,333,314	56,333,314	-
Compensation Package	-	-	-	-
Transfers - in from other state agencies	-	-	-	-
Transfers Out:				
Transfers - out to other state agencies	-	-	-	-
Reversion	-	-	(2,021,815)	(2,021,815)
TOTAL OTHER FINANCING SOURCES (USES)	62,430,400	56,333,314	54,311,499	(2,021,815)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ -	-	-	-

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
BEHAVIORAL HEALTH SERVICE PROGRAM-P767
GENERAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted	Variance
	Original	Final	Amounts (Budgetary Actual)	Positive (Negative)
REVENUES:				
Fund Balance	\$ -	-	-	-
Miscellaneous	-	-	-	-
Federal grants	16,286,200	16,958,690	15,829,705	(1,128,985)
Other	21,000	21,000	12,312	(8,688)
TOTAL REVENUES	16,307,200	16,979,690	15,842,017	(1,137,673)
EXPENDITURES:				
Current:				
Personnel services and benefits	2,944,200	2,755,500	2,361,462	394,038
Contractual services	57,186,600	58,170,864	56,519,253	1,651,611
Other Cost	883,200	901,434	568,731	332,703
TOTAL EXPENDITURES	61,014,000	61,827,798	59,449,446	2,378,352
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	44,411,100	44,411,100	44,411,100	-
Compensation Package	-	-	-	-
Transfers - in from other state agencies	2,087,900	2,229,208	1,859,037	(370,171)
Transfers Out:				
Transfers - out to other state agencies	(1,792,200)	(1,792,200)	(1,786,261)	5,939
Reversion	-	-	(876,447)	(876,447)
TOTAL OTHER FINANCING SOURCES (USES)	44,706,800	44,848,108	43,607,429	(1,240,679)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ -	-	-	-

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
PROGRAM SUPPORT PROGRAM-P522
SPECIAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted	Variance
	Original	Final	Amounts (Budgetary Actual)	Positive (Negative)
REVENUES:				
Fund Balance	\$ 588,263	588,263	-	(588,263)
Miscellaneous	-	-	-	-
Federal grants	-	590,354	972,092	381,738
Other	-	-	-	-
TOTAL REVENUES	<u>588,263</u>	<u>1,178,617</u>	<u>972,092</u>	<u>(206,525)</u>
Cash Balance budgeted	<u>6,796,628</u>	<u>6,796,628</u>		
EXPENDITURES:				
Current:				
Personnel services and benefits	343,260	398,565	-	398,565
Contractual services	5,957,087	5,393,565	1,400,342	3,993,223
Healthcare Services	-	-	-	-
Other Cost	1,084,544	2,183,115	312,039	1,871,076
TOTAL EXPENDITURES	<u>7,384,891</u>	<u>7,975,245</u>	<u>1,712,381</u>	<u>6,262,864</u>
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	-	-	-	-
Compensation Package	-	-	-	-
Supplemental	-	-	-	-
Transfers - in from other state agencies	-	-	1,900,000	1,900,000
Transfers Out:				
Transfers - out to other state agencies	-	-	-	-
Reversion	-	-	(64,001)	(64,001)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>1,835,999</u>	<u>1,835,999</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER				
FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>-</u>	<u>1,095,710</u>	<u>1,095,710</u>

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
CHILD SUPPORT PROGRAM-P523
SPECIAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted Amounts (Budgetary Actual)	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Fund Balance	\$7,344,969	7,344,969	-	(7,344,969)
Miscellaneous	-	-	-	-
Federal grants	-	4,954,000	4,421,112	(532,888)
Other	-	-	-	-
TOTAL REVENUES	7,344,969	12,298,969	4,421,112	(7,877,857)
EXPENDITURES:				
Current:				
Personnel services and benefits	4,870,312	7,456,412	3,012,330	4,444,082
Contractual services	619,951	1,359,551	197,362	1,162,189
Healthcare Services	-	-	-	-
Other Cost	1,854,706	3,483,006	1,211,420	2,271,586
TOTAL EXPENDITURES	7,344,969	12,298,969	4,421,112	7,877,857
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	-	-	-	-
Compensation Package	-	-	-	-
Supplemental	-	-	-	-
Transfers - in from other state agencies	-	-	-	-
Transfers Out:				
Transfers - out to other state agencies	-	-	-	-
Reversion	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	\$ -	-	-	-

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
MEDICAL ASSISTANCE PROGRAM-P524
SPECIAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted	Variance
	Original	Final	Amounts (Budgetary Actual)	Positive (Negative)
REVENUES:				
Fund Balance	370,579,924	370,579,924	-	(370,579,924)
Miscellaneous	-	-	-	-
Federal grants	-	22,235,754	322,933,977	300,698,223
Other	-	-	-	-
TOTAL REVENUES	370,579,924	392,815,678	322,933,977	(69,881,701)
EXPENDITURES:				
Current:				
Personnel services and benefits	-	-	-	-
Contractual services	-	-	-	-
Healthcare Services	370,579,924	398,315,678	328,433,977	69,881,701
Other Cost	-	-	-	-
TOTAL EXPENDITURES	370,579,924	398,315,678	328,433,977	69,881,701
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	-	5,500,000	-	(5,500,000)
Compensation Package	-	-	-	-
Supplemental	-	-	-	-
Transfers - in from other state agencies	-	-	-	-
Transfers Out:				
Transfers - out to other state agencies	-	-	-	-
Reversion	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	5,500,000	-	(5,500,000)
EXCESS (DEFICIENCY) OF				
REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER				
FINANCING SOURCES (USES)				
	\$ -	-	(5,500,000)	(5,500,000)

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE
INCOME SUPPORT PROGRAM-P525
SPECIAL APPROPRIATIONS
June 30, 2010

	Budgeted Amounts		Budgeted Amounts (Budgetary Actual)	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Fund Balance	\$ 166,377,832	166,377,832	92,084,255	(74,293,577)
Miscellaneous	-	-	-	-
Federal grants	-	28,775,120	26,797,715	(1,977,405)
Other	-	-	-	-
TOTAL REVENUES	<u>166,377,832</u>	<u>195,152,952</u>	<u>118,881,970</u>	<u>(76,270,982)</u>
EXPENDITURES:				
Current:				
Personnel services and benefits	1,110,432	2,232,391	1,110,432	1,121,959
Contractual services	5,868,414	6,032,253	5,975,302	56,951
Healthcare Services	-	-	-	-
Other Cost	155,498,986	184,988,308	113,796,236	71,192,072
TOTAL EXPENDITURES	<u>162,477,832</u>	<u>193,252,952</u>	<u>120,881,970</u>	<u>72,370,982</u>
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Funds	-	-	-	-
Compensation Package	-	-	-	-
Supplemental	-	-	-	-
Transfers - in from other state agencies	-	2,000,000	2,000,000	-
Transfers Out:				
Transfers - out to other state agencies	(3,900,000)	(3,900,000)	(3,900,000)	-
Reversion	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,900,000)</u>	<u>(1,900,000)</u>	<u>(1,900,000)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>-</u>	<u>(3,900,000)</u>	<u>(3,900,000)</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO BUDGETARY COMPARISON SCHEDULES
June 30, 2010

NOTE 1. RECONCILIATION OF FUND FINANCIAL STATEMENTS TO BUDGETARY COMPARISON SCHEDULES

The budget is adopted on a modified accrual basis of accounting (General Appropriations Act, Laws of 2006, Chapter 109, Section 3, Subsections O and N) except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of the next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Department has not included such reconciliation for fiscal year 2010 as all payables were paid by the statutory deadline.

The Department has prepared budgetary schedules in the current year by program code. A reconciliation of the budgetary schedules to the financial statements has been prepared in the footnotes.

	Revenue	Expenses	Other Financing Sources (Uses)	Net Change in Fund Balance
Net Changes in Fund Balance per statement of revenues, expenditures and changes in fund balance				
General Fund (052)	\$ 206,386,724	(239,336,848)	30,926,163	(2,023,961)
ARRA (890)	420,301,305	(422,301,305)	2,000,000	-
Data Processing Appropriations (901)	972,092	(1,712,380)	1,835,999	1,095,711
Income Support L Warrants (974)	17,814,118	(17,846,685)	(1,867,433)	(1,900,000)
Income Support N Warrants (975)	521,428,519	(532,729,714)	12,440,158	1,138,963
Medicaid Assistance (976)	2,747,775,018	(3,511,366,318)	669,683,740	(93,907,560)
	<u>3,914,677,776</u>	<u>(4,725,293,250)</u>	<u>715,018,627</u>	<u>(95,596,847)</u>

Net changes in fund balance per budget schedules

General Appropriations				
Program Support Program (P-522)	\$ 29,126,626	(42,542,738)	13,514,081	97,969
Child Support Program (P-523)	22,118,274	(30,315,922)	8,197,648	-
Medical Assistance Program (P-524)	2,568,520,519	(3,241,322,365)	603,855,985	(68,945,861)
Income Support Program (P-525)	628,742,231	(621,057,939)	(6,545,329)	1,138,963
Medicaid Behavioral Health Program (P-766)	201,260,273	(255,571,772)	54,311,499	-
Behavioral Health Service (P-767)	15,842,017	(59,449,446)	43,607,429	-
Special Appropriations				
Program Support Program (P-522)	\$ 972,092	(1,712,381)	1,835,999	1,095,710
Child Support Program (P-523)	4,421,112	(4,421,112)	-	-
Medical Assistance Program (P-524)	322,933,977	(328,433,977)	-	(5,500,000)
Income Support Program (P-525)	118,881,970	(120,881,970)	(1,900,000)	(3,900,000)
	<u>3,912,819,091</u>	<u>(4,705,709,622)</u>	<u>716,877,312</u>	<u>(76,013,219)</u>
Reclassifications	1,858,685	-	(1,858,685)	-
Adjustment for Medicaid expenditures to be paid with another fiscal year	-	(19,583,628)	-	(19,583,628)
	<u>\$ 3,914,677,776</u>	<u>(4,725,293,250)</u>	<u>715,018,627</u>	<u>(95,596,847)</u>

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF JOINT POWERS & OTHER GOV'T AGREEMENTS (CONTINUED)
Year Ended June 30, 2010

Name/Responsible Party	Program Description	Contract Number	Date of Agreement		Fiscal Agent & Audit Responsibility	Contract Amount	FY10 Contract Amt	Expended Amount	Division
			Beginning	Ending					
PED	Reimburse PED 50%	GSA 09-630-8000-0023 A1	12/8/2009	6/30/2011	HSD	70,200.00	35,100.00	35,100.00	MAD
State Agency on Aging	ALTS 50	JPA 05-630-8000-0007 A2	8/10/2009	6/30/2010	HSD	2,190,000.00	2,190,000.00	1,475,876.00	MAD
University of Maryland	Develop RFP for MAD MCOs	GSA 08-630-8000-0016	3/28/2008	12/31/2011	HSD	4,000,000.00	1,000,000.00	989,123.00	MAD
UNM	Envision	GSA-10-630-8000-0002	7/25/2009	6/30/2013	HSD	4,400,000.00	1,100,000.00	880,922.00	MAD
UNM	WDI GSA with UNM for ARC	GSA-09-630-8000-0090 A1	10/22/2009	6/30/2012	HSD	280,000.00	120,000.00	120,000.00	MAD
NM School for the Visually Impaired	School Based Medicaid Services	GSA 09-630-8000-0057	7/1/2008	6/30/2012	HSD	120,000.00	30,000.00	-	MAD
Alamogordo Public Schools	School based Medicaid services	GSA 09-630-8000-0025	7/1/2008	6/30/2012	HSD	320,000.00	160,000.00	120,462.00	MAD
Albuquerque Public Schools	School Based Medicaid Services	GSA 09-630-8000-0027	7/1/2008	6/30/2012	HSD	4,000,000.00	1,000,000.00	715,362.00	MAD
Artesia Public Schools	School Based Medicaid Services	GSA 09-630-8000-0028	7/1/2008	6/30/2012	HSD	200,000.00	50,000.00	34,358.00	MAD
Aztec Municipal School	School Based Medicaid Services	GSA 09-630-8000-0029	7/1/2008	6/30/2012	HSD	200,000.00	50,000.00	21,058.00	MAD
Belen Consolidated	School Based Medicaid Services	GSA 09-630-8000-0030BELEN	7/1/2008	6/30/2012	HSD	320,000.00	90,000.00	82,257.00	MAD
Bernalillo Public Schools	School Based Medicaid Services	GSA 09-630-8000-0031 A1	7/1/2008	6/30/2012	HSD	320,000.00	104,000.00	88,072.00	MAD
Bloomfield Schools	School Based Medicaid Services	GSA 09-630-8000-0030	7/1/2008	6/30/2012	HSD	300,000.00	75,000.00	32,175.00	MAD
Carlsbad Public Schools	School Based Medicaid Services	GSA 09-630-8000-0032	7/1/2008	6/30/2012	HSD	300,000.00	75,000.00	42,156.00	MAD
Central Consolidated Schools	School Based Medicaid Services	GSA 09-630-8000-0033 A1	7/1/2008	6/30/2012	HSD	80,000.00	52,000.00	52,000.00	MAD
Central Region Educational Cooperative	Medicaid School Based Services	GSA 09-630-8000-0034	7/1/2008	6/30/2012	HSD	300,000.00	75,000.00	67,367.00	MAD
Chama Valley Independent	School Based Medicaid Services	GSA 09-630-8000-0035	7/1/2008	6/30/2012	HSD	120,000.00	30,000.00	-	MAD
Clovis Municipal Schools	School Based Medicaid Services	GSA 09-630-8000-0036 A1	7/1/2008	6/30/2012	HSD	160,000.00	52,000.00	47,525.00	MAD
Cobre Consolidated Schools	School Based Medicaid Services	GSA 09-630-8000-0037 A1	7/1/2008	6/30/2012	HSD	160,000.00	52,000.00	43,537.00	MAD
Cuba Independent Schools	School Based Medicaid Services	GSA 09-630-8000-0038	7/1/2008	6/30/2012	HSD	120,000.00	30,000.00	-	MAD
Dulce Independent Schools	School Based Medicaid Services	GSA 09-630-8000-0039	7/1/2008	6/30/2012	HSD	80,000.00	20,000.00	-	MAD
Espanola Municipal Schools	School Based Medicaid Services	GSA 09-630-8000-0040	7/1/2008	6/30/2012	HSD	320,000.00	150,000.00	92,536.00	MAD
Farrington Municipal Schools	School Based Medicaid Services	GSA 09-630-8000-0041 A1	7/1/2008	6/30/2012	HSD	480,000.00	156,000.00	155,762.00	MAD
Gadsden Independent Schools	School Based Medicaid Services	GSA 09-630-8000-0042	7/1/2008	6/30/2012	HSD	1,200,000.00	300,000.00	192,693.00	MAD
Gallup McKinley County Schools	School Based Medicaid Services	GSA 09-630-8000-0043	7/1/2008	6/30/2012	HSD	280,000.00	70,000.00	-	MAD
Grants/Cibola County School	School Based Medicaid Services	GSA 09-630-8000-0044	7/1/2008	6/30/2012	HSD	280,000.00	70,000.00	51,757.00	MAD
High Plains REC #3	School Based Medicaid Services	GSA 09-630-8000-0045	7/1/2008	6/30/2012	HSD	600,000.00	150,000.00	123,259.00	MAD
Jemez Valley Public Schools	School Based Medicaid Services	GSA 09-630-8000-0047	7/1/2008	6/30/2012	HSD	80,000.00	26,000.00	22,485.00	MAD
Las Cruces Public Schools	School Based Medicaid Services	GSA 09-630-8000-0049	7/1/2008	6/30/2012	HSD	2,400,000.00	600,000.00	313,025.00	MAD
Las Vegas City Public Schools	School Based Medicaid Services	GSA 09-630-8000-0050	7/1/2008	6/30/2012	HSD	200,000.00	50,000.00	10,714.00	MAD
Los Lunas Public Schools	School Based Medicaid Services	GSA 09-630-8000-0051	7/1/2008	6/30/2012	HSD	1,400,000.00	350,000.00	302,616.00	MAD
Lovington Municipal Schools	School Based Medicaid Services	GSA 09-630-8000-0052	7/1/2008	6/30/2012	HSD	140,000.00	35,000.00	26,937.00	MAD
Mescalero Apache School	School Based Medicaid Services	GSA 09-630-8000-0054	7/1/2008	6/30/2012	HSD	80,000.00	20,000.00	-	MAD
Mora Independent Schools	School Based Medicaid Services	GSA 09-630-8000-0055	7/1/2008	6/30/2012	HSD	80,000.00	20,000.00	-	MAD
Moriarty Municipal Schools	School Based Medicaid Services	GSA 09-630-8000-0056 A1	12/31/2008	6/30/2012	HSD	120,000.00	39,000.00	26,628.00	MAD
Pecos Independent Schools	School Based Medicaid Services	GSA 09-630-8000-0058	7/1/2008	6/30/2012	HSD	120,000.00	30,000.00	-	MAD
Pecos Valley REC # 8	School Based Medicaid Services	GSA 09-630-8000-0059	7/1/2008	6/30/2012	HSD	200,000.00	50,000.00	39,038.00	MAD
Penasco Independent School	School Based Medicaid Services	GSA 09-630-8000-0060	7/1/2008	6/30/2012	HSD	80,000.00	20,000.00	-	MAD
Regional Educ. # 6	School Based Medicaid Services	GSA 09-630-8000-0063	7/1/2008	6/30/2012	HSD	300,000.00	75,000.00	45,539.00	MAD
Regional Educ. # 7	School Based Medicaid Services	GSA 09-630-8000-0064	7/1/2008	6/30/2012	HSD	300,000.00	120,000.00	90,776.00	MAD
Regional Educ. # 9	School Based Medicaid Services	GSA 09-630-8000-0065	7/1/2008	6/30/2012	HSD	300,000.00	75,000.00	32,687.00	MAD
Rio Rancho Public Schools	School Based Medicaid Services	GSA 09-630-8000-0066	7/1/2008	6/30/2012	HSD	400,000.00	120,000.00	106,842.00	MAD
Roswell Independent Schools	School Based Medicaid Services	GSA 09-630-8000-0067	7/1/2008	6/30/2012	HSD	800,000.00	200,000.00	96,365.00	MAD
Santa Fe Public Schools	School Based Medicaid Services	GSA 09-630-8000-0068	7/1/2008	6/30/2012	HSD	200,000.00	50,000.00	35,801.00	MAD
Santa Rosa Consolidated	School Based Medicaid Services	GSA 09-630-8000-0069	7/1/2008	6/30/2012	HSD	120,000.00	30,000.00	-	MAD
Silver City Consolidated Schools	School Based Medicaid Services	GSA 09-630-8000-0070	7/1/2008	6/30/2012	HSD	200,000.00	50,000.00	36,992.00	MAD
Socorro Consolidated Schools	School Based Medicaid Services	GSA 09-630-8000-0071	7/1/2008	6/30/2012	HSD	260,000.00	65,000.00	23,241.00	MAD
Southwest Regional Educ. Center	School Based Medicaid Services	GSA 09-630-8000-0072 A1	7/1/2008	6/30/2012	HSD	400,000.00	150,000.00	150,000.00	MAD
Taos Charter School	School Based Medicaid Services	GSA 09-630-8000-0073 A1	7/1/2008	6/30/2012	HSD	40,000.00	10,000.00	-	MAD
Taos Municipal Schools	School Based Medicaid Services	GSA 09-630-8000-0074	7/1/2008	6/30/2012	HSD	100,000.00	25,000.00	23,939.00	MAD
Tucumcari Public Schools	School Based Medicaid Services	GSA 09-630-8000-0075	7/1/2008	6/30/2012	HSD	100,000.00	25,000.00	20,747.00	MAD
Turquoise Trail Charter School	School Based Health Services	GSA 09-630-8000-0076	7/1/2008	6/30/2012	HSD	40,000.00	10,000.00	10,000.00	MAD
West Las Vegas Schools	School Based Medicaid Services	GSA 09-630-8000-0077	7/1/2008	6/30/2012	HSD	160,000.00	40,000.00	33,511.00	MAD
Zuni Public School Dist.	School Based Medicaid Services	GSA 09-630-8000-0078	7/1/2008	6/30/2012	HSD	240,000.00	60,000.00	12,426.00	MAD

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
AGENCY FUND 978 - CHILD SUPPORT ENFORCEMENT AGENCY FUND
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2010

	June 30, 2009	Additions	Deletions	June 30, 2010
ASSETS				
Interest in the State Treasurer General Fund				
Investment Pool	\$ 2,276,357	117,062,592	(117,811,021)	1,527,928
Other receivables	698,538	101,701	(85,839)	714,400
Due from other state agencies	50	69	(100)	19
Due from external parties	-	2,119,584	(1,022,756)	1,096,828
Total assets	\$ 2,974,945	119,283,946	(118,919,716)	3,339,175
LIABILITIES				
Deposits held in trust for others	\$ 2,277,139	117,904,953	(117,556,759)	2,625,333
Other Liabilities	697,806	29,480	(13,618)	713,668
Due to external parties	-	174	-	174
Total liabilities	\$ 2,974,945	117,934,607	(117,570,377)	3,339,175

SINGLE AUDIT SECTION

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Federal Grantor Pass-Through Grantor Number	Federal Expenditures
Department of Agriculture (USDA) Direct Programs:			
Food and Nutrition Services (FNS)			
Commodities Assurance (SAE)	10.560	12-35-3501	\$ 180,592
Emergency Food Assistance Program (Food Commodities)	10.569	None	6,345,953
Emergency Food Assistance Program (Food Commodities) (ARRA)*	10.569	None	491,316
Emergency Food Assistance Program (Administrative Costs)	10.568	XNM810813	448,832
Emergency Food Assistance Program (Administrative Costs) (ARRA)*	10.568	XNM810813	337,161
Subtotal Food and Nutrition Services			<u>7,803,854</u>
Supplemental Nutritional Assistance Program (SNAP)			
Administration and SAVE	10.561	12-35-3501	25,741,008
Administration and SAVE (ARRA)*	10.561	12-35-3501	1,110,432
SNAP Employment/Training Grant	10.561	12-35-3501	1,607,354
SNAP State Exchange	10.561	12-35-3501	11,369
SNAP & EBT Distribution**	10.551	58-3189-8-104	518,391,262
Subtotal SNAP			<u>546,861,425</u>
Total USDA			<u>554,665,279</u>
Department of Health and Human Services (DHHS):			
Family Support Administration Direct Programs:			
Administration of Child Support Enforcement Program	93.563	G-XX-04-NM-4004	28,513,208
Administration of Child Support Enforcement Program (ARRA)*	93.563	G-XX-04-NM-4004	4,421,830
Temporary Assistance for Needy Families (TANF)	93.558	G-XX-04-NM-TANF	134,970,300
Emergency Contingency Funds for TANF State Programs (ARRA)*	93.714	G-XX-04-NM-TANF	21,265,126
TANF Supplemental Grants (ARRA)*	93.716	G-XX-04-NM-TANF	3,276,550
Low Income Energy Assistance Program (Title XXVI)	93.568	G-XX-B1-NM-LIEA	20,108,081
Total Family Support Administration Direct Programs			<u>212,555,095</u>
Family Support Administration Pass-Through Programs			
Community Service Block Grant	93.569	01-XX-B1-NM-COSR	4,026,445
Community Services Block Grant (ARRA)*	93.710	01-XX-B1-NM-COSR	5,638,141
			<u>9,664,586</u>
Administration for Children, Youth and Families			
Direct Programs - Refugee Resettlement Program (CMA)	93.566	G-XX-04-NM-6100	473,923
Refugee Cuban/Haitian	93.576	90RQ0017/02	9,028
Refugee School Impact	93.576	90ZE0079/01	125,000
Refugee Resettlement Program (SS)	93.566	G-XX-04-NM-6110	179,589
Total Administration for Children, Youth and Families			<u>787,540</u>
Centers for Medicare & Medicaid Services			
Medical Assistance Payments Title XIX	93.778	05-XX-05-NM-5028	2,431,395,461
Medical Assistance Payments Title XIX (ARRA)*	93.778	05-XX-05-NM-5028	300,698,223
Administration and Training Title XIX	93.778	05-XX-05-NM-5048	69,520,504
Children's Health Insurance Program SCHIP	93.767	05-XX05-NM5021	287,684,445
Children's Health Insurance Program Outreach & Enrollment	93.767	1ZOC30482/01	535,024
Healthy Start Grow Smart	93.778	None	5,000
E Prescribe	93.793	0705NMTRA1/01	162,747
Working Disabled	93.768	5-00-00-A9-1221	1,437,463
Total Centers for Medicare & Medicaid Services			<u>3,091,438,867</u>
Office of Health Care Finance Administration Pass-Through Program - Title XIX Certification	93.777	05-XX-05-NM-5001	\$ 1,210,038

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Federal Grantor Pass-Through Grantor Number	Federal Expenditures
Substance Abuse and Mental Health Services Administration:			
Center for Mental Health Services (CMHS)			
Community Mental Health Services Block Grant	93.958	3B09SM010037-07S2	2,315,324
Programs for Assistance in Transition from Homelessness	93.150	2X06SM060032-07	300,890
Dev. & Implement of Admin & Clinical Services	93.243	SM056588	498,112
Behavioral Health Collaborative of Santa Fe	93.243	1H79SM058665-01	60,450
Veteran's First Jail Diversion Project	93.243	1H79SM059276-01	295,305
Subtotal Mental Health Services			3,470,081
Statewide Behavioral Health System Transformation			
Pass-through Programs from Department of Finance and Administration	93.243	U79SM57464-03	1,859,037
Center for Substance Abuse Treatment (CSAT)			
Substance Abuse Treatment and Rehabilitation	93.959	B1NMSAPT-XX	8,245,578
Access to Recovery	93.275	T1019504	4,579,701
Data Infrastructure Grant	93.243	SM058118	70,128
Subtotal Substance Abuse Treatment			12,895,407
Total Substance Abuse and Mental Health Administration			18,224,525
Total DHHS			3,333,880,651
Total Federal Assistance			3,888,545,930

* American Recovery and Reinvestment Act (ARRA) of 2009

** The reported expenditures for benefits under the Supplemental Nutrition Assistance program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

See accompanying notes to schedule of expenditures of federal awards

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the state of New Mexico Human Services Department and is presented on an accrual basis including all non-cash federal assistance in the form of food commodities amounting to \$6,837,269. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Not-for-Profit Organizations.

Reconciliation of Schedule of Expenditures of Federal awards (SEFA) to the Financial Statements

Total expenditures from SEFA	\$ 3,888,545,930
Change in estimate of federal revenue	(49,111,552)
Federal revenue recorded in other revenue	(1,902,987)
Other reconciling items	(53,964)
Total federal revenue recorded in governmental funds	<u>\$ 3,837,477,427</u>

Subrecipients

Of the federal expenditures presented in the schedule, the state of New Mexico Human Services Department provided federal awards to subrecipients as follows:

<u>Program/Subrecipient</u>	<u>Total paid</u>
Food Stamp Program (CFDA #10.561):	
Children Youth & Families Dept	\$ 41,000
New Mexico State University	161,972
Eastern Plains Council of Governments	1,789,140
TOTAL:	<u>1,992,112</u>
The Emergency Food Assistance Program (Administrative Costs) (CFDA #10.568)	
NM Association of Food Banks	<u>448,832</u>
The Emergency Food Assistance Program (Administrative Costs) ARRA (CFDA #10.568)	
NM Association of Food Banks	<u>337,161</u>

Medicaid (CFDA #93.778)

Agency on Aging	1,475,876
Alamogordo Public Schools	120,462
Albuquerque Public Schools	715,362
Artesia Public Schools	34,358
Aztec Municipal School District	21,058
Belen Consolidated Schools	82,257
Bernalillo Public Schools	88,072
Bloomfield Schools	32,175
Carlsbad Municipal Schools	42,156
Central Consolidated Schools	53,125
Central Region Educational Cooperative	67,367
Children Youth and Families Department	1,245,164
Clovis Municipal Schools	47,525
Cobre Consolidated Schools	43,537
Department of Education	35,100
Department of Health	11,696,243
Department of Vocational Rehabilitation	158,088
Disability Developmental Planning Council	75,000
Espanola Municipal Schools	92,536
Farmington Municipal Schools	155,762
Gadsden Independent School District	192,693
Grants/Cibola County Schools	51,757
High Plains Regional Center Coop	123,259
Jemez Valley Schools	22,485
Las Cruces School District #2	313,025

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

Las Vegas City Schools	10,714
Los Lunas Schools	302,616
Lovington Municipal Schools	26,937
Moriarty Municipal Schools	26,628
New Mexico State University	3,501
NM Assembly on School	49,875
Pecos Valley Regional Education Center #8	39,038
Regional Educational Coop	32,687
Regional Educational Center #6	45,539
Regional Educational Center #7	90,776
Rio Rancho Public Schools	106,842
Roswell Independent Schools	96,365
Santa Fe Public Schools	35,801
Silver City Public School	36,992
Socorro Consolidated Schools	23,241
Southwest Regional Education Center	202,467
Taos Municipal Schools	23,939
Turquoise Trail Charter School	11,298
Tucumcari Municipal Schools	20,747
University of New Mexico	881,472
West Las Vegas School District	33,511
Zuni Public School District	12,426
TOTAL:	<u>19,097,854</u>
Title XIX Certification (CFDA #93.778)	
Department of Health	<u>840,134</u>
TANF (CFDA #93.558)	
Aging and Long Term Services	717,271
Children Youth & Families Dept.	45,219,299
Commission on Status of Women	1,371,695
NM State University	15,877,777
Department of Education	1,750,000
Eastern Plains Council of Governments	3,590,544
Mid-Region Council of Governments	1,106,772
United Behavioral Health	1,066,667
TOTAL:	<u>70,700,025</u>
Refugee Resettlement Program (CFDA #93.566)	
Catholic Charities	<u>201,548</u>
Refugee Cuban/Haitian Program (CFDA #93.576)	
Catholic Charities	<u>9,027</u>
Refugee School Impact Program (CFDA #93.576)	
Catholic Charities	<u>125,000</u>

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010**

Community Services Block Grant (CFDA #93.569)	
Eastern Plains CAA	\$ 229,272
Economic Council Helping Others	328,392
Empowering Our Communities In Help - New Mexico	1,673,358
Midwest NM Cap	469,233
Community Action Agency of Southern NM	666,428
Southeast NM Comm Action Agency	506,230
TOTAL:	<u><u>3,872,913</u></u>
Community Services Block Grant ARRA (CFDA #93.710)	
Eastern Plains CAA	337,763
Economic Council Helping Others	419,831
Empowering Our Communities In Help - New Mexico	2,408,515
Midwest NM Cap	694,279
Community Action Agency of Southern NM	1,015,917
Southeast NM Comm Action Agency	761,836
TOTAL:	<u><u>5,638,141</u></u>
Working Disabled (CFDA #93.768)	
Department of Vocational Rehabilitation	321,311
Governor's Commission on Disability	63,382
Office of Workforce Training & Development	139,878
TOTAL:	<u><u>524,571</u></u>
Low-Income Home Energy Assistance (CFDA #93.568)	
NM Mortgage Finance Authority	<u>750,000</u>
Community Mental Health Services Block Grant (CFDA #93.958)	
Children Youth & Families Dept	426,273
Life Link	372,632
United Behavioral Health	1,485,189
TOTAL:	<u><u>2,284,094</u></u>
Programs for Assistance in Transition from Homelessness (CFDA #93.150)	
Life Link	60,741
St. Martin's Hospitality Center	143,760
Albuquerque HealthCare for the Homeless	64,390
Southwest Counseling Cntr. Inc	26,100
TOTAL:	<u><u>294,991</u></u>
Data Infrastructure Grant (CFDA #93.243)	
Children Youth & Families Dept	<u>7,500</u>
Substance Abuse Prevention and Treatment (CFDA #93.959)	
Department of Health	1,080,600
Life Link	183,284
United Behavioral Health	7,159,367
University of New Mexico	6,600
TOTAL:	<u><u>8,429,851</u></u>
TOTAL	<u><u>\$ 115,553,754</u></u>

**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**

Ms. Kathryn Falls, Cabinet Secretary
 New Mexico Human Services Department
 Santa Fe, New Mexico
 And
 Mr. Hector H. Balderas
 New Mexico State Auditor
 Santa Fe, New Mexico

We have audited the financial statements of the governmental activities, and each major fund of the State of New Mexico Human Services Department (Department), as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 14, 2010. We have also audited the fiduciary fund as of June 30, 2010 and the budgetary comparison schedules presented as required supplemental information for the year ended June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico
And
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questions costs as item 09-01 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 10-07 and 10-08.

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

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

This report is intended solely for the information and use of the Department's management, the New Mexico State Auditor's Office, Department of Finance Administration, and Legislative Finance Committee and applicable federal awarding agencies and pass through-entities and is not intended to be and should not be used by anyone other than these specified parties.

Mess Adams LLP

Albuquerque, New Mexico
December 14, 2010

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Compliance

We have audited the compliance of New Mexico Human Services Department (Department) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2010. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 09-02, 10-01, 10-02, 10-03, 10-04, 10-05, and 10-06.

Internal Control Over Compliance

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

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

Ms. Kathryn Falls, Cabinet Secretary
New Mexico Human Services Department
Santa Fe, New Mexico
and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 09-02, 10-01, 10-02 to 10-04. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the Department's management, federal awarding agencies and pass-through entities, the New Mexico State Auditor's Office, Department of Finance Administration, and Legislative Finance Committee and is not intended to be and should not be used by anyone other than those specific parties.

Mess Adams LLP

Albuquerque, New Mexico
December 14, 2010

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2010**

Financial Statement

09-01 Child Support Enforcement Fund Reconciliation Repeated as 09-01

Federal Compliance

09-02 Medicaid Allowable Costs/ Cost Principles: Overpayment Repeated as 09-02

09-03 Medicaid Eligibility Resolved

09-04 Medicaid Allowable Costs/ Cost Principles:
Stale Dated Warrants Resolved

09-05 TANF Non Cooperation Notification Resolved

State Compliance

09-06 Travel & Per Diem Resolved

09-07 Information Technology – User Account Management Resolved

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **Unqualified**
 Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiencies (s) identified that are not considered to be material weaknesses? x yes _____ none reported

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? x yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551/10.561	Supplemental Nutrition Assistance Program (SNAP) Cluster
10.568/10.569	Emergency Food Assistance Program Cluster
93.558/93.714/93.716	Temporary Assistance for Needy Families (TANF) Cluster
93.569/93.710	Community Services Block Grant (CSBG) Cluster
93.777/93.778	Medicaid Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 11,665,638

Auditee qualified as low-risk auditee? _____ yes x no

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

SECTION II – FINANCIAL STATEMENT FINDINGS

09-01 Child Support Enforcement Fund Reconciliation (Significant Deficiency)

CONDITION

In our testing of Fund 978 Child Support Enforcement Fund Reconciliation, we noted that the undistributed receipts balance is not reconciled between the Child Support Enforcement System (CSES) and the general ledger, SHARE. Also, we were unable to agree the undistributed receipts balance in SHARE as of June 30, 2010 to a report from CSES. The Department reconciles the receipts and distribution activity on a daily, monthly, and annual basis. We noted the current year annual reconciliation of activity had an un-reconcilable difference of \$42,128.

CRITERIA

Sound internal controls include reconciling balances to ensure that all activity has been posted correctly, errors are detected and account balances are accurately reported.

EFFECT

There is an increased likelihood of errors and fraud going undetected.

CAUSE

The Department has not developed a reconciliation process to reconcile the undistributed to CSES. We noted that there is currently some system limitations inhibiting the Department's ability to reconcile activity and ending balances. This is due to the CSES not being able to produce reports when needed.

RECOMMENDATION

We recommend the Department develop a process to reconcile the undistributed receipts balance between the CSES system and the general ledger periodically. We recommend that the Department work with its Information Technology Division to develop reports from CSES that can be reconciled to the balances recorded in SHARE.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

**09-01 Child Support Enforcement Fund Reconciliation (Significant Deficiency -
Continued)**

MANAGEMENT RESPONSE

Management agrees. The Administrative Services Division, Child Support Enforcement Division and the Information Technology Division will work jointly to develop reports that will allow the reconciliation of CSES activity and ending balances to SHARE.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

09-02 Medicaid Allowable Costs/ Cost Principles: Overpayment (Noncompliance and Significant Deficiency)

Medical Assistance Payments – U.S. Department of Health and Human Services, CFDA 93.777/93.778, Grant No. 05-XX-05-NM-5001/05-XX-05-NM-5028/05-XX-05-NM-5048 Award Period, October 1, 2008 – September 30, 2009 and October 1, 2009 – September 30, 2010.

CONDITION

During our testwork of overpayments, we noted that the Department reported \$1,175,235 of overpayments on the CMS-64 for state fiscal year 2010. The federal share that should have been reported for state fiscal year 2010 is \$37,417,567, resulting in an under-reported amount of \$36,242,242. We also noted that during the 2010 fiscal year there was inconsistency in the application of reporting the amount of overpayments. In some quarters the Department was reporting the amount of overpayments received and in other quarters the Department reported the amount identified.

CRITERIA

42 CFR 433.300

(a) Section 1903(d)(2)(A) of the Act, which directs that quarterly Federal payments to the States under title XIX (Medicaid) of the Act are to be reduced or increased to make adjustment for prior overpayments or underpayments that the Secretary determines have been made.

(b) Section 1903(d)(2) (C) and (D) of the Act, which provides that a State has 60 days from discovery of an overpayment for Medicaid services to recover or attempt to recover the overpayment from the provider before adjustment in the Federal Medicaid payment to the State is made; and that adjustment will be made at the end of the 60 days, whether or not recovery is made, unless the State is unable to recover from a provider because the overpayment is a debt that has been discharged in bankruptcy or is otherwise uncollectable.

42 CFR 433.320

(a)(1) The agency must refund the Federal share of overpayments that are subject to recovery to CMS through a credit on its Quarterly Statement of Expenditures (Form CMS-64).

(2) The Federal share of overpayments subject to recovery must be credited on the Form CMS-64 report submitted for the quarter in which the 60-day period following discovery, established in accordance with Sec. 433.316, ends.

(3) A credit on the Form CMS-64 must be made whether or not the overpayment has been recovered by the State from the provider.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

09-02 Medicaid Allowable Costs/ Cost Principles: Overpayment (Noncompliance and Significant Deficiency - Continued)

EFFECT

It is possible that the Federal government will reduce the funding for the New Mexico Medicaid program, which may have a significant effect on the operations of the program.

CAUSE

There was insufficient communication between the Grants Management Bureau, who is responsible for reporting for the overpayments on the Federal reports, and the Medical Assistance Division, who is responsible for identifying the overpayments.

QUESTIONED COSTS

The total amount of overpayments not reported was \$36,242,242.

RECOMMENDATION

We recommend that the Department design and deploy procedures that allow for proper communication channels between the divisions over the overpayment process in order to properly report all overpayments discovered within 60 days regardless of whether the overpayment was collected. We also recommend that that Department establish monitoring procedures to ensure that overpayments are properly reported on the CMS064 reports.

MANAGEMENT RESPONSE

Management agrees. The process to report overpayments will be modified to include verification that the total reported reconciles to the source documentation maintained by the Medical Assistance Division (MAD). The under-reported amount for 2010 will be reported in the quarter ending December 31, 2010.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-01 Medicaid Federal Reporting and Cash Management (Noncompliance and Significant Deficiency)

Medical Assistance Payments – U.S. Department of Health and Human Services, CFDA 93.777/93.778, Grant No. 05-XX-05 NM-5001/05-XX-NM-5028/05-XX-05-NM-5048 Award Period, October 1, 2008 – September 30, 2009 and October 1, 2009 – September 30, 2010.

CONDITION

During fiscal year 2010 the Department developed a process of reconciling federal drawdowns to federal reporting on a life to date basis for the Medicaid program. As part of this process the Department determined that there is an accumulation of approximately \$103 million related to discrepancies in reported costs and reimbursement requests that have accumulated in the past 6 years, most of which is beyond the 8 quarter time limit allowed to adjust reported federal expenditures.

CRITERIA

Federal guidelines allow adjustments to reported federal expenditures up to 8 quarters after the reporting period. This defines the time period in which the Department has to reconcile and ensure all federal expenditures are reported.

EFFECT

Unless the federal Health and Human Services Department grants a waiver of the 8 quarter time limit, the Department will not be reimbursed by the federal government for the \$ 100 million in underreported expenditures.

CAUSE

The reconciliation between the claims processed, the general ledger accounting system and federal reporting is complex and made difficult by the way the information is maintained in each system. It has taken the Department a significant amount of time to develop the reconciliation process since the implementation of the new general ledger accounting system in 2006.

QUESTIONED COST

Unknown

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-01 Medicaid Federal Reporting and Cash Management (Noncompliance and Significant Deficiency - Continued)

RECOMMENDATION

We recommend the Department continue with its work on the reconciliation process for federal drawdowns and expenditures reporting. In addition, we recommend the expenditure reporting process improvements the Department has developed be fully implemented.

MANAGEMENT RESPONSE

Management agrees. The Department has made significant progress in developing a desktop to reconcile the claims processed, the general ledger accounting system (SHARE) and the federal reporting for the Medicaid Program. In addition, internal controls have been implemented to ensure accuracy in reporting by documenting several levels of review of the federal reporting function. The Department will continue to identify un-reconciled differences for prior years and request a waiver of the 8 quarter filing limit from the Centers for Medicare and Medicaid (CMS) to claim the \$100 million.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-02 TANF Eligibility (Noncompliance and Significant Deficiency)

Federal Program:

U.S. Department of Health and Human Services,
Temporary Assistance for Needy Families Cluster - CFDA 93.558/93.716
Grant No. G-0902NMTANF Award Period, October 1, 2008 – September 30, 2009
Grant No. G-1002NMTANF, Award Period, October 1, 2009 – September 30, 2010

CONDITION

During our test work of the TANF Eligibility compliance requirement, we noted two out of twenty-five cases tested where the TANF client was underpaid. One client was underpaid for a period of three months and the other client was underpaid for a period of six months during the year under audit. The total amount of the underpayment was \$1,278.

CRITERIA

Section C(1)A of the 2009 TANF State Plan states that the monthly benefit amount for a three-person household is \$447.

EFFECT

The Department is not in compliance with the NMAC and thus future federal funding may be negatively impacted.

CAUSE

The family assistance analyst did not receive adequate training for eligibility determinations and management did not perform a timely review of the client recertifications. This was caused by the Department did not fully implement the designed controls to ensure that income is properly calculated.

QUESTIONED COSTS

Unknown

RECOMMENDATION

We recommend the Department provide the necessary training to the analysts who perform the eligibility determinations and monitor performance to ensure employees and supervisors understand and adhere to the Department's policies and procedures.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-02 TANF Eligibility (Noncompliance and Significant Deficiency - Continued)

MANAGEMENT RESPONSE

Management concurs. Training on scholarship income and tribal TANF income is being updated and a training schedule will be developed.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-03 TANF Subrecipient Monitoring (Noncompliance and Significant Deficiency)

Federal Program:

U.S. Department of Health and Human Services,
Temporary Assistance for Needy Families Cluster - CFDA 93.558
Grant No. G-0902NMTANF Award Period, October 1, 2008 – September 30, 2009
Grant No. G-1002NMTANF, Award Period, October 1, 2009 – September 30, 2010

CONDITION

During our testwork over subrecipient monitoring for the TANF program, we noted in one out of the three subrecipients sampled, that a single audit report has not been received and reviewed since 2004.

CRITERIA

OMB Circular A-133, Subpart D – Federal Agencies and Pass-Through Entities

Section 105 – The Oversight Agency for Audit Responsibilities

(d) Pass-Through Agency Responsibilities

(4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year.

Section 26 of the Governmental Services Agreement between HSD and the subrecipient states that “the contractor may be subject to financial sanctions as described below and/or termination of this GSA...a sanction or termination of this GSA may be imposed for failing to provide timely plans, reports, and/or billing invoices.” “HSD will require the contractor to develop and implement an effective corrective action plan that will ensure compliance with identified deficiencies.”

EFFECT

The program is not in compliance with subrecipient monitoring requirements and there is increased risk that the program is not complying with federal regulations at the subrecipient level.

CAUSE

There was insufficient application of sanctions, as outlined in the Governmental Services Agreement with the subrecipient, to ensure required reports were received timely.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-03 TANF Subrecipient Monitoring (Noncompliance and Significant Deficiency - Continued)

QUESTIONED COSTS

None

RECOMMENDATION

We recommend the Department develop controls to ensure compliance with subrecipient monitoring requirements and ensure required information is received from subrecipients. If such information is not received timely, the Department should apply the appropriate actions as outlined in the Governmental Services Agreement, to ensure compliance.

MANAGEMENT RESPONSE

Management agrees. The Administrative Services Division and the Income Support Division will work jointly to establish sub-recipient monitoring procedures that meet the requirements of the TANF program and the GSA with each sub-recipient. The procedures will ensure that corrective action plan is put into place with the sub-recipient and sanctions will be applied.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-04 Community Services Block Grant Reporting (Noncompliance and Significant Deficiency)

Federal Program:

U.S. Department of Health and Human Services,
Community Services Block Grant (Non ARRA) - CFDA 93.569
Community Services Block Grant (ARRA) - CFDA 93.710
Grant No. G-09B1NMCOSR, Award Period, October 1, 2008 – September 30, 2010
Grant No. G-10B1NMCOSR, Award Period, October 1, 2009 – September 30, 2011
Grant No. G-0901NMCOS2, Award Period, October 1, 2008 – September 30, 2010

CONDITION

During our testwork over the Community Services Block Grant program, we noted that as of July 16, 2010, the Department has not prepared and filed quarterly SF-269A American Recovery and Reinvestment Act expenditure reports.

CRITERIA

Per the terms and conditions of receiving American Recovery and Reinvestment Act (ARRA) funds for the Community Services Block Grant program, the Department is required to submit ARRA status expenditure reports using Short Form SF-269A within ten days after the end of each quarter.

EFFECT

It is possible that the Federal government will reduce funding for New Mexico's Community Services Block Grant program, which may significantly affect the operations of the program.

CAUSE

The controls surrounding the reporting process for the CSBG program were not properly implemented.

QUESTIONED COSTS

None

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-04 Community Services Block Grant Reporting (Noncompliance and Significant Deficiency - Continued)

RECOMMENDATION

We recommend that a Department review the conditions and applicable federal regulations pertaining to the Community Services Block Grant program reporting requirements and ensure that they are being followed accordingly.

MANAGEMENT RESPONSE

Management agrees. The Administrative Services Division will establish a process to review and track grant requirements with any award received to ensure compliance with the terms and conditions of the award.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-05 Community Services Block Grant Subrecipient Monitoring (Noncompliance)

Federal Program:

U.S. Department of Health and Human Services,
Community Services Block Grant (Non ARRA) - CFDA 93.569
Community Services Block Grant (ARRA) - CFDA 93.710
Grant No. G-09B1NMCOSR, Award Period, October 1, 2008 – September 30, 2010
Grant No. G-10B1NMCOSR, Award Period, October 1, 2009 – September 30, 2011
Grant No. G-0901NMCOS2, Award Period, October 1, 2008 – September 30, 2010

CONDITION

During our testwork over subrecipient monitoring, we noted that one of the three subrecipients tested did not have the required number of members on their Board of Directors and there was no evidence of a corrective action plan in the subrecipient's file.

CRITERIA

Per the Department's Community Services Block Grant Policy and Procedures Manual section 3.2, the board shall consist of fifteen members.

The New Mexico Community Action Act section 27-8-1 et seq. NMSA 1978 requires that the Board consist of fifteen members for each Community Action Agency.

EFFECT

The program is not in compliance with subrecipient monitoring requirements and there is increased risk that the program is not complying with federal regulations at the subrecipient level.

CAUSE

Due to the increased compliance requirements of the American Recovery and Reinvestment Act there was insufficient personnel allocated to the CSBG program to ensure compliance with applicable requirements.

QUESTIONED COSTS

None

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-05 Community Services Block Grant Subrecipient Monitoring (Noncompliance - Continued)

RECOMMENDATION

We recommend the Department allocate the necessary resources to ensure compliance with subrecipient monitoring requirements and that the Department's management establishes a monitoring procedure to ensure that requirements are complied with.

MANAGEMENT RESPONSE

Management agrees. The subrecipient in question has been sent a letter informing them of non-compliance with Community Services Block Grant Policy and Procedures Manual Section 3.2. Furthermore, the Department has requested that the Board submit a corrective action strategy to ensure compliance.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

**10-06 CSBG, TANF and TEFAP Subrecipient Monitoring and Special Tests
(Noncompliance)**

Federal Program:

U.S. Department of Health and Human Services,
Community Services Block Grant (Non ARRA) - CFDA 93.569
Community Services Block Grant (ARRA) - CFDA 93.710
Grant No. G-09B1NMCOSR, Award Period, October 1, 2008 – September 30, 2010
Grant No. G-10B1NMCOSR, Award Period, October 1, 2009 – September 30, 2011
Grant No. G-0901NMCOS2, Award Period, October 1, 2008 – September 30, 2010

Federal Program:

U.S. Department of Health and Human Services,
Temporary Assistance for Needy Families Cluster - CFDA 93.558/93.716
Grant No. G-0902NMTANF Award Period, October 1, 2008 – September 30, 2009
Grant No. G-1002NMTANF, Award Period, October 1, 2009 – September 30, 2010

Federal Program:

U.S. Department of Agriculture,
Emergency Food Assistance Program (Administrative costs) - CDFA 10.568
Emergency Food Assistance Program (Administrative costs) (ARRA) - CDFA 10.568
Emergency Food Assistance Program (Food Commodities) - CDFA 10.569
Emergency Food Assistance Program (Food Commodities) (ARRA) - CDFA 10.569
Award Period, October 1, 2008 – September 30, 2009 and October 1, 2009 – September 30, 2010

CONDITION

Based on our testwork over subrecipients we noted instances where the Department did not separately identify and communicate at the time of the subaward and at the time of the disbursements, the federal award number, if applicable, or the CFDA number to subrecipients who received American Recovery and Reinvestment Act (ARRA) funds. The federal programs and number of instances are noted below.

<u>Program</u>	<u>Instances noted</u>
Community Services Block Grant	Three out of three subrecipients tested
The Emergency food Assistance Program	One out of one subrecipient tested

We also we noted instances where the Department did not separately identify and communicate at the time of the subaward, the CFDA number to subrecipients who received Non ARRA funds. The federal programs and number of instances we identified are noted below.

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

10-06 CSBG, TANF and TEFAP Subrecipient Monitoring and Special Tests
(Noncompliance - Continued)

CONDITION (CONTINUED)

<u>Program</u>	<u>Instances noted</u>
Community Services Block Grant	Three out of three subrecipients tested
The Emergency food Assistance Program	One out of one subrecipient tested
Temporary Assistance for Needy Families	Three out of eight subrecipients tested

CRITERIA

ARRA funds

2 CFR Section 176.210 Award term-Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

Non ARRA funds

OMB Circular A-133 § __.400

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

EFFECT

The Department is not in compliance with the subrecipient and special tests compliance requirements for communicating required award information to subrecipients. There is increased risk that subrecipients are not reporting their grants correctly in their audits.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

**10-06 CSBG, TANF and TEFAP Subrecipient Monitoring and Special Tests
(Noncompliance - Continued)**

CAUSE

There is not an established policy at the program level to communicate all of the necessary grant information to the subrecipients, thus program personnel were unaware of the communication requirements.

QUESTION COSTS

None

RECOMMENDATION

We recommend that the Department establish a uniform policy to communicate all necessary subaward information to the subrecipients. We also recommend that training be administered to program personnel to ensure that the policy will be properly implemented. Monitoring procedures should also be modified to ensure that management is reviewing communication to the subrecipients.

MANAGEMENT RESPONSE

Management agrees. The Administrative Services Division and the Income Support Division will work jointly to establish a policy to inform sub-recipients of sub-award information. The Department will also update monitoring procedures to include review and tracking of communication with sub-recipients.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

**SECTION IV – OTHER FINDINGS AS REQUIRED BY THE NEW MEXICO
STATE STATUTE, SECTION 12-6-5, NMSA 1978**

10-07 Information Technology – Information Security Policy (State Noncompliance)

CONDITION

While the Department does have controls for automatically disabling inactive accounts and required password changes, in reviewing the clients SHARE access, selected application password settings and active user accounts, we noted some password settings and user accounts that are not in compliance with the documented Information Security Policy.

CRITERIA

Per the State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-002.003, “The State of New Mexico shall securely and economically protect its business functions, including public access to appropriate information and resources, while maintaining compliance with the legal requirements established by existing Federal and State statutes pertaining to confidentiality, privacy, accessibility, availability, and integrity.

Per NIST Publication 800-53A Security Assessments: Tools for Measuring the Effectiveness of Security Controls, “The selection and implementation of security controls are critical decisions for protecting the security of an organization’s information and information systems. Security controls are the management, operational, and technical safeguards or countermeasures that protect the confidentiality, integrity, and availability of an information system and its information.” This publication is listed in the HSD System Security Plan as an applicable regulation.

Access control is a key component of information security. It is critical that access privileges be revoked in a timely manner when users terminate their relationship with the Department or transfer to a job with different duties and responsibilities. Users’ SHARE accounts should be removed from the system at a reasonable date from termination date. HSD should continue to monitor and execute its password policy on a consistent basis to minimize the risks of security loopholes and compromise of its security framework.

EFFECT

A computer-based accounting system requires effective general and application controls in order to ensure that assets are safeguarded and that transactions are recorded in accordance with management’s authorization. Inadequate access controls may allow unauthorized individuals access to sensitive and confidential information.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-07 Information Technology – Information Security Policy (State Noncompliance - Continued)

CAUSE

The Department was not following their Information Security Policy related to the Active Directory and SHARE Security Audit Policy.

RECOMMENDATION

We recommend that the Department continue to implement its controls over the User Account Management and modify Active Directory user accounts and to review user listing and permissions regularly to ensure that access rights remain appropriate for each person's job responsibilities.

MANAGEMENT RESPONSE

Management agrees. The Administrative Services Division will take the necessary action to correct inactive employees in SHARE and will improve review procedures. Additionally, the Information Technology Division has already purchased a Microsoft Active Directory tool (i.e. Javalina software) that will be used every quarter to remove all inactive/orphaned accounts in order to comply with federal requirements.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-08 Procurement (State Noncompliance)

CONDITION

During our procurement testwork, we noted in one out of eight procurement files tested, that a vendor began providing services in July 2009 without an approved purchase order. We noted that a final contract with this vendor was not approved until December 2009.

CRITERIA

Department of Finance Administration (DFA) Manual of Model Accounting Practices section 6-5-3:

Before any vouchers or purchase orders are issued or contracts are entered into involving the expenditure of public funds by a state agency, the authority for the proposed expenditure shall be determined by the division and the state agency.

The Department's Administrative Manual, Section 105.1.6.I:

The proposal and procurement process is not complete nor the contract effective until a written contract or contract amendment is signed by all required signatories. Once a contract and an associated purchase order are fully approved, contract services can begin. HSD is not obligated to pay for services rendered before the contract or contract amendment is signed by all required signatures.

EFFECT

There is increased risk that unauthorized purchases may occur.

CAUSE

The Department does not have properly designed monitoring controls at the division level to adequately monitor the procuring of goods and services.

RECOMMENDATION

We recommend that the Department implement monitoring controls at the division and bureau level to mitigate the risk of further violations.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010**

10-08 Procurement (State Noncompliance – Continued)

MANAGEMENT RESPONSE

Management agrees. The Department will strengthen internal controls to comply with federal and state requirements with CFO directives, detail procedures and regular review of expenditures to grants.

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
EXIT CONFERENCE
Year Ended June 30, 2010**

The exit conference for the fiscal year 2010 audit of the New Mexico Human Services Department was held on December 10, 2010. The following individuals were present at the exit conference:

From the Human Services Department:

Charissa Saavedra, Acting Secretary, HSD
Danny Sandoval, Deputy Director, Administrative Services Division
Mark Reynolds, Acting General Counsel
Julie B. Weinberg, Acting Director, Medical Assistance Division
Elaine Olah, Chief Financial Officer/Director, Administrative Services Division
Donna Sandoval, Deputy Director, Administrative Services Division
Martin Ortega, Bureau Chief, Compliance and Financial Systems Bureau, Administrative Services Division
Paula McGee, Healthcare Operations Manager
Marilyn Martinez, Manager, Quality Improvement Section, Income Support Division
Michael Rogers, Acting Deputy, Income Support Division
Lupita Capelli, Bureau Chief, CSED
Vida Tapia-Sanchez, Bureau Chief, Policy & Program Development, Income Support Division
Randy Scott, Inspector General, Human Services Department
Ted Roth, Acting Director, Income Support Division
Robert D. Beardscey, Deputy Director, MAD
Carolee Graham, Acctg Bureau Chief, Administrative Services Division
Harrison Kinney, Executive Manager
Brian Pietrewicz, Acting CIO
Usha Shannon, Administrative Services Division
Arthur H. Herrera, Bureau Chief, SDU Administrative Services Division

From Moss Adams LLP:

Larry Carmony, Partner
Jason Galloway, Manager
Brandon Solwick, Senior

The financial statements and notes to the financial statements were prepared with the assistance of Moss Adams LLP.