

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2013**

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STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
OFFICIAL ROSTER
June 30, 2013

Name	Title
Sidonie Squier	Cabinet Secretary
Charissa Saavedra	Deputy Secretary
Brent Earnest	Deputy Secretary
Raymond Mensack	General Counsel
Danny Sandoval	Director, Administrative Services Division
Donna Sandoval	Deputy Director, Administrative Services Division
Carolee Graham	Deputy Director, Administrative Services Division
Marilyn Martinez	Acting Director, Income Support Division
Penny Jimerson	Deputy Director, Income Support Division
Vida Tapia-Sanchez	Deputy Director, Income Support Division
Andrew Vallejos	Director, Child Support Enforcement
Betina McCracken	Deputy Director, Child Support Enforcement
Julie Weinberg	Director, Medical Assistance Division
Mark Pitcock	Deputy Director, Medical Assistance Division
Nancy Smith-Leslie	Deputy Director, Medical Assistance Division
Diana McWilliams	Director, Behavioral Health Services
Robert Chavez	Deputy Director, Behavioral Health Services
Sean Pearson	Chief Information Officer
Eluid Martinez	Deputy CIO, Information Technology Division
Carol Thomas-Gravel	Deputy CIO, Information Technology Division
Francis Sherman	Inspector General
Johnna Padilla	Human Resources Manager



CliftonLarsonAllen LLP
500 Marquette NW, Suite 800
Albuquerque, NM 87102
505-842-8290 | fax 505-842-1568
www.cliftonlarsonallen.com

Independent Auditors' Report

Ms. Sidonie Squier, Cabinet Secretary
New Mexico Human Services Department and
Mr. Hector H. Balderas
New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the New Mexico Human Services Department (the Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Department's fiduciary fund and the budgetary comparison schedules presented as required supplementary information, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary fund and the budgetary comparison schedules of the Department as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 20, the Medical Assistance Fund (97600) recorded a restatement of fund balance during fiscal year 2013, decreasing fund balance and increasing allowance for doubtful accounts by approximately \$61 million. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Department's financial statements, the fiduciary fund, and the budgetary comparisons. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the other schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

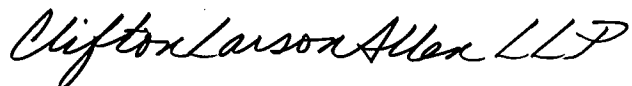
The Schedule of Expenditures of Federal Awards and other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the

basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated [*date of report*] 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP



Albuquerque, New Mexico
February 14, 2014

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

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, 2013. It should be read together with the financial statements, which follow it.

Overview of the Financial Statements

The Department's basic financial statements are presented in four parts, in the following order:

1. Department-wide financial statements,
2. Fund financial statements,
3. Notes to the financial statements, and
4. Budgetary comparison statements.

Department-wide Financial Statements. The department-wide financial statements include the first two financial statements, the *Statement of Net Position* 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 Position* reports the assets of the Department and the corresponding claims and liabilities against those assets at June 30, 2013. The difference between the value of the assets and the liabilities is reflected as the value of the net position. Increases or decreases in net position 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 position during the 2013 fiscal year.

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 Services (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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

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 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 assets and liabilities. The resources of this fund are excluded from the department-wide financial statements because they cannot be used to finance the Department's operations.

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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

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.

Analysis of the Department's Finances as a Whole

The Department is pleased to provide comparative financial information for fiscal years 2011 through 2013. Management has not attempted to recast this information, except as adjusted in preparation of the fiscal year 2013 financial statements and information.

At the end of Fiscal Year 2013, the Department fund balance in the Medicaid Fund (97600) is \$72M deficit. This deficit position accumulated as a result of issues in reporting and claiming Medicaid reimbursements from CMS over a multi-year period.

In 2010, the Department identified a reconciling difference between reported federal government revenues and receivables and the associated reported expenditures, awards and draws with CMS. As a result, the Department recorded an estimated \$103 million reduction to federal grant revenues, a \$62M liability to the federal government, and a \$41M deferred revenue to recognize a shortfall in the Medicaid Program due to the over-drawing of funds and uncollectible receivables from 2010 and earlier years. To resolve these issues, the Department reduced their draws from the federal government by \$114M in 2011.

During 2012, the Department identified another \$57M shortfall of claims in excess of award limit that occurred in 2011 and prior years. Consequently, the Department reduced their draws from CMS by \$46M in 2012 to resolve the remaining issues that had been identified.

In 2013, the Department reviewed prior year balances of the federal accounts receivable and found a \$60 million balance from these prior years that had not been addressed when the other corrections were made in 2010 and 2012. Accordingly, Fund Balance of the Medicaid Fund was re-stated in 2013 to reflect the \$60 million uncollectible federal receivable related to years prior to 2013.

The Department continues to work with a contractor to ensure differences between accounts receivable third party system reports and general ledger, if any, are identified on a timely basis to resolve discrepancies and strengthen internal controls and procedures used to review the federal accounts receivable balances. Federal accounts receivable from a prior year that are not collected by December of the following fiscal year will be researched to determine the delay. The reconciliation of federal reports, general ledger and draws will be included in the monthly certification by the CFO of each accounting period.

See Note 19 to the Financial Statements, *Deficit Fund Balance – Fund 97600*, for further discussion.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Net Position and Changes in Net Position. Table 1 summarizes the net position in Governmental Activities of the Department for the fiscal year ended June 30, 2013, with comparative balances for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 1 – Net Position

	<u>Governmental Activities FY2013</u>	<u>Governmental Activities FY2012</u>	<u>Governmental Activities FY2011</u>	<u>Increase (Decrease) 2013 to 2012</u>	<u>% Change</u>
Assets:					
Current assets	\$ 294,299,922	\$ 313,189,621	\$ 265,544,708	\$ (18,889,699)	-6%
Non-current assets	<u>56,133,037</u>	<u>22,097,848</u>	<u>1,593,655</u>	<u>34,035,189</u>	154%
Total assets	<u>\$ 350,432,959</u>	<u>\$ 335,287,469</u>	<u>\$ 267,138,363</u>	<u>\$ 15,145,490</u>	5%
Liabilities:					
Current liabilities	\$ 364,120,875	\$ 343,602,069	\$ 356,771,347	\$ 20,518,806	6%
Total liabilities	<u>364,120,875</u>	<u>343,602,069</u>	<u>356,771,347</u>	<u>20,518,806</u>	
Net position:					
Net investment in capital assets	56,133,037	22,097,848	1,593,655	34,035,189	154%
Restricted	164,310	9,827,930	4,967,688	(9,663,620)	-98%
Unrestricted	<u>(69,985,263)</u>	<u>(40,240,378)</u>	<u>(96,194,327)</u>	<u>(29,744,885)</u>	74%
Total net position (deficit)	<u>(13,687,916)</u>	<u>(8,314,600)</u>	<u>(89,632,984)</u>	<u>(5,373,316)</u>	65%
Total liabilities and net position	<u>\$ 350,432,959</u>	<u>\$ 335,287,469</u>	<u>\$ 267,138,363</u>	<u>\$ 15,145,490</u>	5%

The Department's net investment in capital assets totaled \$56,133,037 at June 30, 2013; the large increase from 2012 is the continued implementation of the new eligibility system ASPEN.

In 2012, the Department had a deficit net position and the deficit increased by 65% to \$(13,687,916) in 2013. The deficit is primarily due to a restatement of fund balance in the Medicaid Fund of \$60 million; see Note 19 for further discussion.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Table 2 – Changes in Net Position

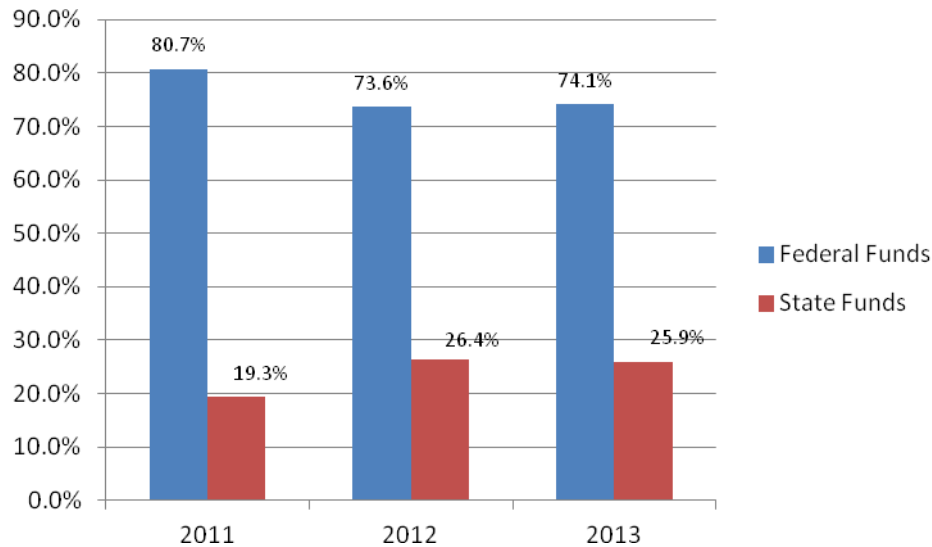
Table 2 presents the detail changes in net position from 2011 to 2013. Net assets deficit fund balance decreased to \$(8,314,600), a 91% decrease from 2011 to 2012.

	<u>Governmental Activities FY2013</u>	<u>Governmental Activities FY2012</u>	<u>Governmental Activities FY2011</u>	<u>Increase (Decrease) 2013 to 2012</u>	<u>% Change</u>
Revenues:					
Program revenues:					
Charges for services	\$ 107,059,986	\$ 99,762,802	\$ 80,040,330	\$ 7,297,184	7%
Federal funds	<u>3,562,438,620</u>	<u>3,553,777,191</u>	<u>3,816,810,240</u>	<u>8,661,429</u>	0%
Total program revenues	3,669,498,606	3,653,539,993	3,896,850,570	15,958,613	0%
General revenues and special items:					
State appropriation, net	984,880,681	1,010,326,850	707,052,913	(25,446,169)	-3%
STB Proceeds	1,211,594	-	-	1,211,594	N/A
Transfer from other					
State Agencies	<u>151,985,294</u>	<u>163,774,839</u>	<u>121,537,661</u>	<u>(11,789,545)</u>	-7%
Total revenues	4,807,576,175	4,827,641,682	4,725,441,144	(20,065,507)	0%
Expenses:					
Healthcare services	3,663,426,727	3,659,733,799	3,698,368,111	3,692,928	0%
Financial assistance	812,806,004	814,462,463	754,726,564	(1,656,459)	0%
General government	<u>276,504,556</u>	<u>257,908,389</u>	<u>276,336,809</u>	<u>18,596,167</u>	7%
Total expenses	<u>4,752,737,287</u>	<u>4,732,104,651</u>	<u>4,729,431,484</u>	<u>20,632,636</u>	0%
Increase (decrease)					
in net position	54,838,888	95,537,031	(3,990,340)	(40,698,143)	-43%
Net position, beginning of year	<u>(68,526,804)</u>	<u>(103,851,631)</u>	<u>(85,642,644)</u>	<u>35,324,827</u>	-34%
Net position, end of year	<u>\$ (13,687,916)</u>	<u>\$ (8,314,600)</u>	<u>\$ (89,632,984)</u>	<u>\$ (5,373,316)</u>	65%

Table 2 reflects 7% growth in program revenues, charges for services due to increased amount collected in drug rebate revenues for the Medicaid Program. The Department began billing the managed care organizations portion of drug rebate to manufacturers in 2013 that is allowed under the Affordable Care Act (ACA). General government expenditures increased by 7% related to the new eligibility system, ASPEN.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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. The Department's level of federal funds in 2013 increased due to the enhanced federal match for the new eligibility system ASPEN. The remaining 25.9% state funds were comprised of State general revenue appropriations, reimbursements from other state agencies, miscellaneous revenues and transfers.

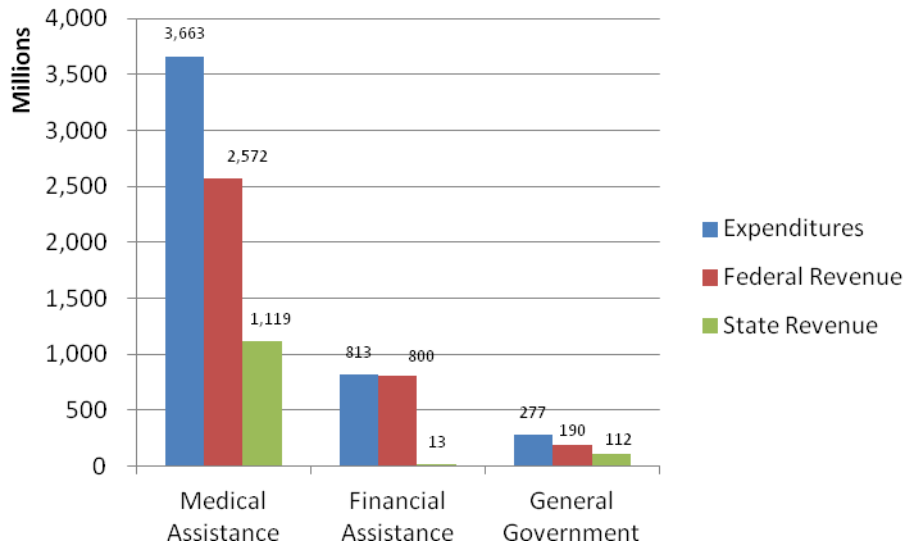
The heavy reliance on federal funding and the size of the Department's overall budget subject the Department to significant external oversight of its program and fiscal operations. The detail amounts of grant funded expenditures can be seen in the Schedule of Expenditures of Federal Awards (SEFA) on page 71.

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. Figure 2 shows the relationship of governmental direct expenses to program revenues for fiscal year 2013.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Figure 2 – Total Expenditures and Revenues



The total costs of all the Department's governmental activities this year was \$4,752,737,287. Of these total costs, 77% were for medical assistance services provided to eligible residents of the state, primarily under the Medicaid program, of which 70% was financed by federal grants, and general revenues and charges for services funded 30%. Most of the state appropriations are committed to match the federal government's share of the costs of the medical assistance program.

A total of \$812,806,004, or 17%, of total costs pertains to financial assistance provided to eligible residents; 98% of these costs were funded by federal grants. The remaining 2% was financed with state funds, including charges for services.

The overall increase in expenditures from 2012 is caused by increases in healthcare services (Medicaid) and general government (the new eligibility system ASPEN).

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, the reauthorization of computer systems enhancement funds, and the associated certified federal financial participation. Other significant budget increases occurred in the Medicaid program budget and the Supplemental Nutrition Assistance Program (SNAP) budget, resulting from increases in federal funds.

Original Budget Compared to Amended Budget

- In Fund 052 (General Operating Fund), there were increases totaling \$51,087,901.
 - In P522 there were four budget increases processed, totaling \$34,713,449. One of the adjustments was to create budget authority for the Health Exchange Establishment Grant and totaled \$34,279,483. A second adjustment was processed to create budget authority for a Robert Wood Johnson grant to

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2013

support the Health Insurance Exchange planning process of \$71,700. A third adjustment was processed to fund FTE supported by the Department of Health (DOH) in the Office of Inspector General. These FTE address additional workload in that office attributable to the Medicaid Waivers managed by DOH. The increase in budget is \$96,766. Budget increases in P522 also included a \$265,500 increase to budget State Wide Cost Allocation Funding for unanticipated costs for moving staff to new space in Program Support.

- In P524, there were eight increases totaling \$12,601,808. Seven of the increases were from Federal Funds that were not anticipated when the FY13 budget was established. One adjustment totaling \$7,850,231 was a transfer from Fund 976 to fund increases in contractual services attributable to Centennial Care and Medicaid Expansion.
- In P525, two increases were processed, totaling \$1,820,773. An increase of \$1,623,364 was processed to budget the SNAP DOD funds that were awarded to the state and not part of the original operating budget. A second increase was for \$197,409 in federal funds for State Administrative Expenses for the distribution of commodities to schools and food banks.
- In P767, there were eight increases processed, totaling \$1,951,871. All of the increases were from Federal Funds. One of the increases was to budget new Federal Grant that was awarded to the Department. The remaining seven adjustments were to reconcile the budget to the grant of award and prior year carryover funds.
- In Fund 974 (Income Support L Warrants), there was one increase processed totaling \$95,000 to bring the budget in line with the LIHEAP payments.
- In Fund 975, there was one increase in 100% Federal Funds totaling \$13,579,334 for the SNAP program to address the increase in the SNAP caseload.
- In Fund 976 (Medical Assistance), there was one transfer of \$22,400 in P525 to fund a caseload increase in the Non-Title XIX Medicals Program. In P524, there was one transfer to Fund 052 totaling \$7,850,231, referenced above.
- In Fund 20520 (Traumatic Brain Injury Fund), an increasing adjustment of \$44,120 was processed to increase the established budget for the program. The program had more expenses than originally anticipated when the budget was established.

Below are Special Appropriations that were processed in FY2013:

- In Fund 901 (Data Processing Appropriations), multi-year budgets were established to the roll forward balances from prior years as approved by our Federal Partners in the Advanced Planning document \$57,152,457.

Amended Budget Compared to Actual Expenditures and Revenues

- In Fund 052, the ending fund balance of \$169,484 reflects the DASIS funding that is reserved for subsequent fiscal year expenditures. This amount also reflects significant improvement from last year, where the balance was negative \$4.8 million due to uncollectable receivables outlined in the Meyers and Stauffer report produced for the Department in SFY12.
- In Fund 20520, revenue exceeded expenditures by \$1,362,701, which reflects the non-reverting balances in this fund. The Traumatic Brain Injury fund is a non-reverting interest bearing fund.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

- In Fund 901, the ending fund balance is \$3,687,257, which reflects the balances in the ASPEN appropriations which had not yet expired at the end of SFY13.
- 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 \$451,710, which is the SSIAR balances authorized to be retained and rolled forward to SFY13 for the General Assistance Program.
- In Fund 976, the ending fund balance is negative \$72,025,080, which reflects a restatement of negative \$60,212,204 from prior accounting periods attributable to the recording and reportings issue from prior periods. In SFY13, the Department eliminated any federal receivables they concluded could not be drawn from CMS because of the time restrictions imposed on claim submissions. The only receivables that are carried forward in this fund are primarily related to IBNR for SFY12 and SFY13.

Capital Assets and Debt Management

Capital Assets. The Department's investment in capital assets as of June 30, 2013 amounted to \$56,133,037, net of accumulated depreciation. This investment in capital assets includes automobiles, equipment and machinery, data processing, and furniture and fixtures. The total increase in the Department's investment in capital assets for the current period was over 250%. The increase in capital assets was due to the data processing equipment purchases related to the new eligibility system ASPEN.

Total depreciation expense for the year was \$1.7 million. 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 5 to illustrate changes from the prior year.

Debt. At June 30, 2013, the Department had no long-term debt resulting from borrowing.

Things Affecting the Department's Future

Centennial Care

The Affordable Care Act (ACA) gave the states the option to expand their Medicaid Program. New Mexico opted to implement Medicaid Expansion for adults 19-64 who are at 133% or below of federal poverty level (FPL). Most adults who are eligible for New Mexico's Medicaid Expansion will receive their services through Centennial Care. Centennial Care is the new name of the New Mexico Medicaid program that will begin on January 1, 2014 and services will be provided by four managed care organizations (MCO). In October 2013, the Department sent current Medicaid recipients a letter that explains how to select a Centennial Care MCO. The MCOs that will provide services in Centennial Care are:

Blue Cross Community Centennial
Molina Healthcare of New Mexico, Inc.
Presbyterian Health Plan, Inc.
UnitedHealthcare Community Plan of New Mexico

Under the ACA, some people who are not eligible for the new Medicaid adult program may be able to receive federal subsidies that will help them buy insurance coverage on the New Mexico

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2013

Health Insurance Exchange. Anyone who is determined "Not Financially Eligible" for Medicaid will have their information transferred to the Exchange. More information on Centennial Care can be found at www.CentennialCare.net.

The operating budget for State Fiscal Year 2014 is \$4,064,483,000 for the Medicaid Program, the general fund portion being \$917,900,000. At June 30, 2013, 529,000 were eligible for Medicaid. It is estimated with the expansion at the end of State Fiscal Year 2015, 710,000 will be enrolled in Medicaid, including about 376,000 children, which is 38,000 more than were enrolled in June 2013.

ASPEN (Automated System Program and Eligibility Network)

The Department is still in the process of implementing ASPEN in 2014. ASPEN is a new eligibility system to replace the Department's current one, which is over 26 years old. This is the system we use to determine eligibility for services and issue benefits for the following programs:

- Supplemental Nutritional Assistance Program (SNAP)
- Cash Assistance (Temporary Assistance for Needy Families – TANF, and General Assistance)
- Medicaid
- Low Income Home Energy Assistance Program (LIHEAP)

ASPEN will be implemented in four phases across the state:

- Pilot in Rio Arriba County in July 2013
- Wave 1 – 14 Southern Counties September 23, 2013
- Wave 2 – 16 Northern Counties November 18, 2013
- Wave 3 – Bernalillo County January 21, 2014

ASPEN will add new customer service features:

- Self-Service Website (Yes –NM), which will allow New Mexicans to apply for benefits online effective October 1, 2013.
- Interactive Voice Response System (IVR), which is an automated system that allows New Mexicans to use their phones to inquire on the status of their benefits effective February 2014.

The total budget for the ASPEN project is \$113,441,682 million, of which \$18,952,244 is state funding and \$94,489,438 is federal funding. It is the largest information technology (IT) project in the State's history.

Replacement of Medicaid and Child Support Information Systems

The Department will replace the Medicaid Management Information System (MMIS) over the next several fiscal years to comply with the Seven Standards and Conditions as required by Sections 1903 (a)(3)(A)(i) and 1903(a)(3)(B) of the Social Security Act. The Department submitted to the Centers for Medicare and Medicaid Services (CMS) an Advanced Planning Document (APD) for approval in July 2013 to secure federal funding for the project. The planning phase budget of the project scheduled for July 2013 – August 2014 is \$2,387,400,

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

including \$2,148,660 federal funding and \$238,740 state general fund. The estimated total cost of the replacement of the MMIS is \$176 million; which includes \$144 million federal funding and \$32 million in state general fund.

In July 2013, the Department submitted an APD to secure federal funding to DHHS, Administration for Children & Families – Office Child Support Enforcement to replace the State's Child Support Enforcement System (CSES) designated CSES Replacement (CSESR). The project is to enhance the efficiency of the current system for child support enforcement by reducing costs and improving customer service. The CSES maintains case records and account information on more than 60,000 active cases, and account records on approximately 49,000 child support orders. The planning phase in SFY15 is estimated at a total cost of \$3,102,155, of which \$2,066,035 is federal funding and \$1,036,120 is state general fund. The entire project will be completed in SFY18 and is estimated to cost a total of \$60 million, of which \$40 million is federal funding and \$20 million is state general fund.

Contacting the Department's Financial Management

The Department's financial statements are designated 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, Donna Sandoval, at the Administrative Services Division, New Mexico Human Services Department, PO Box 2348, Santa Fe, New Mexico 87504-2348.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash	\$ 25,750
Investment in State General Fund Investment Pool	<u>2,010,248</u>
	<u>2,035,998</u>
Receivables:	
Federal grants, net of allowance of \$787,077	214,746,041
Accounts receivable, net of allowance of \$93,082,741	27,474,351
Due from other state agencies	<u>49,189,563</u>
Net receivables	291,409,955
Supplies and commodities inventory and other	850,828
Prepaid expenses	<u>3,141</u>
Total current assets	<u>294,299,922</u>
NON-CURRENT ASSETS	
Capital assets, net	<u>56,133,037</u>
TOTAL ASSETS	<u>\$ 350,432,959</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 35,230,984
Accrued payroll	1,998,635
Healthcare services payable	216,134,317
Due to State General Fund Investment Pool	15,409,590
Reversion payable to State General Fund	22,526,195
Compensated absences	3,467,025
Other liabilities	2,292,709
Due to other state agencies	17,411,502
Unearned revenue	889,824
Due to other entities	<u>48,760,094</u>
Total liabilities	<u>364,120,875</u>
NET POSITION (DEFICIT)	
Net investment in capital assets	56,133,037
Restricted for special programs	164,310
Unrestricted	<u>(69,985,263)</u>
Total net position (deficit)	<u>(13,687,916)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 350,432,959</u>

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

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net Revenue (Expense) and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
PRIMARY GOVERNMENT				
GOVERNMENTAL ACTIVITIES				
Healthcare services	\$ 3,663,426,727	\$ 97,705,252	\$ 2,571,948,003	\$ (993,773,472)
Financial assistance	812,806,004	2,895,251	800,386,417	(9,524,336)
General government	<u>276,504,556</u>	<u>6,459,483</u>	<u>190,104,200</u>	<u>(79,940,873)</u>
Total governmental activities	<u>\$ 4,752,737,287</u>	<u>\$ 107,059,986</u>	<u>\$ 3,562,438,620</u>	<u>(1,083,238,681)</u>
General revenues and transfers:				
				1,007,384,700
				1,211,594
				(22,504,019)
				<u>151,985,294</u>
			Total general revenues and transfers	<u>1,138,077,569</u>
			Change in net position	54,838,888
			Net position (deficit), beginning of year	(8,314,600)
			Restatement	<u>(60,212,204)</u>
			Net position (deficit), beginning of year, as restated	<u>(68,526,804)</u>
			Net position, end of year	<u>\$ (13,687,916)</u>

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

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	05200	20520	89000
	General Fund	Traumatic Brain Injury	ARRA
ASSETS			
Cash	\$ 750	\$ -	\$ -
Investment in State General Fund			
Investment Pool	-	1,500,771	387
Federal grants receivable, net	45,017,869	-	-
Accounts receivable, net	423,217	-	143
Due from other funds	409	-	-
Due from other state agencies	768,901	170	-
Prepaid expenses	-	-	-
Supplies and commodities inventory and other	137,220	-	-
TOTAL ASSETS	\$ 46,348,366	\$ 1,500,941	\$ 530
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 15,015,126	\$ 138,240	\$ -
Accrued payroll	1,921,595	-	121
Healthcare services payable	-	-	-
Due to State General Fund			
Investment Pool	14,382,768	-	-
Reversion payable to State General Fund	22,177	-	-
Other liabilities	276,194	-	-
Due to other funds	-	-	409
Due to other state agencies	14,298,937	-	-
Unearned revenue	176,216	-	-
Due to other entities	85,869	-	-
Total liabilities	<u>46,178,882</u>	<u>138,240</u>	<u>530</u>
FUND BALANCES (DEFICIT)			
Nonspendable - inventory and prepaid items	137,220	-	-
Restricted	164,310	-	-
Committed	-	1,362,701	-
Assigned	889,472	-	-
Unassigned	(1,021,518)	-	-
Total fund balances (deficit)	<u>169,484</u>	<u>1,362,701</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 46,348,366	\$ 1,500,941	\$ 530

Major Funds					
89200 Severance Tax Bond Proceeds	90100 Data Processing Appropriations	97400 Income Support L Warrants	97500 Income Support N Warrants	97600 Medical Assistance	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ 25,750
-	-	60,546	-	448,544	2,010,248
-	6,715,640	557,503	5,598,221	156,856,808	214,746,041
-	-	-	31,754	27,019,237	27,474,351
-	-	-	-	-	409
167,170	-	-	-	48,253,322	49,189,563
-	3,141	-	-	-	3,141
-	-	-	713,608	-	850,828
<u>\$ 167,170</u>	<u>\$ 6,718,781</u>	<u>\$ 618,049</u>	<u>\$ 6,343,583</u>	<u>\$ 232,602,911</u>	<u>\$ 294,300,331</u>
\$ -	\$ 2,130,067	\$ -	\$ 2,194,326	\$ 15,753,225	\$ 35,230,984
-	59,744	-	17,175	-	1,998,635
-	-	-	-	216,134,317	216,134,317
167,170	717,503	-	142,149	-	15,409,590
-	-	-	39,243	22,464,775	22,526,195
-	4,210	-	798,697	1,213,608	2,292,709
-	-	-	-	-	409
-	120,000	569,061	1,981,458	442,046	17,411,502
-	-	-	713,608	-	889,824
-	-	48,988	5,217	48,620,020	48,760,094
<u>167,170</u>	<u>3,031,524</u>	<u>618,049</u>	<u>5,891,873</u>	<u>304,627,991</u>	<u>360,654,259</u>
-	3,141	-	-	-	140,361
-	-	-	-	-	164,310
-	3,684,116	-	451,710	-	5,498,527
-	-	-	-	-	889,472
-	-	-	-	(72,025,080)	(73,046,598)
<u>-</u>	<u>3,687,257</u>	<u>-</u>	<u>451,710</u>	<u>(72,025,080)</u>	<u>(66,353,928)</u>
<u>\$ 167,170</u>	<u>\$ 6,718,781</u>	<u>\$ 618,049</u>	<u>\$ 6,343,583</u>	<u>\$ 232,602,911</u>	<u>\$ 294,300,331</u>

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

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013**

Total Fund Balance - Governmental Funds
(Governmental Fund Balance Sheet) \$ (66,353,928)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

The cost of capital assets is	62,812,264
Accumulated depreciation is	<u>(6,679,227)</u>
 Total capital assets	 56,133,037

Long-term and certain other liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term and other liabilities at year end consist of:

Compensated absences payable	<u>(3,467,025)</u>
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Net position of governmental activities (Statement of Net Position) **\$ (13,687,916)**

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

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013**

	05200	20520	89000
	General Fund	Traumatic Brain Injury	ARRA
REVENUES			
Federal grants	\$ 159,422,651	\$ -	\$ -
Other revenues	5,554,679	904,804	-
Total revenues	<u>164,977,330</u>	<u>904,804</u>	<u>-</u>
EXPENDITURES			
Current:			
Healthcare services:			
Contractual services	-	-	-
Healthcare services:			
Total healthcare services	<u>-</u>	<u>-</u>	<u>-</u>
Financial assistance:			
Personal services	-	-	-
Contractual services	-	-	-
Financial assistance	-	-	-
Other operating costs	-	-	-
Total financial assistance	<u>-</u>	<u>-</u>	<u>-</u>
General government:			
Personal services	94,644,583	-	-
Contractual services	118,202,534	1,461,307	-
Other operating costs	35,702,455	-	-
Total general government	<u>248,549,572</u>	<u>1,461,307</u>	<u>-</u>
Capital outlay	<u>236,095</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>248,785,667</u>	<u>1,461,307</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(83,808,337)</u>	<u>(556,503)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
State General Fund appropriations	104,707,764	-	-
Transfers in from other state agencies	1,235,792	-	-
Transfers out to other state agencies	(17,119,250)	-	-
Severance tax bond proceeds	-	-	-
Reversions-FY13	-	-	-
NET OTHER FINANCING SOURCES (USES)	<u>88,824,306</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	5,015,969	(556,503)	-
FUND BALANCES, BEGINNING	(4,846,485)	1,919,204	-
RESTATEMENT	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, BEGINNING, AS RESTATED	<u>(4,846,485)</u>	<u>1,919,204</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 169,484</u>	<u>\$ 1,362,701</u>	<u>\$ -</u>

Major Funds						
89200 Severance Tax Bond Proceeds	90100 Data Processing Appropriations	97400 Income Support L Warrants	97500 Income Support N Warrants	97600 Medical Assistance		Total Governmental Funds
\$ -	\$ 30,681,549	\$ 10,074,023	\$ 790,312,394	\$ 2,571,948,003		\$ 3,562,438,620
-	-	-	2,895,251	97,705,252		107,059,986
-	30,681,549	10,074,023	793,207,645	2,669,653,255		3,669,498,606
-	-	-	-	14,564,487		14,564,487
-	-	-	-	3,648,862,240		3,648,862,240
-	-	-	-	3,663,426,727		3,663,426,727
-	-	-	900,093	-		900,093
-	-	-	14,984,677	-		14,984,677
-	-	10,074,023	762,710,561	-		772,784,584
-	-	-	-	-		-
-	-	10,074,023	778,595,331	-		788,669,354
-	-	-	-	-		94,644,583
-	-	-	-	-		119,663,841
-	-	-	-	5,975		35,708,430
-	-	-	-	5,975		250,016,854
1,211,594	34,279,633	-	-	-		35,727,322
1,211,594	34,279,633	10,074,023	778,595,331	3,663,432,702		4,737,840,257
(1,211,594)	(3,598,084)	-	14,612,314	(993,779,447)		(1,068,341,651)
-	-	-	9,730,614	892,946,322		1,007,384,700
-	-	-	-	150,749,502		151,985,294
-	-	-	(24,136,650)	(7,651,719)		(48,907,619)
1,211,594	-	-	-	-		1,211,594
-	-	-	(39,244)	(22,464,775)		(22,504,019)
1,211,594	-	-	(14,445,280)	1,013,579,330		1,089,169,950
-	(3,598,084)	-	167,034	19,799,883		20,828,299
-	7,285,341	-	284,676	(31,612,759)		(26,970,023)
-	-	-	-	(60,212,204)		(60,212,204)
-	7,285,341	-	284,676	(91,824,963)		(87,182,227)
\$ -	\$ 3,687,257	\$ -	\$ 451,710	\$ (72,025,080)		\$ (66,353,928)

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

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 20,828,299
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Amounts reported for governmental activities in the Statement of Activities are different because:

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amounts of financial resources used (essentially, the amounts actually paid).

The increase in compensated absences for the fiscal year was:	(24,600)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts were:

Capital outlay	35,727,322
Depreciation expense	<u>(1,674,550)</u>
 Excess of capital outlay over depreciation expense	 34,052,772
 Loss on disposal of assets	 <u>(17,583)</u>
 Change in net position of governmental activities (Statement of Activities)	 <u>\$ 54,838,888</u>

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

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
June 30, 2013**

	97800 Child Support Enforcement
ASSETS	
Current assets:	
Interest in the State Treasurer General Fund Investment Pool	\$ 661,030
Other receivables, net of allowance of \$1,460,464	<u>561,529</u>
TOTAL ASSETS	<u>\$ 1,222,559</u>
LIABILITIES	
Current liabilities:	
Deposits held in trust for others	\$ 661,030
Other liabilities	<u>561,529</u>
TOTAL LIABILITIES	<u>\$ 1,222,559</u>

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

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – ORGANIZATION AND PURPOSE

The State of New Mexico Human Services Department (the 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 financial reporting entity, as defined by GASB Statements 14 and 39, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. This definition of the reporting entity is based primarily on the notion of financial accountability as the "cornerstone of all financial reporting in government".

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, 2013, federal revenue represented 74% of the Department's total revenue and other financing sources.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Reporting Entity

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

Department-wide and Fund Financial Statements

The department-wide financial statements include two statements: the statement of net position and the statement of activities. The statement of net position and the statement of activities report information on all of the non-fiduciary 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 fund 97600, 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.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds are used to account for most of the Department's general activities, including the collection and disbursement of restricted or committed 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 are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for a specified purpose other than debt service or capital projects.

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 97800) does not receive any funding from the state or federal government. Costs of administering fund 97800 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.

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

General Fund (05200) - The *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.

Special Revenue Fund (Traumatic Brain Injury) (20520) - The Traumatic Brain Injury fund is funded with an accumulation of five dollar fees attached to each moving traffic violation citation in the state of New Mexico. The fees are for programs and services dedicated to all individuals who have experienced a brain injury. For fiscal year 2013, funding is 100% from traffic fees. Unexpended state appropriations in fund 20520 revert back to the State General Fund for reappropriation when the appropriation period expires.

Special Revenue Fund (American Recovery and Reinvestment Act-ARRA) (89000) - 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. Unexpended state appropriations in fund 89000 revert back to the State General Fund for reappropriation when the appropriation period expires.

Severance Tax Bonds (89200) - This fund was established to account for the sale of severance tax bonds to provide funds for various waste handling projects. This fund is a reverting fund. Source of funding: Severance Tax Bonds.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Agency Fund - Child Support Enforcement (97800) 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.

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 estimates 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.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. A 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.
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.

Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives (with no salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. Additions, improvements and other capital outlays exceeding

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

\$5,000 that significantly extend the useful life of an asset are capitalized per Section 12-6-10 NMSA 1978. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives in years:

Automobiles	4 to 10 years
Machinery and equipment	5 to 10 years
Data processing equipment	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.

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 position in the accompanying financial statements. Accrued vacation is calculated based on pay rate plus required taxes.

Due to State General Fund Investment Pool

The due to State 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.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2011, GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), effective for the fiscal year beginning July 1, 2012. GASB 63 modifies the presentation of deferred inflows and deferred outflows in the financial statements; it also limits the use of the term "deferred." Implementation of GASB 63 had no effect on the Department's net position or changes in net position for the fiscal year ended June 30, 2013.

Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as investment in capital assets (net of any related debt), restricted and unrestricted.

Net investment in capital assets – reflects the portion of net position 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 – Restricted assets are liquid assets generated from revenues but not bond proceeds which have third-party (statutory, bond covenant or granting agency) limitations on their use. Of the reported restricted net position on the government-wide statement of net position, all is restricted by enabling legislation. Such restrictions are legally enforceable.

Unrestricted – Represents assets that do not have third-party limitations on their use.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Department's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Department's policy to spend committed resources first.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Department did not have any items that qualified for reporting in this category as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will be recognized as an inflow of resources (revenue) until that time. The Department did not have any items that were required to be reported in this category as of June 30, 2013.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

Budgets and Budgetary Accounting

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.

Appropriations are by the program code rather than the Fund level. As such, the Department has prepared budgetary schedules in the current year by program code.

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

The 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.

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 payments to be made to providers for reported claims and for estimated incurred claims not yet reported to the Department. Management develops these estimates using actuarial methods

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Federal Grants Receivable

Federal grants receivable represent estimated receivables to be collected from the federal government based on allowable unreimbursed expenditures at fiscal year end, and the amount of estimated health care services claims incurred but not yet reported to the Department that are expected to be reimbursed by the federal government once the claims are submitted to CMS for reimbursement.

Upcoming Accounting Standard Pronouncement

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), will change how the Department reports deferred inflows and outflows of resources previously recognized as assets and liabilities. GASB 65 will improve financial reporting by adding clarification to certain elements that do not represent assets or liabilities and to ensure consistency in financial reporting. The Department does not anticipate implementation of this standard to have a significant impact on reporting. GASB 65 will be effective for the Department for fiscal year 2014.

GASB Statement No. 66, *Technical Corrections -2012* (GASB 66), resolves conflicting accounting and financial reporting guidance from the issuance of GASB 54 and GASB 62. The Department does not believe it will be impacted by GASB 66, which will be effective for the Department for fiscal year 2014.

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL

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

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

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

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

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

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

DFA Management had recorded a loss provision of \$101.7 million in the General Fund within the FY 2012 Comprehensive Annual Financial Report (CAFR), based on its estimate of the effect of issues related to the reconciliation of the Pool. Because no specific loss amount was determinable, consistent with generally accepted accounting principles, the amount accrued was the minimum amount that management considered to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount. The State's General Fund includes the Operating Reserve Fund, which issued separate financial statements as of June 30, 2012, as a part of the State's Component Appropriation Funds. Those financial statements included a loss provision of \$70 million related to the general fund investment pool, based on management's then-current estimate of the minimum probable loss. Based on additional information that had become available since the issuance of those financial statements, management's estimate of the minimum probable loss had been increased to \$101.7 million. Accordingly, the general fund investment pool loss accrual and related provision in the FY 2012 CAFR financial statements differs from the separately issued FY 2012 financial statements of the State Component Appropriation Funds. Currently, Management estimates the probable loss to be within the range of approximately \$70 million - \$102 million, with no amount within the range a better estimate than any other amount. Consistent with GASB 62, Management recorded a loss provision of \$70 million within the FY 2013 financial statements of the State Component Appropriation Funds.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 – STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

NOTE 4 - INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2013, the Department had the following invested in/due to the State General Fund Investment Pool:

	Fund	Department Balances
Due to State General Fund Investment Pool:		
General Fund	05200	\$ (14,382,768)
Data processing appropriations	90100	(717,503)
Severance tax bond proceeds	89200	(167,170)
Income support - N Warrants	97500	(142,149)
Total		\$ (15,409,590)
Interest in the State General Fund Investment Pool:		
Traumatic brain injury	20520	\$ 1,500,771
ARRA	89000	387
Income support - L Warrants	97400	60,546
Medical assistance	97600	448,544
Total governmental funds		2,010,248
Child support enforcement - K Warrants	97800	661,030
Total		\$ 2,671,278
Other cash balances:		
Petty cash	05200	\$ 750
Wells Fargo Bank	97600	25,000
Total other cash balances		\$ 25,750

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 - INTEREST IN THE STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

Interest Rate Risk

The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk

The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2013.

NOTE 5 – CAPITAL ASSETS

Governmental activities:

The current year depreciation expense of \$1,674,550 was allocated entirely to the general government function in the government-wide statement of activities.

	<u>June 30,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u> <u>2013</u>
Capital assets, not being depreciated:				
Software implementation in progress	\$ 19,984,408	\$ 32,114,888	\$ -	\$ 52,099,296
Capital assets, being depreciated:				
Automobiles	945,851	-	(87,913)	857,938
Equipment and machinery	909,810	110,205	(13,049)	1,006,966
Data processing equipment	5,651,203	3,449,429	(482,561)	8,618,071
Furniture and fixtures	<u>202,138</u>	<u>52,800</u>	<u>(24,945)</u>	<u>229,993</u>
Total capital assets	<u>27,693,410</u>	<u>35,727,322</u>	<u>(608,468)</u>	<u>62,812,264</u>
Accumulated depreciation				
Automobiles	(869,155)	(15,052)	87,913	(796,294)
Equipment and machinery	(796,759)	(64,466)	10,425	(850,800)
Data processing equipment	(3,742,783)	(1,586,489)	467,602	(4,861,670)
Furniture and fixtures	<u>(186,865)</u>	<u>(8,543)</u>	<u>24,945</u>	<u>(170,463)</u>
Total accumulated depreciation	<u>(5,595,562)</u>	<u>(1,674,550)</u>	<u>590,885</u>	<u>(6,679,227)</u>
Total capital assets	<u>\$ 22,097,848</u>	<u>\$ 34,052,772</u>	<u>\$ (17,583)</u>	<u>\$ 56,133,037</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – ACCRUED COMPENSATED ABSENCES

Accrued compensated absences consist of the following:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2013</u>
Total compensated absences	\$ 3,442,425	\$ 3,851,390	\$ (3,826,790)	\$ 3,467,025

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 position.

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 with a fiscal year ending up to December 31, 2012 were 70% completed by June 30, 2013. 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.

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 SFAS No. 5, *Accounting for Contingencies*, amounts 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, 2013, the Department was aware of three related federal audits issued by DHHS OIG covering personal care services (PCO) in which the likelihood of an unfavorable outcome is probable. As of February 14, 2014, any amount due and owing to the federal government related to two (2) of these audits is undetermined. In the third appeal, DHHS has disallowed federal financial participation totaling \$19,771,608. At the request of the Department, however, the DHHS Appeals Board has agreed to hold the Department’s appeal of that matter in abeyance pending the outcome of a similar appeal by the Georgia Department of Community Health in the Washington D.C. District Court.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The Department at June 30, 2013 was also aware of a case involving reimbursements for pharmaceutical payments and the interpretation of a state statute that gives pharmacists a fixed fee for dispensing drugs under the Medicaid program. The New Mexico Court of Appeals both affirmed and reversed in part the district court's opinion. Mediation among the parties, held on December 13, and 14, 2012, was unsuccessful. The parties presented oral arguments before the New Mexico Supreme Court in January 2013, for which the Court's decision remains pending. A settlement amount related to this case is undetermined.

During fiscal year 2013, the Department contracted with an external entity to perform provider audits of 15 mental health and substance abuse providers statewide. As a result of the provider audits, more than \$36 million in overpayments to these 15 providers were identified, spanning a three year period from 2009 – 2012. This amounts to nearly 15% of all payments made to these providers. The Department subsequently suspended payments to the 15 providers and referred the cases to the Medicaid Fraud Control Unit at the New Mexico Attorney General's Office. The outcome of these cases has not been determined, and the amount that may be recouped from the providers and related amounts due back to the federal government cannot be reasonably estimated at this time.

NOTE 9 - PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement 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 Department is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department contributes to the plan under State general member coverage plan three. The Department's contributions to PERA for the fiscal years ending June 30, 2013, 2012 and 2011 were \$9,824,254, \$8,439,523 and \$10,355,057, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 – SPECIAL APPROPRIATIONS

Special, deficiency and specific appropriations during the year consisted of the following:

Description	Authority	Appropriation Period	Original Appropriation	Cumulative Expenditures 6/30/2013	Amount to be Reverted	Unencumbered Appropriations
FUND 901 - DATA PROCESSING APPROPRIATIONS						
ASPEN	New HSD Eligibility System	July 2007 to June 2014	\$ 6,392,000	\$ 2,953,433	\$ -	3,438,567
LIHEAP	Continued funding for replacement of ISD computer system	May 2010 to June 2014	<u>1,900,000</u>	<u>1,654,451</u>	<u>-</u>	<u>245,549</u>
Fund 901 total			<u>\$ 8,292,000</u>	<u>\$ 4,607,884</u>	<u>\$ -</u>	<u>\$ 3,684,116</u>

NOTE 11 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, 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 health policies.

Eligible retirees are: 1) retirees who made contributions to the fund for at least five years prior to retirement and whose eligible employer made contributions during that period of time as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which the 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 post-employment healthcare plan. That report and further information can be obtained by writing 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

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
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NOTE 11 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)

five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us. The employer and employee retirement contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the Board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During fiscal year 2013, the statute required each participating employer to contribute 2.00% of each participating employee's annual salary; each participating employee was required to contribute 1.00% of their salary. In addition, pursuant to Section 10-7C-15(G)1978, at the first session of the Legislature following July 1, 2013, the Legislature shall review and adjust distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the Authority, in order to ensure the actuarial soundness of the benefits provided under the Retiree Healthcare Act.

The Department's contributions to the RHCA for the fiscal years ending June 30, 2013, 2012 and 2011 were \$1,351,984, \$1,208,117 and \$1,136,110, respectively, which equal the amount of required contributions for each fiscal 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:

Years ending June 30:

2014	\$ 17,326,775
2015	16,534,937
2016	14,031,373
2017	14,469,146
2018	14,012,054
2019 – 2023	58,417,217
2024	<u>10,598,947</u>
Total	<u>\$ 145,390,449</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 12 – LEASE COMMITMENTS (CONTINUED)

Total rent expense for office space and equipment for the fiscal year ended June 30, 2013 was as follows:

Office space	\$ 16,695,813
Equipment	<u>1,032,317</u>
Total	<u>\$ 17,728,130</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, 2013, the Department reverted \$79,965 pertaining to fiscal year 2012 and \$53,646 pertaining to fiscal years 2011, 2010 and 2006. The Department accrued a \$22,526,195 liability for reversions specifically related to fiscal year ending June 30, 2013. The \$22,177 shown below for fiscal year 2011 is for stale-dated warrants. 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 reversions payable by fund, program and appropriation period were as follows:

Prior Fiscal Years

Fund 052	General Fund	Fiscal Year 2011	\$ 22,177
			<u>\$ 22,177</u>

Current Fiscal Year

Fund 975	Income Support	Fiscal Year 2013	\$ 39,243
Fund 976	Medical Assistance	Fiscal Year 2013	<u>22,464,775</u>
			<u>\$ 22,526,195</u>

STATE OF NEW MEXICO HUMAN RESOURCES DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

NOTE 14 - TRANSFERS IN AND TRANSFERS OUT

State Agency/Fund	Business Unit	SHARE Fund No.	Purpose
TRANSFERS IN			
Department of Health	66500	06100	Medicaid and TANF Services
Department of Health	66500	06100	FQHCS
Department of Health	66500	06100	Early Intervention
Department of Health	66500	06100	OTC Emergency Contraception
Department of Health	66500	06100	AAIDD Contract
Dept. of Finance & Administration	34100	02100	County Supported Medicaid Fund (Admin)
Dept. of Finance & Administration	34100	62000	Tobacco Settlement
Dept. of Finance & Administration	34100	89000	Severance Tax Bond Proceeds
State General Fund Appropriation:			
Dept. of Finance & Administration	34100	62000	Regular Appropriation

General Fund (05200)	Severance Tax Capital Outlay (90100)	Income Support (97500)	Medical Assistance (97600)	Total
\$ 314,240	\$ -	\$ -	\$ 88,586,723	\$ 88,900,963
-	-	-	481,600	481,600
-	-	-	6,758,970	6,758,970
-	-	-	238	238
-	-	-	692,114	692,114
921,552	-	-	25,727,457	26,649,009
-	-	-	28,502,400	28,502,400
-	<u>1,211,594</u>	-	-	<u>1,211,594</u>
<u>\$ 1,235,792</u>	<u>\$ 1,211,594</u>	<u>\$ -</u>	<u>\$ 150,749,502</u>	<u>\$ 153,196,888</u>
<u>\$ 104,707,764</u>	<u>\$ -</u>	<u>\$ 9,730,614</u>	<u>\$ 892,946,322</u>	<u>\$1,007,384,700</u>

STATE OF NEW MEXICO HUMAN RESOURCES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 14 - TRANSFERS IN AND TRANSFERS OUT (CONTINUED)

State Agency/Fund	Business Unit	SHARE Fund No.	Purpose
TRANSFERS OUT			
Children Youth & Families Dept.	69000	06700	Medicaid Case Management
Children Youth & Families Dept.	69000	49100	TANF - Child Care & Training
Children Youth & Families Dept.	69000	06700	Employment & Training Child Care
Children Youth & Families Dept.	69000		Children's Program
Department of Health	66500	60100	Payment to Public Providers
Department of Health	66500	06104	Public Health Division
Department of Health	66500	06100	Medicaid - EPSDT
Department of Health	66500	06100	Medicaid - Families First
Department of Health	66500	06100	Medicaid - LTSD - DHI
Department of Health	66500	06100	Medicaid - Nurse Aide Training
Department of Health	66500	06100	Medicaid - PASARR
Department of Health	66500	06100	Medicaid - MF Waiver
Department of Health	66500	06100	Medicaid - DD Waiver
Department of Health	66500	06100	Medicaid - Aids Waiver
Department of Health	66500	06100	Medicaid - ICF for the MR and Long Term Care
Department of Health	66500	06100	Medicaid - Maternal Child Health Initiative
Department of Health	66500	06100	Medicaid - WDI
Department of Health	66500	06100	Medicaid - Admin Claiming
Department of Health	66500	06104	Refugee CMA - Health Screening
Aging and Long-term Care Dept.	62400	04900	Medicaid - Administration
Developmental Disabilities Planning Council	64700	07900	Medicaid - Guardianship
University of New Mexico	96900	3D041	Medicaid - ECHO
University of New Mexico	96900		Medicaid - ARC
University of New Mexico	96900	330Q6	Medicaid - Envision NM
University of New Mexico	96900		Medicaid - CDD

General Fund (05200)	Income Support (97500)	Medical Assistance (97600)	Total
\$ 1,135,950	\$ -	\$ -	\$ 1,135,950
-	23,777,500	-	23,777,500
27,333	359,150	-	386,483
419,080	-	-	419,080
2,651,789	-	7,651,719	10,303,508
809,708	-	-	809,708
166,556	-	-	166,556
323,483	-	-	323,483
1,682,512	-	-	1,682,512
476	-	-	476
293,865	-	-	293,865
-	-	-	-
4,825,671	-	-	4,825,671
22,912	-	-	22,912
690,198	-	-	690,198
124,225	-	-	124,225
25,015	-	-	25,015
347,612	-	-	347,612
136,277	-	-	136,277
510,900	-	-	510,900
427,628	-	-	427,628
141,419	-	-	141,419
373,760	-	-	373,760
859,099	-	-	859,099
<u>1,123,782</u>	<u>-</u>	<u>-</u>	<u>1,123,782</u>
<u>\$ 17,119,250</u>	<u>\$ 24,136,650</u>	<u>\$ 7,651,719</u>	<u>\$ 48,907,619</u>

STATE OF NEW MEXICO HUMAN RESOURCES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 15 - DUE TO/FROM OTHER STATE AGENCIES

State Agency	Business Unit	Purpose
DUE TO OTHER STATE AGENCIES		
Aging & Long-Term Services Department	62400	Long-term Elderly care
Children, Youth and Families Department	69000	Medicaid and TANF Services
DD Planning Council	64700	Determine Disability Eligibility
Department of Health	66500	Medicaid and TANF Services
Department of Information Technology	36100	Support Services
Department of Workforce Solutions	63100	Workforce Development
Division of Vocational Rehabilitation	64400	Determine Disability Eligibility
General Services Department	35000	Support Services
NM Corrections Industries	77000	Furniture purchase
New Mexico Mortgage Finance Authority	81400	Low Income Home Energy Assistance
State Records Center & Archives	36900	Support Services
Department of Education	92400	TANF Services
University of New Mexico	96900	Envision New Mexico
DUE FROM OTHER STATE AGENCIES		
Taxation and Revenue Department	33300	Reimbursement for shared facilities
Office of the State Treasurer	39400	Self-earning interest on deposits
Aging & Long-Term Services Department	80000	Reimbursement for shared facilities and BI
Aging & Long-Term Services Department	80000	Reimbursement for eligibility workers
Department of Corrections	77000	Reimbursement for shared facilities
Department of Finance & Administration	34100	County Supported Medicaid Funds
Department of Finance & Administration	34100	Severance tax bond proceeds
Division of Vocational Rehabilitation	64400	Reimbursement for shared facilities
Department of Health	66500	Rehab. Center, CMS, CCIC, programs
Department of Health	66500	CYFD Treatment Foster Care
NM Veterans' Commission	67000	Reimbursement for shared facilities

General Fund (05200)	Severance Tax Bond Proceeds (89000)	Data Processing Appropriations (90100)	Income Support L Warrants (97400)	Income Support N Warrants (97500)	Medical Assistance (97600)	Total
\$ 129,364	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 129,364
450,732	-	-	-	1,981,458	433,066	2,865,256
85,063	-	-	-	-	-	85,063
10,236,917	-	-	-	-	8,980	10,245,897
2,075,488	-	120,000	-	-	-	2,195,488
-	-	-	-	-	-	-
-	-	-	-	-	-	-
21,151	-	-	-	-	-	21,151
4,500	-	-	-	-	-	4,500
-	-	-	569,061	-	-	569,061
-	-	-	-	-	-	-
1,720	-	-	-	-	-	1,720
<u>1,294,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,294,002</u>
<u>\$ 14,298,937</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 569,061</u>	<u>\$ 1,981,458</u>	<u>\$ 442,046</u>	<u>\$ 17,411,502</u>
\$ 3,274	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,274
-	-	170	-	-	-	170
7,373	-	-	-	-	-	7,373
-	-	-	-	-	-	-
25,068	-	-	-	-	-	25,068
455,478	-	-	-	-	9,039,532	9,495,010
-	167,170	-	-	-	-	167,170
-	-	-	-	-	-	-
274,714	-	-	-	-	39,213,790	39,488,504
-	-	-	-	-	-	-
<u>2,994</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,994</u>
<u>\$ 768,901</u>	<u>\$ 167,170</u>	<u>\$ 170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,253,322</u>	<u>\$ 49,189,563</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 for State of New Mexico employees.

During the 2013 fiscal year, the Department paid Risk Management \$2,706,606 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, 2013, 2012 and 2011, 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 - FUND BALANCE

Governmental Accounting Standards Board (GASB) Statement No. 54 clarifies the existing governmental fund type definitions and provides clearer fund balance classifications are based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds and includes the terms: nonspendable, restricted, committed, assigned and unassigned. GASB Statement No. 54 was implemented in the FY 2011.

The agency's fund balances represent: 1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by legislation of the Legislature; 3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

The Department did not have any assigned fund balances at June 30, 2013. A summary of the nature and purpose of these reserves by fund type at June 30, 2013 follows:

	<u>Non-Spendable</u>	<u>Assigned Purposes</u>	<u>Restricted Purposes</u>	<u>Committed Purposes</u>
General Fund:				
Inventory	\$ 137,220	\$ -	\$ -	\$ -
SNAP Bonus	-	889,472	-	-
DASIS funding - Behavioral Health	-	-	164,310	-
Total	<u>\$ 137,220</u>	<u>\$ 889,472</u>	<u>\$ 164,310</u>	<u>\$ -</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 17 - FUND BALANCE (CONTINUED)

	Non- Spendable	Assigned Purposes	Restricted Purposes	Committed Purposes
Data Processing Appropriations:				
Prepaid expenses	\$ 3,141	\$ -	\$ -	\$ -
LIHEAP to ISD computer system (Laws of 2010, Chapter 6, Section 7)	-	-	-	245,549
ASPEN - new eligibility system (Laws of 2011, Chapter 179, Section 7)	-	-	-	3,438,567
Total	<u>\$ 3,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,684,116</u>
Income Support - N Warrants				
SSIR (Laws of 2011, Section 5, Chapter 179, Item 17)	-	-	-	451,710
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 451,710</u>
Traumatic Brain Injury:				
Brain Injury service funds	-	-	-	1,362,701
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,362,701</u>

NOTE 18 – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2013 are expected to be repaid within one year and consisted of the following receivables and payables:

Receivable Fund/ Governmental Fund	Purpose	ARRA Fund (89000)	Total
General Fund	Reimbursement Adjustments Payroll and Interest	\$ 409	\$ 409
		<u>\$ 409</u>	<u>\$ 409</u>

These transactions are eliminated in the government-wide financial statements.

NOTE 19 - DEFICIT FUND BALANCE – FUND 97600

The Medical Assistance Fund (97600) has a deficit fund balance of \$72,025,080 as of June 30, 2013. Issues in reporting and claiming Medicaid reimbursements from CMS over a multi-year period contributed to the deficit position.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 19 - DEFICIT FUND BALANCE – FUND 97600 (CONTINUED)

In 2010, the Department identified a reconciling difference between reported federal government revenues and receivables and the associated reported expenditures, awards and draws with CMS. As a result, the Department recorded an estimated \$103 million reduction to federal grant revenues, a \$62M liability to the federal government, and a \$41M deferred revenue to recognize a shortfall in the Medicaid Program due to the over-drawing of funds and uncollectible receivables from 2010 and earlier years. To resolve these issues, the Department reduced their draws from the federal government by approximately \$114M in 2011.

During 2012, the Department identified another \$57M of claims in excess of award limits that occurred in 2011 and prior years. Consequently, the Department reduced their draws from CMS by \$46M in 2012 to resolve the remaining issues that had been identified.

In 2013, the Department reviewed prior year balances of the federal accounts receivable and found a \$60 million balance from these prior years that had not been addressed when the other corrections were made in 2010 and 2012. Accordingly, in 2013, Fund Balance of the Medicaid Fund was restated to reflect the \$60 million uncollectible federal receivable related to years prior to 2013 (see Note 20).

NOTE 20 – RESTATEMENT

The Medical Assistance Fund (97600) recorded a restatement of fund balance during fiscal year 2013. The restatement decreased fund balance and increased allowance for doubtful accounts on federal grants receivable by \$60M. As discussed in Note 19, this restatement was required to correct a remaining reconciling difference between reported federal government revenues and receivables and the associated reported expenditures, awards and draws with CMS for fiscal years prior to 2013. These claims are uncollectible as a result of expenditures exceeding award limits in those periods.

Medical Assistance Fund (97600)

Fund balance, beginning	\$ (31,612,759)
Record allowance for doubtful accounts for prior years	<u>(60,212,204)</u>
Fund balance, beginning, Restated	<u>\$ (91,824,963)</u>

Government-Wide Financial Statements

Net position, beginning	\$ (8,314,600)
Record allowance for doubtful accounts for prior years	<u>(60,212,204)</u>
Net position, beginning, Restated	<u>\$ (68,526,804)</u>

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 PROGRAM SUPPORT PROGRAM - P522
 GENERAL APPROPRIATIONS
 Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES				
Fund balance	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Federal grants	25,731,400	60,221,322	26,874,844	(33,346,478)
Other	<u>3,856,500</u>	<u>4,040,500</u>	<u>3,391,448</u>	<u>(649,052)</u>
TOTAL REVENUES	<u>29,587,900</u>	<u>64,261,822</u>	<u>30,266,292</u>	<u>(33,995,530)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	17,584,700	17,389,189	15,488,115	1,901,074
Contractual services	11,079,700	45,188,200	13,032,329	32,155,871
Healthcare services	-	-	-	-
Other cost	<u>12,965,800</u>	<u>13,766,259</u>	<u>13,550,263</u>	<u>215,996</u>
TOTAL EXPENDITURES	<u>41,630,200</u>	<u>76,343,648</u>	<u>42,070,707</u>	<u>34,272,941</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	12,042,300	12,042,300	12,042,300	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	-	-	-	-
Other	-	39,526	39,526	-
Transfers out:				
Transfers out to other state agencies	-	-	-	-
Reversion	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>12,042,300</u>	<u>12,081,826</u>	<u>12,081,826</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,411</u>	<u>\$ 277,411</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 CHILD SUPPORT PROGRAM - P523
 GENERAL APPROPRIATIONS
 Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES				
Fund balance	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Federal grants	19,104,800	19,104,800	19,495,981	391,181
Other	5,722,800	5,722,800	2,407,977	(3,314,823)
TOTAL REVENUES	<u>24,827,600</u>	<u>24,827,600</u>	<u>21,903,958</u>	<u>(2,923,642)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	19,813,200	19,813,200	18,613,198	1,200,002
Contractual services	7,053,400	7,053,400	6,464,613	588,787
Healthcare services	-	-	-	-
Other cost	5,638,800	5,638,800	4,503,948	1,134,852
TOTAL EXPENDITURES	<u>32,505,400</u>	<u>32,505,400</u>	<u>29,581,759</u>	<u>2,923,641</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	7,677,800	7,677,800	7,677,800	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	-	-	-	-
Other	-	-	-	-
Transfers out:				
Transfers out to other state agencies	-	-	-	-
Reversion	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,677,800</u>	<u>7,677,800</u>	<u>7,677,800</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (1)</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 MEDICAL ASSISTANCE PROGRAM - P524
 GENERAL APPROPRIATIONS
 Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> (Budgetary Basis)	<u>Final Budget</u> Positive (Negative)
REVENUES				
Fund balance	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Federal grants	2,564,092,900	2,568,823,763	2,424,489,010	(144,334,753)
Other	153,505,800	153,505,800	98,137,506	(55,368,294)
TOTAL REVENUES	<u>2,717,598,700</u>	<u>2,722,329,563</u>	<u>2,522,626,516</u>	<u>(199,703,047)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	12,009,200	11,740,904	11,535,056	205,848
Contractual services	48,409,500	71,768,379	54,591,592	17,176,787
Healthcare services	3,570,123,000	3,551,783,994	3,362,276,409	189,507,585
Other cost	-	-	-	-
TOTAL EXPENDITURES	<u>3,630,541,700</u>	<u>3,635,293,277</u>	<u>3,428,403,057</u>	<u>206,890,220</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	817,710,800	817,710,800	817,710,800	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	127,732,600	127,753,314	151,945,768	24,192,454
Other	-	-	-	-
Transfers out:				
Transfers out to other state agencies	(32,500,400)	(32,500,400)	(23,378,571)	9,121,829
Reversion	-	-	(21,466,613)	(21,466,613)
TOTAL OTHER FINANCING SOURCES (USES)	<u>912,943,000</u>	<u>912,963,714</u>	<u>924,811,384</u>	<u>11,847,670</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,034,843</u>	<u>\$ 19,034,843</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 INCOME SUPPORT PROGRAM - P525
 GENERAL APPROPRIATIONS
 Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES				
Fund balance	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Federal grants	837,913,600	853,408,707	839,089,573	(14,319,134)
Other	<u>3,716,000</u>	<u>3,716,000</u>	<u>4,535,261</u>	<u>819,261</u>
TOTAL REVENUES	<u>841,629,600</u>	<u>857,124,707</u>	<u>843,624,834</u>	<u>(13,499,873)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	48,688,100	48,838,100	47,907,349	930,751
Contractual services	20,453,000	21,303,000	18,897,238	2,405,762
Healthcare services	-	-	-	-
Other cost	<u>789,082,500</u>	<u>803,577,607</u>	<u>787,794,558</u>	<u>15,783,049</u>
TOTAL EXPENDITURES	<u>858,223,600</u>	<u>873,718,707</u>	<u>854,599,145</u>	<u>19,119,562</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	40,542,900	40,542,900	40,542,900	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	-	-	-	-
Other	-	-	-	-
Transfers out:				
Transfers out to other state agencies	(24,533,500)	(24,533,500)	(24,300,262)	233,238
Reversion	<u>-</u>	<u>-</u>	<u>(52,017)</u>	<u>(52,017)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>16,009,400</u>	<u>16,009,400</u>	<u>16,190,621</u>	<u>181,221</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ (584,600)</u>	<u>\$ (584,600)</u>	<u>\$ 5,216,310</u>	<u>\$ 4,631,710</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 MEDICAID BEHAVIORAL HEALTH PROGRAM - P766
 GENERAL APPROPRIATIONS
 Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES				
Fund balance	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Federal grants	205,301,000	205,301,000	201,501,582	(3,799,418)
Other	-	-	-	-
TOTAL REVENUES	<u>205,301,000</u>	<u>205,301,000</u>	<u>201,501,582</u>	<u>(3,799,418)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	-	-	-	-
Contractual services	-	6,000,000	-	6,000,000
Healthcare services	-	-	-	-
Other cost	292,630,000	286,630,000	287,329,871	(699,871)
TOTAL EXPENDITURES	<u>292,630,000</u>	<u>292,630,000</u>	<u>287,329,871</u>	<u>5,300,129</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	87,329,000	87,329,000	87,329,000	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	-	-	-	-
Other	-	-	-	-
Transfers out:				
Transfers out to other state agencies	-	-	-	-
Reversion	-	-	(985,387)	(985,387)
TOTAL OTHER FINANCING SOURCES (USES)	<u>87,329,000</u>	<u>87,329,000</u>	<u>86,343,613</u>	<u>(985,387)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,324</u>	<u>\$ 515,324</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 BEHAVIORAL HEALTH SERVICE PROGRAM - P767
 GENERAL APPROPRIATIONS
 Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Fund balance	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
Federal grants	16,828,900	18,780,771	17,957,124	(823,647)
Other	21,000	21,000	31,941	10,941
TOTAL REVENUES	<u>16,849,900</u>	<u>18,801,771</u>	<u>17,989,065</u>	<u>(812,706)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	2,580,900	2,000,900	2,000,876	24
Contractual services	54,484,800	56,966,671	56,324,678	641,993
Healthcare services	-	-	-	-
Other cost	513,400	563,400	542,666	20,734
TOTAL EXPENDITURES	<u>57,579,100</u>	<u>59,530,971</u>	<u>58,868,220</u>	<u>662,751</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	42,081,900	42,081,900	42,081,900	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	-	-	-	-
Other	-	-	-	-
Transfers out:				
Transfers out to other state agencies	(1,352,700)	(1,352,700)	(1,228,788)	123,912
Reversion	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>40,729,200</u>	<u>40,729,200</u>	<u>40,853,112</u>	<u>123,912</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (26,043)</u>	<u>\$ (26,043)</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 PROGRAM SUPPORT PROGRAM - P522
 SPECIAL APPROPRIATIONS
 Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary Basis)</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
REVENUES				
Fund balance	\$ -	\$ 906,781	\$ -	\$ (906,781)
Miscellaneous	-	-	-	-
Federal grants	-	77,264,794	30,681,548	(46,583,246)
Other	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>78,171,575</u>	<u>30,681,548</u>	<u>(47,490,027)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	-	10,429,717	2,767,905	7,661,812
Contractual services	-	72,003,006	27,798,268	44,204,738
Healthcare services	-	-	-	-
Other cost	-	10,230,852	4,925,054	5,305,798
TOTAL EXPENDITURES	<u>-</u>	<u>92,663,575</u>	<u>35,491,227</u>	<u>57,172,348</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	-	-	-	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	-	14,492,000	1,211,594	(13,280,406)
Other	-	-	-	-
Transfers out:				
Transfers out to other state agencies	-	-	-	-
Reversion	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>14,492,000</u>	<u>1,211,594</u>	<u>(13,280,406)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,598,085)</u>	<u>\$ (3,598,085)</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE -
 INCOME SUPPORT PROGRAM - P525
 SPECIAL APPROPRIATIONS
 Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Fund balance	\$ -	\$ 284,677	\$ -	\$ (284,677)
Miscellaneous	-	-	-	-
Federal grants	-	-	-	-
Other	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>284,677</u>	<u>-</u>	<u>(284,677)</u>
EXPENDITURES				
Current:				
Personnel services and benefits	-	-	-	-
Contractual services	-	-	-	-
Healthcare services	-	-	-	-
Other cost	-	284,677	284,677	-
TOTAL EXPENDITURES	<u>-</u>	<u>284,677</u>	<u>284,677</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General funds	-	-	-	-
Compensation package	-	-	-	-
Supplemental	-	-	-	-
Transfers in from other state agencies	-	-	-	-
Other	-	-	-	-
Transfers out:				
Transfers out to other state agencies	-	-	-	-
Reversion	-	-	1	1
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (284,676)</u>	<u>\$ (284,676)</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO BUDGETARY COMPARISON SCHEDULES
Year Ended June 30, 2013

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 2013 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 below.

	<u>Revenue</u>	<u>Expenses</u>	<u>Other Financing Sources (Uses)</u>	<u>Net Change in Fund Balance</u>
Net changes in fund balance per statement of revenues, expenditures and changes in fund balance				
General Fund (052)	\$ 164,977,330	\$ (248,785,667)	\$ 88,824,306	\$ 5,015,969
Traumatic Brain Injury (20520)	904,804	(1,461,307)	-	(556,503)
Data Processing Appropriations (901)	30,681,549	(34,279,633)	-	(3,598,084)
Income Support L Warrants (974)	10,074,023	(10,074,023)	-	-
Income Support N Warrants (975)	793,207,645	(778,595,331)	(14,445,280)	167,034
Medicaid Assistance (976)	<u>2,669,653,255</u>	<u>(3,663,432,702)</u>	<u>1,013,579,330</u>	<u>19,799,883</u>
Total	<u>\$ 3,669,498,606</u>	<u>\$ (4,736,628,663)</u>	<u>\$ 1,087,958,356</u>	<u>\$ 20,828,299</u>
Net changes in fund balance per budget schedules				
General Appropriations:				
Program Support Program (P-522)	\$ 30,266,292	\$ (42,070,707)	\$ 12,081,826	\$ 277,411
Child Support Program (P-523)	21,903,958	(29,581,759)	7,677,800	(1)
Medical Assistance Program (P-524)	2,522,626,516	(3,428,403,057)	924,811,384	19,034,843
Income Support Program (P-525)	843,624,834	(854,599,145)	16,190,621	5,216,310
Medicaid Behavioral Health Program (P-766)	201,501,582	(287,329,871)	86,343,613	515,324
Behavioral Health Service (P-767)	17,989,065	(58,868,220)	40,853,112	(26,043)
Special Appropriations:				
Program Support Program (P-522)	30,681,548	(35,491,227)	1,211,594	(3,598,085)
Income Support Program (P-525)	<u>-</u>	<u>(284,677)</u>	<u>1</u>	<u>(284,676)</u>
	<u>\$ 3,668,593,795</u>	<u>\$ (4,736,628,663)</u>	<u>\$ 1,089,169,951</u>	<u>\$ 21,135,083</u>

SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF JOINT POWERS AND OTHER GOVERNMENT AGREEMENTS
Year Ended June 30, 2013

Name/ Responsible Party	Program Description	Contract #	Date of Agreement		Fiscal Agent/ Audit Responsibility	Contract Amount	FY13		Division
			Beginning	Ending			Contract Amount	Expended Amount	
Catron County Grassroots Behavioral	Consumer Community in Outreach	GSA 13-630-7903-0009	07/01/12	06/30/13	HSD	\$ 50,000	\$ 50,000	\$ 50,000	BHSD
Colfax County	Implement the Food & Drug Administration	GSA 12-630-7903-0020	12/30/11	09/30/14	HSD	\$ 37,034	\$ 12,343	\$ 12,343	BHSD
CYFD (CMHS)	Behavioral Health Services for Children	GSA 12-630-7903-0001 A1	07/01/11	06/30/13	HSD	\$ 852,546	\$ 426,273	\$ 426,273	BHSD
CYFD (CMHS)	Behavioral Health Services for Children	GSA 11-630-7903-0004 A2	07/01/11	06/30/13	HSD	\$ 852,546	\$ 852,546	\$ 50,632	BHSD
CYFD (DIG)	Linguistically, Culturally Competent	GSA 11-630-7903-0014	07/01/12	06/30/13	HSD	\$ 5,000	\$ 5,000	\$ 5,000	BHSD
CYFD	Domestic Violence Services	GSA 11-630-7903-0004 A2	07/01/10	06/30/13	HSD	\$ 238,290	\$ 79,430	\$ 79,430	BHSD
Department of Health	Behavioral Health Epidemiology	GSA 11-630-7903-0007 A2	07/01/11	06/30/13	HSD	\$ 375,000	\$ 125,000	\$ 125,000	BHSD
Department of Health	SPE Grant - Epidemiology and Response Division	GSA 12-630-7903-0012	07/01/12	06/30/13	HSD	\$ 121,484	\$ 121,484	\$ 121,484	BHSD
Department of Health	Epidemiology and Assessment Support for OSAP	GSA 12-630-7903-0012 A1	07/01/12	06/30/13	HSD	\$ 22,500	\$ 22,500	\$ 22,500	BHSD
Department of Health	Turquoise Lodge Detox Services	GSA 12-630-7903-0003 A1	07/01/11	06/30/13	HSD	\$ 1,431,916	\$ 793,958	\$ 793,958	BHSD
Department of Health	Youth Risk & Resiliency Survey	GSA 12-630-7903-0013 A1	07/01/11	06/30/13	HSD	\$ 60,000	\$ 37,500	\$ 37,500	BHSD
Department of Health	DIG Grant	GSA 13-630-7903-0036	04/25/13	08/01/13	HSD	\$ 10,000	\$ 5,000	\$ 5,000	BHSD
Department of Public Safety	Implement the Food & Drug Administration	GSA 12-630-7903-0025	12/30/11	09/30/14	HSD	\$ 1,035,011	\$ 344,699	\$ 344,699	BHSD
Department of Public Safety	SYNAR	GSA 13-630-7903-0032	10/31/12	06/30/13	HSD	\$ 80,748	\$ 80,748	\$ 80,748	BHSD
Five Sandoval Indian Pueblos	Implement the Food & Drug Administration	GSA 12-630-7903-0018	12/30/11	09/29/12	HSD	\$ 15,876	\$ 3,969	\$ 3,969	BHSD
Five Sandoval Indian Pueblos	Implement the Food & Drug Administration	GSA 12-630-7903-0023	09/30/12	06/30/13	HSD	\$ 11,532	\$ 11,532	\$ 11,532	BHSD
University of New Mexico	UNM/PASRR Services	GSA 11-630-7903-0008 A2	07/01/10	06/30/13	HSD	\$ 338,800	\$ 169,400	\$ 169,400	BHSD
University of New Mexico	Psychiatric Behavioral Health Services - Children, Adolescents	GSA 10-630-7903-0006 A3	07/01/09	06/30/13	HSD	\$ 431,445	\$ 142,348	\$ 142,348	BHSD
University of New Mexico	CASAA Multimedia Educational Campaign	GSA 12-630-7903-0004 A2	07/01/11	06/30/13	HSD	\$ 39,600	\$ 19,800	\$ 19,800	BHSD
University of New Mexico	Psychiatric Behavioral Health Services - Children, Adolescents	GSA 08-630-7903-0004 A6	07/01/07	06/30/13	HSD	\$ 1,235,167	\$ 225,000	\$ 225,000	BHSD
University of New Mexico	Implement the Food & Drug Administration	GSA 12-630-7903-0034	04/16/12	09/24/14	HSD	\$ 39,094	\$ 13,165	\$ 13,165	BHSD
University of New Mexico	COSAP Implement the Food and Drug Administration	GSA 12-630-7903-0022	12/15/11	09/30/14	HSD	\$ 17,187	\$ 5,729	\$ 5,729	BHSD
1st Judicial District Court	CSED-Hearing Officer(s)	GSA-13-630-7101-0001	07/01/12	06/30/13	HSD	\$ 326,100	\$ 326,100	\$ 326,100	CSED
2nd Judicial District Court	CSED-Hearing Officer(s)	GSA-13-630-7101-0002	07/01/12	06/30/13	HSD	\$ 971,241	\$ 971,241	\$ 971,241	CSED
3rd Judicial District Court	CSED-Hearing Officer(s)	GSA-13-630-7101-0003	07/01/12	06/30/13	HSD	\$ 417,700	\$ 417,700	\$ 417,700	CSED
7th Judicial District Court	CSED-Hearing Officer(s)	GSA-13-630-7101-0004	07/01/12	06/30/13	HSD	\$ 298,236	\$ 298,236	\$ 298,236	CSED
9th Judicial District Court	CSED-Hearing Officer(s)	GSA-13-630-7101-0005	07/01/12	06/30/13	HSD	\$ 499,220	\$ 499,220	\$ 499,220	CSED
11th Judicial District Court	CSED-Hearing Officer(s)	GSA-13-630-7101-0006	07/01/12	06/30/13	HSD	\$ 330,500	\$ 330,500	\$ 330,500	CSED
13th Judicial District Court	CSED-Hearing Officer(s)	GSA-13-630-7101-0007	07/01/12	06/30/13	HSD	\$ 304,000	\$ 304,000	\$ 304,000	CSED
Department of Health	Vital Records	GSA 13-630-7101-0022	07/01/12	06/30/13	HSD	\$ 70,000	\$ 70,000	\$ 70,000	CSED
The Navajo Nation	For NN CSED	GSA-13-630-7101-0023	07/01/12	06/30/13	HSD	\$ 40,000	\$ 40,000	\$ 40,000	CSED
State of South Carolina	Electronic Parent Locator Network (EPLN)	GSA 12-630-7101-0023	07/01/12	06/30/13	HSD	\$ 17,913	\$ 17,913	\$ 17,913	CSED
CYFD - Child Care	TANF Block Grant - Child Care	GSA 13-630-9000-0009 A1	07/01/12	06/30/13	HSD	\$ 24,215,545	\$ 24,215,545	\$ 24,215,545	ISD
Department of Health	Refugee Health Screening	GSA 13-630-9000-0012	07/01/12	06/30/13	HSD	\$ 136,277	\$ 136,277	\$ 136,277	ISD
Las Cruces Public Schools	SNAP-Ed	GSA 12-630-9000-0026	09/29/11	09/30/13	HSD	\$ 537,461	\$ 296,396	\$ 296,396	ISD
Lutheran Family Services Rocky Mountains	Refugee Social Services	GSA 13-630-9000-0025	07/01/12	06/30/13	HSD	\$ 139,270	\$ 139,270	\$ 139,270	ISD
Lutheran Family Services Rocky Mountains	Refugee Social Services	GSA 13-630-9000-0035	04/12/13	04/12/14	HSD	\$ 150,000	\$ 131,250	\$ 131,250	ISD
NM Mortgage Finance Authority - Homeless	Homeless Support Services	GSA 13-630-9000-0008	07/01/12	06/30/13	HSD	\$ 725,700	\$ 725,700	\$ 725,700	ISD
NM Mortgage Finance Authority -	LIHEAP Weatherization Assistance	GSA 13-630-9000-0010	07/01/12	06/30/13	HSD	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000	ISD
NMSU - Regents	SNAP-Ed	Price Agreement 20-630-00-	09/29/11	09/30/13	HSD	\$ 3,309,390	\$ 1,605,054	\$ 1,605,054	ISD

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF JOINT POWERS AND OTHER GOVERNMENT AGREEMENTS (CONTINUED)
Year Ended June 30, 2013

Name/ Responsible Party	Program Description	Contract #	Date of Agreement		Fiscal Agent/ Audit Responsibility	Contract Amount	FY13		Division
			Beginning	Ending			Contract Amount	Expended Amount	
UNM	SNAP-Ed	GSA 12-630-9000-0028 A3	09/29/11	09/30/13	HSD	\$ 954,940	\$ 535,622	\$ 535,622	ISD
Zuni Pueblo	TANF	GSA 13-630-9000-0027	07/01/12	06/30/13	HSD	\$ 31,000	\$ 31,000	\$ 31,000	ISD
Aging and Long Term Services Division	Title XIX	GSA-12-630-8000-0014	7/1/2011	6/30/2016	HSD	\$ 3,513,178	\$ 510,900	\$ 510,900	MAD
CYFD	Case Management - Protective Services	JPA 95-17	6/18/1994	UT	HSD	\$ 5,451,995	\$ 1,135,950	\$ 1,135,950	MAD
Department of Health	Admin Claiming	JPA 11-630-8000-0008	7/1/2010	6/30/2015	HSD	\$ 4,800,000	\$ 347,612	\$ 347,612	MAD
Department of Health	EPSDT	JPA 95 29	7/1/1995	UT	HSD	\$ 346,511	\$ 346,511	\$ 346,511	MAD
Department of Health	Coordinate Services for non-Medicaid eligible families	JPA 96 32	7/1/1994	UT	HSD	\$ 2,088,819	\$ 323,483	\$ 323,483	MAD
Department of Health	Nurse Aide Training	JPA 96 22	2/8/1996	UT	HSD	\$ 690,578	\$ 690,578	\$ 690,578	MAD
Department of Health	Pre-Admission Screening and Annual Resident Review	GSA 11-630-8000-0013	7/1/2010	UT	HSD	\$ 429,092	\$ 293,865	\$ 293,865	MAD
Department of Health	SBHC	GSA 12-630-8000-0007	7/1/2011	6/30/2015	HSD	\$ 6,273,668	\$ 857,984	\$ 857,984	MAD
Department of Health	Home & Community Based Waiver Program	JPA 11-630-8000-0003 A2	7/1/2010	6/30/2014	HSD	\$ 45,700,000	\$ 4,706,492	\$ 4,706,492	MAD
Department of Health	Maternal Child Health Initiatives	GSA 10-630-8000-0009 A1	7/1/2010	6/30/2014	HSD	\$ 560,000	\$ 120,000	\$ 120,000	MAD
Department of Health	WDI and DOH	GSA 10-630-8000-0014	1/1/2010	12/31/2012	HSD	\$ 1,151,700	\$ 25,015	\$ 25,015	MAD
Disability Developmental Planning Council	Administrative Claiming to Pay a Federal Match	GSA 11-630-8000-0016 A1	7/1/2010	6/30/2014	HSD	\$ 1,600,000	\$ 352,628	\$ 352,628	MAD
Disability Developmental Planning Council	Match Admin Costs for Babynet	GSA 09-630-8000-0095	7/1/2009	06/30/13	HSD	\$ 300,000	\$ 75,000	\$ 75,000	MAD
Maryland, State of	Medicaid MGD Care, Pharmacy & SCI Program	GSA 08-630-8000-0016 A2	3/17/2008	12/31/2013	HSD	\$ 4,506,178	\$ 7,433	\$ 5,293	MAD
University of New Mexico Continuing Education	Envision	GSA-10-630-8000-0002	7/1/2009	6/30/2013	HSD	\$ 4,400,000	\$ 859,099	\$ 326,310	MAD
University of New Mexico	Envision CHIPRA Grant	GSA 11-630-8000-0007 A1	7/1/2010	6/30/2015	HSD	\$ 1,693,556	\$ 333,760	\$ 333,760	MAD
University of New Mexico Continuing Education	WDI GSA with UNM for ARC	GSA-09-630-8000-0090 A2	10/22/2009	12/31/2012	HSD	\$ 320,000	\$ 40,000	\$ 40,000	MAD
University of New Mexico / CDD Provider Training	Provider Trainings	GSA 12-630-8000-0006 A1	7/1/2011	6/30/2014	HSD	\$ 1,123,782	\$ 1,123,782	\$ 1,123,782	MAD
University of New Mexico Health Sciences	UNM Project ECHO	GSA-11-630-8000-0020 A2	7/1/2010	6/30/2013	HSD	\$ 2,180,416	\$ 141,419	\$ 141,419	MAD
Alamogordo Public Schools	School Based Medicaid Services	GSA 13-630-8000-0100	7/1/2012	6/30/2016	HSD	\$ 663,457	\$ 164,000	\$ 164,000	MAD
Albuquerque Public Schools	School Based Medicaid Services	GSA 13-630-8000-0101	7/1/2012	6/30/2016	HSD	\$ 6,445,631	\$ 1,565,757	\$ 1,565,757	MAD
Artesia Public Schools	School Based Medicaid Services	GSA 13-630-8000-0102	7/1/2012	6/30/2016	HSD	\$ 329,729	\$ 80,000	\$ 80,000	MAD
Aztec Municipal School	School Based Medicaid Services	GSA 13-630-8000-0103	7/1/2012	6/30/2016	HSD	\$ 370,945	\$ 90,000	\$ 90,000	MAD
Belen Consolidated	School Based Medicaid Services	GSA 13-630-8000-0104	7/1/2012	6/30/2016	HSD	\$ 520,593	\$ 146,000	\$ 146,000	MAD
Bernalillo Public Schools	School Based Medicaid Services	GSA 13-630-8000-0105	7/1/2012	6/30/2016	HSD	\$ 1,620,217	\$ 304,000	\$ 304,000	MAD
Bloomfield Schools	School Based Medicaid Services	GSA 13-630-8000-0106	7/1/2012	6/30/2016	HSD	\$ 354,394	\$ 113,250	\$ 113,250	MAD
Carlsbad Public Schools	School Based Medicaid Services	GSA 13-630-8000-0107	7/1/2012	6/30/2016	HSD	\$ 659,457	\$ 75,000	\$ 75,000	MAD
Central Consolidated School	School Based Medicaid Services	GSA 13-630-8000-0109	7/1/2012	6/30/2016	HSD	\$ 1,219,996	\$ 139,634	\$ 139,634	MAD
Central Region Educational Cooperative	School Based Medicaid Services	GSA 13-630-8000-0108	7/1/2012	6/30/2016	HSD	\$ 590,517	\$ 311,000	\$ 311,000	MAD
Chama Valley Independent	School Based Medicaid Services	GSA 13-630-8000-0139	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Clovis Municipal Schools	School Based Medicaid Services	GSA 13-630-8000-0110	7/1/2012	6/30/2016	HSD	\$ 233,324	\$ 71,000	\$ 71,000	MAD
Cobre Consolidated Schools	School Based Medicaid Services	GSA 13-630-8000-0111	7/1/2012	6/30/2016	HSD	\$ 420,404	\$ 102,000	\$ 102,000	MAD
Cuba Independent Schools	School Based Medicaid Services	GSA 13-630-8000-0112	7/1/2012	6/30/2016	HSD	\$ 247,296	\$ 60,000	\$ 60,000	MAD
Dulce Independent Schools	School Based Medicaid Services	GSA 13-630-8000-0140	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Espanola Municipal Schools	School Based Medicaid Services	GSA 13-630-8000-0113	7/1/2012	6/30/2016	HSD	\$ 618,241	\$ 150,000	\$ 150,000	MAD
Farmington Municipal Schools	School Based Medicaid Services	GSA 13-630-8000-0114	7/1/2012	6/30/2016	HSD	\$ 824,322	\$ 200,000	\$ 200,000	MAD
Gadsden Independent Schools	School Based Medicaid Services	GSA 13-630-8000-0115	7/1/2012	6/30/2016	HSD	\$ 2,546,935	\$ 617,947	\$ 617,947	MAD
Gallup McKinley County Schools	School Based Medicaid Services	GSA 13-630-8000-0141	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 SCHEDULE OF JOINT POWERS AND OTHER GOVERNMENT AGREEMENTS (CONTINUED)
 Year Ended June 30, 2013

Name/ Responsible Party	Program Description	Contract #	Date of Agreement		Fiscal Agent/ Audit Responsibility	Contract Amount	FY13		Division
			Beginning	Ending			Contract Amount	Expended Amount	
Grants/Cibola County School	School Based Medicaid Services	GSA 13-630-8000-0116	7/1/2012	6/30/2016	HSD	\$ 668,457	\$ 159,774	\$ 159,774	MAD
High Plains REC #3	School Based Medicaid Services	GSA 13-630-8000-0117	7/1/2012	6/30/2016	HSD	\$ 865,538	\$ 210,000	\$ 210,000	MAD
Jemez Valley Public Schools	School Based Medicaid Services		7/1/2012	6/30/2016	HSD	\$ 659,457	\$ -	\$ -	MAD
Laguna Schools	School Based Medicaid Services	GSA 13-630-8000-0142	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Las Cruces Public Schools	School Based Medicaid Services	GSA 13-630-8000-0118	7/1/2012	6/30/2016	HSD	\$ 2,472,965	\$ 600,000	\$ 600,000	MAD
Las Vegas City Public Schools	School Based Medicaid Services	GSA 13-630-8000-0119	7/1/2012	6/30/2016	HSD	\$ 453,377	\$ 110,000	\$ 110,000	MAD
Los Lunas Public Schools	School Based Medicaid Services	GSA 13-630-8000-0120	7/1/2012	6/30/2016	HSD	\$ 1,442,563	\$ 350,000	\$ 350,000	MAD
Lovington Municipal Schools	School Based Medicaid Services	GSA 13-630-8000-0121	7/1/2012	6/30/2016	HSD	\$ 432,769	\$ 105,000	\$ 105,000	MAD
Media Arts Collaborative Charter School	School Based Medicaid Services		7/1/2012	6/30/2016	HSD	\$ -	\$ -	\$ -	MAD
Mescalero Apache School	School Based Medicaid Services	GSA 13-630-8000-0144	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Mora Independent Schools	School Based Medicaid Services	GSA 13-630-8000-0145	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Moriarty Edgewood Municipal Schools	School Based Medicaid Services	GSA 13-630-8000-0122	7/1/2012	6/30/2016	HSD	\$ 453,377	\$ 110,000	\$ 110,000	MAD
NM Alliance on School Based	Provide Medicaid Outreach Activities for SBHC & Tech. Assist.07/01/11	GSA 13-630-8000-0104	7/1/2012	6/30/2013	HSD	\$ 49,788	\$ 49,788	\$ 49,788	MAD
NM Sch for the Visually Impaired	School Based Medicaid Services	GSA 13-630-8000-0146	7/1/2012	6/30/2016	HSD	\$ 220,000	\$ 100,000	\$ 100,000	MAD
Pecos Independent Schools	School Based Medicaid Services	GSA 13-630-8000-0147	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Pecos Valley REC # 8	School Based Medicaid Services	GSA 13-630-8000-0123	7/1/2012	6/30/2016	HSD	\$ 535,809	\$ 130,000	\$ 130,000	MAD
Penasco Independent School	School Based Medicaid Services	GSA 13-630-8000-0148	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Pojoaque Valley Schools	School Based Medicaid Services	GSA 13-630-8000-0149	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Regional Educ. # 6	School Based Medicaid Services	GSA 13-630-8000-0124	7/1/2012	6/30/2016	HSD	\$ 322,121	\$ 88,000	\$ 88,000	MAD
Regional Educ. # 7	School Based Medicaid Services	GSA 13-630-8000-0125	7/1/2012	6/30/2016	HSD	\$ 736,372	\$ 178,661	\$ 178,661	MAD
Regional Educ. # 9	School Based Medicaid Services	GSA 13-630-8000-0126	7/1/2012	6/30/2016	HSD	\$ 556,417	\$ 135,000	\$ 135,000	MAD
Rio Rancho Public Schools	School Based Medicaid Services	GSA 13-630-8000-0128	7/1/2012	6/30/2016	HSD	\$ 1,103,767	\$ 267,800	\$ 267,800	MAD
Roswell Independent Schools	School Based Medicaid Services	GSA 13-630-8000-0129	7/1/2012	6/30/2016	HSD	\$ 942,552	\$ 228,686	\$ 228,686	MAD
Santa Fe Public Schools	School Based Medicaid Services	GSA 13-630-8000-0130	7/1/2012	6/30/2016	HSD	\$ 453,377	\$ 110,000	\$ 110,000	MAD
Santa Rosa Consolidated	School Based Medicaid Services	GSA 13-630-8000-0151	7/1/2012	6/30/2016	HSD	\$ 120,000	\$ 30,000	\$ -	MAD
Silver City Consolidated Schools	School Based Medicaid Services	GSA 13-630-8000-0131	7/1/2012	6/30/2016	HSD	\$ 453,377	\$ 110,000	\$ 110,000	MAD
Socorro Consolidated Schools	School Based Medicaid Services	GSA 13-630-8000-0132	7/1/2012	6/30/2016	HSD	\$ 267,905	\$ 65,000	\$ 65,000	MAD
Southwest Regional Educ. Center	School Based Medicaid Services	GSA 13-630-8000-0127	7/1/2012	6/30/2016	HSD	\$ 1,260,482	\$ 324,000	\$ 324,000	MAD
Taos Charter School	School Based Medicaid Services	GSA 13-630-8000-0133	7/1/2012	6/30/2016	HSD	\$ 41,216	\$ 10,000	\$ 10,000	MAD
Taos Municipal Schools	School Based Medicaid Services	GSA 13-630-8000-0134	7/1/2012	6/30/2016	HSD	\$ 556,417	\$ 135,000	\$ 135,000	MAD
Tucumcari Public Schools	School Based Medicaid Services	GSA 13-630-8000-0135	7/1/2012	6/30/2016	HSD	\$ 309,121	\$ 75,000	\$ 75,000	MAD
Turquoise Trail Charter School	School Based Medicaid Services	GSA 13-630-8000-0136	7/1/2012	6/30/2016	HSD	\$ 123,648	\$ 30,000	\$ 30,000	MAD
West Las Vegas Schools	School Based Medicaid Services	GSA 13-630-8000-0137	7/1/2012	6/30/2016	HSD	\$ 494,593	\$ 120,000	\$ 120,000	MAD
Zuni Public School Dist.	School Based Medicaid Services	GSA 13-630-8000-0138	7/1/2012	6/30/2016	HSD	\$ 247,296	\$ 60,000	\$ 60,000	MAD

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
FUND 978 - CHILD SUPPORT ENFORCEMENT
Year Ended June 30, 2013

	<u>June 30,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u> <u>2013</u>
ASSETS				
Interest in the State Treasurer				
General Fund Investment Pool	\$ 851,196	\$132,492,328	\$ (132,682,494)	\$ 661,030
Other receivables, net	597,481	-	(35,952)	561,529
Due from other state agencies	520	-	(520)	-
Due from external parties	-	-	-	-
TOTAL ASSETS	<u>\$ 1,449,197</u>	<u>\$132,492,328</u>	<u>\$ (132,718,966)</u>	<u>\$ 1,222,559</u>
LIABILITIES				
Deposits held in trust for others	\$ 851,362	\$132,492,162	\$ (132,682,494)	\$ 661,030
Other liabilities	597,315	166	(35,952)	561,529
Due to other funds	520	-	(520)	-
TOTAL ASSETS	<u>\$ 1,449,197</u>	<u>\$132,492,328</u>	<u>\$ (132,718,966)</u>	<u>\$ 1,222,559</u>

SINGLE AUDIT

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Grantor Pass-Through Grantor Number	Federal Participating Expenditures
Department of Agriculture (USDA) Direct Programs			
Commodities Assurance (SAE)	10.560	12-35-3501	\$ 298,470
Emergency Food Assistance Program (Food Commodities)	10.569	None	14,543,400
Emergency Food Assistance Program (Administrative Costs)	10.568	XNM810813	<u>553,794</u>
Subtotal Food and Nutrition Services			<u>15,395,664</u>
Supplemental Nutritional Assistance Program (SNAP):			
Administration and SAVE	10.561	12-35-3501	26,150,061
SNAP Employment/Training Grant	10.561	12-35-3501	973,376
SNAP State Exchange	10.561	12-35-3501	1,691
SNAP & EBT Distribution	10.551	58-3189-8-104	678,812,895
SNAP Contingency	10.561	12-35-3501	1,390,181
SNAP Participation Medicare Program	10.580	IA-SNPM-10-NM-01	<u>61,086</u>
Subtotal SNAP			<u>707,389,290</u>
Total USDA			<u>722,784,954</u>
Department of Health and Human Services (DHHS)			
Administration for Children and Families Direct Programs:			
Administration of Child Support Enforcement Program	93.563	G-XX-04-NM-4004	27,520,018
Temporary Assistance for Needy Families (TANF)	93.558	G-XX-04-NM-TANF	98,462,330
Low Income Energy Assistance Program (Title XXVI)	93.568	G-XX-B1-NM-LIEA	<u>11,969,929</u>
Total Administration for Children and Families Direct Program			<u>137,952,277</u>
Family Support Administration Pass-Through Programs - Community Service Block Grant	93.569	01-XX-B1-NM-COSR	<u>3,480,540</u>
Administration for Children, Youth and Families Direct Programs:			
Direct Programs - Refugee Resettlement Program (CMA)	93.566	G-XX-04-NM-6100	737,827
Refugee Resettlement Program (SS)	93.566	G-XX-04-NM-6100	156,475
Refugee Targeted Assistance	93.576	90RT0153/01	<u>129,287</u>
Total Administration for Children Youth and Families Direct Programs			<u>1,023,589</u>
Centers for Medicare & Medicaid Services:			
Medical Assistance Payments Title XIX	93.778	05-XX-05-NM-5028	2,420,889,604
Administration and Training Title XIX	93.778	05-XX-05-NM-5048	100,382,182
Health Information Technology Incentive Payments	93.778	05-1305NMINCT	31,972,861
Children's Health Insurance Program (CHIP)	93.767	05-XX-05-NM-5021	110,189,535
Children's Health Insurance Program (from Colorado)	93.767	1Z0C30482/01	844,155
Children's Health Insurance Program Bonus	93.767	1Z0C30482/01	2,427,462
Adult Medicaid Quality	93.609	1F1CMS331121-01-00	24,858
Working Disabled	93.768	5-00-00-A9-1221	180,287
Money Follows the Person Rebalancing Demonstration	93.791	1LICMS330825-01-01	<u>1,159</u>
Total Centers for Medicare & Medicaid Services			<u>2,666,912,103</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Grantor Pass-Through Grantor Number	Federal Participating Expenditures
Office of Health Care Finance Administration			
Title XIX Certification	93.777	05-XX-055-NM-5001	<u>1,445,299</u>
State Planning & Establishment	93.525	1HBEIE100014	<u>8,373,814</u>
Substance Abuse and Mental Health Services Administration			
Center for Mental Health Services (CMHS):			
Community Mental Health Services Block Grant	93.958	2B09SM010037-11S4	2,803,036
Programs for Assistance in Transition from Homelessness	93.150	2X06SM060032-11	295,090
Mental Health Transformation Supportive Housing Program	93.243	1H79SM060122-02	416,171
Veteran's First Jail Diversion Project	93.243	5H79SM059276-03	<u>393,741</u>
Subtotal Mental Health Services			<u>3,908,038</u>
Center for Substance Abuse Treatment (CSAT)			
Substance Abuse Treatment and Rehabilitation	93.959	2B08TI010037-11S2	8,858,787
Access to Recovery	93.275	1H79TI023130-02	3,380,006
Data Infrastructure Grant	93.243	1HR1SM059993-02	87,633
State Epidemiological Outcomes Workgroups (SEOWs)	93.243	1U79SP019429-01	650,765
Crossroads: Supporting Families	93.243	1H79TI023678-01	<u>522,800</u>
Subtotal Substance Abuse Treatment			<u>13,499,991</u>
Center for Substance Abuse Prevention (CSP)			
State Prevention Enhancement (SPE)	93.243	1U79SP018651-01	<u>311,484</u>
Food & Drug Administration - Center for Tobacco Products	93.XXX	HHSF223201110167C	<u>100,574</u>
Total DHHS			<u>2,837,007,709</u>
National Institutes of Health (NIH)			
National Drug Institute on Drug Abuse (NIDA)			
Building System Capacity	93.279	1R34DA060651-01A1	<u>188,000</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 3,559,980,663</u>

See accompanying notes to the 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, 2013

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 \$14,543,400. 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	\$ 3,559,980,663
SNAP Bonus	889,472
Recovery of accounts receivable previously included in allowance for doubtful accounts	<u>1,568,485</u>
Total federal revenue recorded in governmental funds	<u>\$ 3,562,438,620</u>

Subrecipients

Of the federal expenditures presented in the schedule, the Department provided federal awards to subrecipients as follows:

Program/Subrecipient	Total Paid
Food Stamp Program (CFDA #10.561)	
Cooking with Kids, Inc.	\$ 398,261
Kids Cook	393,423
Las Cruces Public Schools	150,954
New Mexico State University	1,322,181
University of New Mexico	<u>456,868</u>
Total Food Stamp Program	<u>2,721,687</u>
 The Emergency Food Assistance Program (CFDA #10.569)	
The Community Pantry	32,300
Food Bank of Eastern New Mexico	18,597
Food Depot	57,140
Economic Council Helping Others	31,947
Roadrunner Food Bank	<u>320,016</u>
Total Emergency Food Assistance Program	<u>460,000</u>
 Medicaid (CFDA #93.778)	
Aging and Long Term Services	510,900
Alamogordo Public Schools	130,562
Albuquerque Public Schools	1,479,943
Artesia Public Schools	50,443
Aztec Municipal School District	78,081
Belen Consolidated Schools	136,623
Bernalillo Public Schools	136,897
Bloomfield Schools	102,584
Central Consolidated Schools	196,858
Central Region Educational Cooperative	147,216
Children, Youth and Families Department	1,438,072
Clovis Municipal Schools	72,732
Cobre Consolidated Schools	61,738
Cuba Independent Schools	33,889
Department of Health	10,399,012

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Program/Subrecipient	Total Paid
Medicaid (CFDA #93.778) (continued)	
Espanola Public School District #55	165,211
Farmington Municipal Schools	106,092
Gadsden Independent School District	444,053
Grants/Cibola County Schools	152,889
High Plains Regional Center Coop	139,395
Las Cruces School District #2	530,142
Las Vegas City Schools	70,134
Los Lunas Schools	326,365
Lovington Municipal Schools	95,049
Moriarty Municipal Schools	62,767
Pecos Valley Regional Education Center #8	85,311
Region IX Education Coop	112,641
Regional Educational Center #6	90,301
Regional Educational Center #7	142,586
Rio Rancho Public Schools	218,370
Roswell Independent School District	224,038
Santa Fe Public Schools	24,602
Silver City Public Schools	96,607
Socorro Consolidated Schools	13,585
Southwest Regional Education Center	282,535
Taos Charter School	3,311
Taos Municipal Schools	86,911
Tucumcari Municipal Schools	36,230
Turquoise Trail Charter School	15,030
University of New Mexico	2,302,004
West Las Vegas School District	57,384
Zuni Public School District	49,310
Total Medicaid	20,908,403
 Title XIX Certification (CFDA #93.778)	
Department of Health	1,490,129
 TANF (CFDA #93.558)	
Children, Youth & Families Department	23,777,500
New Mexico State University	417,648
SLStart and Associates	9,607,837
Total TANF	33,802,985
 Refugee Resettlement Program SS (CFDA #93.566)	
Catholic Charities	8,263
Lutheran Family Services Rocky Mountains	148,213
Total Refugee Resettlement Program	156,476
 Refugee Resettlement Program CMA (CFDA #93.566)	
Department of Health	136,277
 Refugee Targeted Assistance (CFDA #93.576)	
Catholic Charities	129,287

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Program/Subrecipient	Total Paid
Community Services Block Grant (CFDA #93.569)	
Community Action Agency of Southern NM	598,758
Eastern Plains CAA	183,198
Economic Council Helping Others	233,486
HELP-New Mexico, Inc.	1,470,354
Midwest NM Cap	401,663
Southeast NM Comm Action Agency	443,061
Total Community Services Block Grant	3,330,520
 Working Disabled (CFDA #93.768)	
Department of Health	38,624
NM Business Leadership Network	101,587
University of New Mexico	41,050
Total Working Disabled	181,261
 Low-Income Home Energy Assistance (CFDA #93.568)	
NM Mortgage Finance Authority	1,940,191
Total Low-Income Home Energy Assistance	1,940,191
 Community Mental Health Services Block Grant (CFDA #93.958)	
Children, Youth & Families Department	419,080
Life Link	373,371
Total Community Mental Health Services Block Grant	792,451
 Programs for Assistance in Transition from Homelessness (CFDA #93.150)	
Albuquerque HealthCare for the Homeless	64,390
Life Link	62,055
St. Martin's Center	138,456
Total Programs for Assistance in Transition from Homelessness	264,901
 Substance Abuse Prevention and Treatment (CFDA #93.959)	
Department of Health	160,250
Life Link	35,834
Total Substance Abuse Prevention and Treatment	196,084
 TOTAL	 \$ 66,510,652



CliftonLarsonAllen LLP
500 Marquette NW, Suite 800
Albuquerque, NM 87102
505-842-8290 | fax 505-842-1568
www.cliftonlarsonallen.com

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Ms. Sidonie Squier, Cabinet Secretary
New Mexico Human Services Department and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of the State of New Mexico Human Services Department (the Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the Department's Fiduciary Fund and combining and individual funds and related budgetary comparisons of the Department presented as supplementary information, and have issued our report thereon dated February 14, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2013-001 and 2013-002 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2012-002 and 2013-008 to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002, 2013-008, 2013-009 and 2013-010.


Department's Response to Findings

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

Purpose of this Report

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

CliftonLarsonAllen LLP



Albuquerque, New Mexico
February 14, 2014

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

Ms. Sidonie Squier, Cabinet Secretary
New Mexico Human Services Department and
Mr. Hector H. Balderas
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited New Mexico Human Services Department (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2013. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, 2013-006, 2013-007 and 2013-008. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 to be material weaknesses in internal control.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-003, 2013-004, 2013-005, 2013-006 and 2013-007 to be significant deficiencies.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
February 14, 2014

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for major program: Unmodified

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

Identification of major programs:

CFDA

<u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.558	Temporary Assistance for Needy Families Cluster (TANF)
10.568/10.569	The Emergency Food Assistance Program Cluster
93.777/93.778	Medical Assistance Payments, Administration, Training, Outreach and Enrollment, Program Bonus and Title XIX Certification
10.551/10.561	Supplemental Nutrition Assistance Program Cluster
93.959	Substance Abuse Treatment and Rehabilitation

Dollar threshold used to distinguish between type A and type B programs \$10,679,942

Auditee qualified as low-risk auditee? yes no

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Section II – Financial Statement Findings

Finding 2012-002 Accounts Receivable Reconciliation (Significant Deficiency)

Condition: During test work over accounts receivable in the prior year, it was discovered that a third party receivable with a balance of \$12,409,275 recorded on the Department's general ledger, SHARE, had not been reconciled to the underlying reports. The aging report from OMNICAID, the Medical Management Information System, a subsidiary system, did not agree to SHARE. After inquiry by the audit team, the aging was reviewed by the Department and an allowance for \$10,687,313 was recorded.

Criteria: DFA's Manual of Model Accounting Practices (MAPs) Volume 1, Chapter 8, Section 3.2 requires monthly reconciliations of all accounts. Individual accounts should be reconciled on a monthly basis. Discrepancies and inconsistencies should be investigated as soon as they are discovered.

Cause: This account had been identified by the Department as one requiring review and reconciliation which was on the project list for fiscal year 2013. Limited staffing prevented this account from being reviewed at an early date.

Effect: The Department was showing an excess accounts receivable balance as an asset when collectability was unlikely and balance inaccurate. An adjusting journal entry to record an allowance for doubtful accounts and an associated expense in the amount of \$10,687,313 was required in the prior year. In the current year, this balance has yet to be reconciled, as Department efforts continue to address the issue.

Recommendation: All balances, including subaccounts, should be reconciled to underlying data and support on a monthly basis. If an account is identified that does not reconcile, research on the account should be performed in a timely fashion.

Management's Response: Management agrees. The Department contracted with Myers & Stauffer LC to assist in analyzing prior year transactions impacting the receivable balance in the Medicaid Fund. The research requires significant effort in extracting data and analyzing programming changes in OMNICAID and SHARE to find a resolution. The CFO is responsible for the analysis continues to work with Myers & Stauffer into SFY14 to find a resolution.

Finding 2013-001 Prior Years Federal Accounts Receivable Reconciliation (Material Weakness)

Condition: The Department has had issues for many years timely submitting and reconciling awards, claims and draw activity with CMS to reported federal government revenues and receivables and related allowances. Due to not meeting the filing requirements imposed by CMS on awards and claim submission, the Department has not been able to collect a significant amount of expenditures above awarded amounts, and has not timely recognized when Federal receivables became uncollectible.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Section II – Financial Statement Findings (continued)

Finding 2013-001 Prior Years Federal Accounts Receivable Reconciliation (Material Weakness) (continued)

In 2010, the Department identified a reconciling issue between revenues and receivables reported with the federal government and the associated reported expenditures, awards and draws with CMS. As a result, the Department recorded an estimated \$103 million reduction to federal grant revenues, a \$62M liability to the federal government, and a \$41M deferred revenue to recognize a shortfall in the Medicaid Program due to the over-drawing of funds and uncollectible receivables from 2010 and earlier years. To resolve these issues the Department reduced their draws from the federal government by \$114M in 2011.

During 2012, the Department identified another \$57M of claims in excess of award limits that occurred in 2011 and prior years. Consequently, the Department reduced their draws approximately \$46M in 2012 to resolve the remaining issues that had been identified.

In 2013, the Department reviewed prior year balances of the federal accounts receivable and found a \$60M balance from these prior years that had not been addressed when the other corrections were made in 2010 and 2012. Accordingly, in 2013, Fund Balance of the Medicaid Fund was restated to reflect the \$60,212,204 uncollectible federal receivable related to years prior to 2013.

Criteria: The Department's grants in the Medical Assistance Fund consist of reimbursement-based grants only. Each grant award is set for a specific time period and for a specific dollar amount. Per cash management and period of availability sections of the OMB-A-133 compliance supplement, Federal grant revenue should only be recognized to the extent that funds are available from the specific grant to which the associated expenditures were charged, and the appropriate federal and state shares of those expenditures should be calculated in accordance with the grant agreements.

Cause: The Department did not have sufficient staff and technology resources and expertise to implement effective procedures and controls in place for tracking and reconciling accounts receivable, requested federal awards and draws by specific grants on a timely basis. As a result, during the years prior to 2013, the Department submitted draw requests to CMS for expenditures beyond the awards period of availability, as well as incurring expenditures in excess of approved award amounts.

Effect: A restatement of the Medical Assistance's fund balance in the amount of \$60,212,204 and a reduction to federal accounts receivable was determined to be necessary, contributing to a negative fund balance in the fund at year end. This amount will have to be funded from non-federal sources, potentially through requests for additional state appropriations.

Recommendation: The Department should assess the resources it has and needs to improve procedures to identify accounts receivable balances that pertain to closed grants, and evaluate whether those amounts are collectible on a more timely basis. Additional resources and expertise may be needed to fully address this condition in a timely manner. A comprehensive retrospective review of individual grants, the expenditures charged to those grants, and the resulting federal revenue recognized is required. In addition, the Department should design

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
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Section II – Financial Statement Findings (continued)

Finding 2013-001 Prior Years Federal Accounts Receivable Reconciliation (Material Weakness), (continued)

and implement controls and procedures to monitor the timeliness and accuracy submission of claims and related financial reporting to prevent errors, and enable timely detection and correction of issues.

Management's Response: Management agrees. The Department improved internal controls of reconciliation of federal reports, the general ledger and draws in 2010, and because of the controls in place found the \$60.2 million federal accounts receivable balance. The Department established chartfields in the accounting system in 2010 to properly identify federal accounts receivable balances by grant and by year. The internal controls and procedures used by the Department will now include a monthly review of federal accounts receivable balances by grant in all funds. Federal accounts receivable from a prior year that are not collected by December of the following fiscal year will be researched to determine the delay. The CFO is responsible for corrective action plan. The reconciliation of federal reports, general ledger and draws will be included in the monthly certification by the CFO of each accounting period beginning in Fiscal Year 2014.

Finding 2013-002 Oversight in Contract Management Process (Material Weakness, Could Result in Non-compliance)

Condition: During fiscal year 2013, it was identified that approximately \$36 million in payments to behavioral health service providers were likely questioned costs, based on an audit performed by a third party. The identified issue spanned fiscal years 2010 through 2012 and involved fifteen behavioral health providers contracted with the Department to provide services. The Department has contractual agreements in place with another third party, and the agreements include but are not limited to the monitoring of payments made to behavioral health service providers. The significance of the dollar amount involved and the qualitative nature of the issues identified by the third party audit indicate a lack of oversight in the contract management process.

Criteria: Per Allowable Costs and Procurement, Suspension and Debarment sections of the OMB A-133 compliance supplement, as a recipient of federal Medicaid funds, the Department has responsibility for the proper use and oversight of these funds. To be allowable, Medicaid costs for medical services must be reviewed by the State consistent with the State's documented procedures and system for determining medical necessity of claims.

Cause: Internal controls over compliance were not designed effectively to timely detect overpayments to providers. Significant issues were identified in an initial report provided by the contracted Managed Care Organization (MCO) and subsequently verified by a third party audit of the providers.

Effect: The deficiency in internal controls resulted in potential questioned costs of \$36,000,000. The significance of the issues disclosed by the provider audit also resulted in the suspension of payments to 15 behavioral healthcare organizations.

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Section II – Financial Statement Findings (continued)

Finding 2013-002 Oversight in Contract Management Process (Material Weakness, Could Result in Non-compliance) (continued)

Recommendation: We recommend that the Department consider utilizing services of firms specializing in monitoring providers. A timely system of monitoring providers may help reduce the possibility of future and significant questioned costs.

Management's Response: The New Mexico Human Services Department ("HSD") disagrees with the finding that there was a "lack of oversight in the contract management process." Under current law and regulations, the Centers for Medicare & Medicaid Services ("CMS") grants State Medicaid agencies and various audit contractors up to five years to audit and recover any "overpayments" made and received by Medicaid providers. This five-year look back period is proposed to expand to ten years under Section 6402(a) the Patient Protection and Affordable and CMS proposed regulations. This means that providers and suppliers would have liability for the 10 years preceding the date an overpayment is received. Given that HSD is well within its statutory and regulatory timeframes to seek and recoup alleged overpayments and/or fraud recoveries warrants removal of this finding.

In addition, CMS has been identifying new initiatives, such as predictive modeling and pre-payment reviews to ensure that payments reflect services rendered. These initiatives have occurred as new technology is developed to assist government entities and private contractors identify aberrant billing patterns, such as underutilization and overutilization. See, CMS, Report to Congress: Fraud Prevention System, 2012. New technology, such as new programs instituted in mid-2012 by Optum Health New Mexico, Inc. ("Optum") allows new algorithms to be developed and implemented to review claims by individuals, practitioners, diagnosis codes, by snap-shot (taking an immediate date in time) and flag those claims for further review. HSD monitors this new technology and works with its managed care organizations to implement new strategies to fight fraud, waste and abuse.

Moreover, the complexities of healthcare programs require in-depth knowledge and expertise of: (1) how to operate a statewide healthcare program; or (2) how to conduct a healthcare program integrity audit. It is impossible for any organization to conduct on-site field audits over tens of thousands of healthcare providers across the State. Because of this, technology is used to identify those cases that are so egregious that warrant on-site program integrity reviews. This involves claims analysis, pulling charts and credentials, analyzing information technology, and rules and regulations relating to program design and reimbursement.

Finally, HSD meets with its managed care organizations and the Attorney General's Medicaid Fraud & Elder Abuse Division ("MFCU") on a monthly basis to discuss trends, cases, patterns, and oversight. By sharing information and working collaboratively, HSD, MFCU, and the managed care organizations can identify and cure fraud, waste and abuse.

Auditors' Response: CLA acknowledges the Department's response and statutory timeframes related to recovery of overpayments. Given the gravity of the effects noted above (potential questioned costs and resulting suspension of providers), CLA maintains that the finding and related recommendation are appropriate.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs

Finding 2013-001 Prior Years Federal Accounts Receivable Reconciliation (Material Weakness)

Federal Program: Medicaid Cluster, 93.777 / 93.778

Federal Agency: Department of Health and Human Services

Applicable Compliance Requirement: Cash Management and Period of Availability

Questioned Costs: None

Condition: The Department has had issues for many years timely submitting and reconciling awards, claims and draw activity with CMS to reported federal government revenues and receivables and related allowances. Due to not meeting the filing requirements imposed by CMS on awards and claim submission, the Department has not been able to collect a significant amount of expenditures above awarded amounts, and has not timely recognized when Federal receivables became uncollectible.

In 2010, the Department identified a reconciling issue between revenues and receivables reported with the federal government and the associated reported expenditures, awards and draws with CMS. As a result, the Department recorded an estimated \$103 million reduction to federal grant revenues, a \$62M liability to the federal government, and a \$41M deferred revenue to recognize a shortfall in the Medicaid Program due to the over-drawing of funds and uncollectible receivables from 2010 and earlier years. To resolve these issues the Department reduced their draws from the federal government by \$114M in 2011.

During 2012, the Department identified another \$57M of claims in excess of award limits that occurred in 2011 and prior years. Consequently, the Department reduced their draws approximately \$46M in 2012 to resolve the remaining issues that had been identified.

In 2013, the Department reviewed prior year balances of the federal accounts receivable and found a \$60M balance from these prior years that had not been addressed when the other corrections were made in 2010 and 2012. Accordingly, in 2013, Fund Balance of the Medicaid Fund was restated to reflect the \$60,212,204 uncollectible federal receivable related to years prior to 2013.

Criteria: The Department's grants in the Medical Assistance Fund consist of reimbursement-based grants only. Each grant award is set for a specific time period and for a specific dollar amount. Per cash management and period of availability sections of the OMB-A-133 compliance supplement, Federal grant revenue should only be recognized to the extent that funds are available from the specific grant to which the associated expenditures were charged, and the appropriate federal and state shares of those expenditures should be calculated in accordance with the grant agreements.

Cause: The Department did not have sufficient staff and technology resources and expertise to implement effective procedures and controls in place for tracking and reconciling accounts

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-001 Prior Years Federal Accounts Receivable Reconciliation (Material Weakness) (continued)

receivable, requested federal awards and draws by specific grants on a timely basis. As a result, during the years prior to 2013, the Department submitted draw requests to CMS for expenditures beyond the awards period of availability, as well as incurring expenditures in excess of approved award amounts.

Effect: A restatement of the Medical Assistance's fund balance in the amount of \$60,212,204 and a reduction to federal accounts receivable was determined to be necessary, contributing to a negative fund balance in the fund at year end. This amount will have to be funded from non-federal sources, potentially through requests for additional state appropriations.

Recommendation: The Department should assess the resources it has and needs to improve procedures to identify accounts receivable balances that pertain to closed grants, and evaluate whether those amounts are collectible on a more timely basis. Additional resources and expertise may be needed to fully address this condition in a timely manner. A comprehensive retrospective review of individual grants, the expenditures charged to those grants, and the resulting federal revenue recognized is required. In addition, the Department should design and implement controls and procedures to monitor the timeliness and accuracy submission of claims and related financial reporting to prevent errors, and enable timely detection and correction of issues.

Management's Response: Management agrees. The Department improved internal controls of reconciliation of federal reports, the general ledger and draws in 2010, and because of the controls in place found the \$60.2 million federal accounts receivable balance. The Department established chartfields in the accounting system in 2010 to properly identify federal accounts receivable balances by grant and by year. The internal controls and procedures used by the Department will now include a monthly review of federal accounts receivable balances by grant in all funds. Federal accounts receivable from a prior year that are not collected by December of the following fiscal year will be researched to determine the delay. The CFO is responsible for corrective action plan. The reconciliation of federal reports, general ledger and draws will be included in the monthly certification by the CFO of each accounting period beginning in Fiscal Year 2014.

Finding 2013-002 Oversight in Contract Management Process (Material Weakness, Could Result in Non-compliance)

Federal Program: Medicaid Cluster, 93.777 / 93.778

Federal Agency: Department of Health and Human Services

Applicable Compliance Requirement: Allowable Costs and Procurement, Suspension and Debarment.

Questioned Costs: \$36,000,000

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-002 Oversight in Contract Management Process (Material Weakness, Could Result in Non-compliance) (continued)

Condition: During fiscal year 2013, it was identified that approximately \$36 million in payments to behavioral health service providers were likely questioned costs, based on an audit performed by a third party. The identified issue spanned fiscal years 2010 through 2012 and involved fifteen behavioral health providers contracted with the Department to provide services. The Department has contractual agreements in place with another third party, and the agreements include but are not limited to the monitoring of payments made to behavioral health service providers. The significance of the dollar amount involved and the qualitative nature of the issues identified by the third party audit indicate a lack of oversight in the contract management process.

Criteria: Per Allowable Costs and Procurement, Suspension and Debarment sections of the OMB A-133 compliance supplement, as a recipient of federal Medicaid funds, the Department has responsibility for the proper use and oversight of these funds. To be allowable, Medicaid costs for medical services must be reviewed by the State consistent with the State's documented procedures and system for determining medical necessity of claims.

Cause: Internal controls over compliance were not designed effectively to timely detect overpayments to providers. Significant issues were identified in an initial report provided by the contracted Managed Care Organization (MCO) and subsequently verified by a third party audit of the providers.

Effect: The deficiency in internal controls resulted in potential questioned costs of \$36,000,000. The significance of the issues disclosed by the provider audit also resulted in the suspension of payments to 15 behavioral healthcare organizations.

Recommendation: We recommend that the Department consider utilizing services of firms specializing in monitoring providers. A timely system of monitoring providers may help reduce the possibility of future and significant questioned costs.

Management's Response: The New Mexico Human Services Department ("HSD") disagrees with the finding that there was a "lack of oversight in the contract management process." Under current law and regulations, the Centers for Medicare & Medicaid Services ("CMS") grants State Medicaid agencies and various audit contractors up to five years to audit and recover any "overpayments" made and received by Medicaid providers. This five-year look back period is proposed to expand to ten years under Section 6402(a) the Patient Protection and Affordable and CMS proposed regulations. This means that providers and suppliers would have liability for the 10 years preceding the date an overpayment is received. Given that HSD is well within its statutory and regulatory timeframes to seek and recoup alleged overpayments and/or fraud recoveries warrants removal of this finding.

In addition, CMS has been identifying new initiatives, such as predictive modeling and pre-payment reviews to ensure that payments reflect services rendered. These initiatives have occurred as new technology is developed to assist government entities and private contractors

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Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-002 Oversight in Contract Management Process (Material Weakness, Could Result in Non-compliance) (continued)

identify aberrant billing patterns, such as underutilization and overutilization. See, CMS, Report to Congress: Fraud Prevention System, 2012. New technology, such as new programs instituted in mid-2012 by Optum Health New Mexico, Inc. ("Optum") allows new algorithms to be developed and implemented to review claims by individuals, practitioners, diagnosis codes, by snap-shot (taking an immediate date in time) and flag those claims for further review. HSD monitors this new technology and works with its managed care organizations to implement new strategies to fight fraud, waste and abuse.

Moreover, the complexities of healthcare programs require in-depth knowledge and expertise of: (1) how to operate a statewide healthcare program; or (2) how to conduct a healthcare program integrity audit. It is impossible for any organization to conduct on-site field audits over tens of thousands of healthcare providers across the State. Because of this, technology is used to identify those cases that are so egregious that warrant on-site program integrity reviews. This involves claims analysis, pulling charts and credentials, analyzing information technology, and rules and regulations relating to program design and reimbursement.

Finally, HSD meets with its managed care organizations and the Attorney General's Medicaid Fraud & Elder Abuse Division ("MFCU") on a monthly basis to discuss trends, cases, patterns, and oversight. By sharing information and working collaboratively, HSD, MFCU, and the managed care organizations can identify and cure fraud, waste and abuse.

Auditors' Response: CLA acknowledges the Department's response and statutory timeframes related to recovery of overpayments. Given the gravity of the effects noted above (potential questioned costs and resulting suspension of providers), CLA maintains that the finding and related recommendation are appropriate.

Finding 2013-003 Non-compliance with FFATA Reporting Requirements (Significant Deficiency, Instance of Non-compliance)

Federal Program: Substance Abuse Prevention and Treatment, 93.959
Medicaid Cluster, 93.777/93.778
SNAP, 10.551/10.561

Federal Agencies: Department of Health and Human Services and Department of Agriculture

Applicable Compliance Requirement: Reporting

Questioned Costs: None

Condition: New subaward contracts or contract modifications were not reported under Federal Funding Accountability and Transparency Act (FFATA) requirements. For the Substance Abuse Prevention and Treatment Program, the Department did not submit any FFATA reports for FY13 subawards.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-003 Non-compliance with FFATA Reporting Requirements (Significant Deficiency, Instance of Non-compliance) (continued)

Criteria: Per the reporting section of the OMB A-133 compliance supplement, first-tier subawards or subaward amendments of \$25,000 or more are required to be reported to the federal government.

Cause: Internal controls over compliance were not operating effectively. The Department does not have a process in place through which the required FFATA reports are being submitted timely.

Effect: The Department is out of compliance with FFATA reporting requirements.

Recommendation: We recommend that the Department develop procedures, including controls over those procedures, to ensure that subawards are reported timely under FFATA requirements.

Management's Response: Management agrees. The Department CFO will update procedures for federal reporting to include the FFATA in SFY14 and comply with the timely filing requirement.

2013-004 Noncompliance with Matching Requirements (Significant Deficiency, Instance of Non-compliance)

Federal Program: SNAP, 10.551/10.561

Federal Agency: Department of Agriculture

Questioned Costs: \$557

Applicable Compliance Requirement: Matching

Condition: During our testwork over matching for the Supplemental Nutrition Assistance Program, we noted that one out of the 40 draw-downs tested included an inappropriate Federal Financial Participation (FFP) rate. The FFP rate applied to grant HSDSNAP13041 was 100%, while the appropriate FFP rate for that grant is 50%.

Criteria: Per the matching section of the OMB A-133 compliance supplement, the State is required to pay 50 percent of the costs of administering the SNAP program. Therefore, cash draw downs should be reduced by the State share of the expenditures.

Cause: Internal controls over review of draw requests failed to detect or prevent the inappropriate FFP rate applied.

Effect: The Department overdrew \$557 in federal awards pertaining to SNAP expenditure reimbursements.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

Section III – Federal Award Findings and Questioned Costs (continued)

2013-004 Noncompliance with Matching Requirements (Significant Deficiency, Instance of Non-compliance) (continued)

Recommendation: We recommend that the individual approving the drawdowns for federal awards with matching requirements ensure that the correct FFP rate is applied.

Management's Response: Management agrees. The Department implemented a less manual process in SFY14 for creating drawdowns and will ensure that the correct FFP rate is applied.

2013-005 Noncompliance with Reporting Requirements (Significant Deficiency, Instance of Non-compliance)

Federal Program: SNAP, 10.551/10.561

Federal Agency: Department of Agriculture

Questioned Costs: \$1,518

Applicable Compliance Requirement: Reporting

Condition: For one out of the two FNS 209 reports tested, supporting documentation did not agree with the reported amount. The difference between the amount reported and the underlying Department information was \$1,518.

Criteria: Per the reporting section of the OMB-A-133 compliance supplement, recipients of federal funds must report program outlays and program income on a cash or accrual basis. The data accumulated and summarized for reporting purposes should match the amounts being reported for the program.

Cause: Internal controls over compliance were not operating effectively and did not prevent the error in reporting.

Effect: Without a proper review, incorrect information may be included in amounts reported for federal programs. In this instance, a discrepancy of \$1,518 between the reported amount and the underlying detail was not reconciled prior to submission.

Recommendation: We recommend that the Department implement procedures through which inconsistencies between reported amounts and underlying data are investigated and resolved prior to submission.

Management's Response: Management agrees. The discrepancy was caused by a system issue that has been difficult to resolve in the legacy CLAIMS system. The CLAIMS will be converted to the new eligibility system ASPEN in SFY14 and should resolve the discrepancy in system-generated reports.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-006 Procedures for Investigating Allegations of Fraud (Significant Deficiency, Instance of Non-compliance)

Federal Program: Medicaid Cluster, 93.777/9.778

Questioned Costs: None

Federal Agency: Department of Health and Human Services

Applicable Compliance Requirement: Special Tests & Provisions

Condition: As part of our single audit, we tested forty referral cases, noting that for three of the forty referral cases, HSD did not follow their internal processes related to investigating and referring cases to the Medicaid Fraud Control Unit of the New Mexico Office of the Attorney General (MFCU). Additionally, during the course of our audit, it came to our attention that for an additional twelve referrals made to the MFCU, the Department's written procedures for receiving, evaluating, concluding or referring allegations of fraud were not followed by HSD. The Department's procedures state that initial complaints are to be reported to the Program Integrity Unit (PIU), after which a preliminary intake form is to be completed and logged into the tracking database. PIU staff are then required to conduct a preliminary investigation, or the case is forwarded to the Office of Inspector General (OIG). If the OIG does not have sufficient information to close a case, then a referral is made to the MFCU. In these total fifteen instances (three referrals discovered during our single audit test work and twelve additional referrals that came to our attention), PIU staff did not perform the initial investigation into the allegations, which deviates from the Department's procedures. Additionally, PIU staff signed off on all of the 15 referrals to the MFCU.

Criteria: Per the special tests and provisions section of the OMB A-133 compliance supplement, State agencies administering Medicaid funds must provide methods and safeguards against unnecessary utilization of care and services, including long-term care institutions. In addition, the State agency must have methods or criteria for identifying suspected fraud cases, methods for investigating these cases, and procedures for referring suspected fraud cases to law enforcement procedures. The Department has implemented procedures whereby the PIU is tasked with reviewing allegations, completing requisite documentation, and then either conducting its own investigations or referring to the HSD Office of Inspector General. If sufficient information is not available to conduct an investigation, then the allegation is referred to the Medicaid Fraud Control Unit of the Attorney General's Office.

Cause: The Department's procedures for investigating and referring credible allegations of fraud to the Medicaid Fraud Control Unit were not followed.

Effect: The fraud referrals made for the 15 providers did not follow the Department's procedures for investigations of allegations of fraud.

Recommendation: We recommend that either the Department modify its procedures for investigating large-scale allegations of fraud, or ensure that Program Integrity Unit staff are involved in all investigations of fraud allegations.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-006 Procedures for Investigating Allegations of Fraud (Significant Deficiency, Instance of Non-compliance) (continued)

Management's Response: This finding is disputed. The New Mexico Human Services Department ("HSD"), Medical Assistance Division ("HSD/MAD") has in place a "Credible Fraud Referral Guideline" that was followed for the referral of the 15 behavioral health provider agencies. See Credible Fraud Referral Guideline. The Credible Fraud Referral Guideline was executed by Everet Apodaca, HSD/MAD Program Integrity Manager on May 28, 2013. This requires the Managed Care Organization (MCO), along with HSD/MAD's Program Integrity Unit ("MAD/PIU") to review all allegations, facts and evidence and report all preliminary investigations to MAD leadership.

In late 2012, Optum Health New Mexico, Inc. ("Optum") requested a meeting with HSD leadership to present their findings of automated program integrity audits and certain information that had been presented to Optum. HSD leadership included the HSD Cabinet Secretary, Sidonie Squier, HSD Deputy Cabinet Secretary, Brent Earnest, the Interagency Behavioral Health Purchasing Collaborative CEO/HSD Behavioral Health Services Division Director, Diana McWilliams, HSD General Counsel, Raymond W. Mensack, HSD Deputy General Counsel, Larry Heyeck, and HSD/MAD Director, Julie Weinberg. In subsequent meetings, HSD/MAD was represented by its Deputy Director, Mark Pitcock and/or HSD/MAD Program Integrity Manager, Everet Apodaca. Shortly thereafter, HSD leadership decided to have Optum make its presentation to the Attorney General's Office Medicaid Fraud and Elder Abuse Division ("MFCU") for MFCU's recommendation given the severity of the Optum findings. HSD leadership also discussed retaining an outside consultant that would conduct an audit that encompassed: (1) clinical audit or claims and clinical files; (2) Information Technology audit; and (3) an enterprise audit to identify how taxpayer dollars were being spent by each of the 15 behavioral health provider agencies.

On January 14, 2013, Optum representatives, MFCU representatives, and HSD representatives, Diana McWilliams, Raymond Mensack, Larry Heyeck, and Everet Apodaca met at the Optum Offices in Albuquerque, New Mexico whereat Optum made its presentation of its findings. After discussion, the group concurred in the retention of an outside auditor. Thereafter, HSD retained Public Consulting Group, Inc. ("PCG"). In February 2013, PCG met with HSD staff, including Diana McWilliams, Raymond Mensack, Larry Heyeck, Everet Apodaca, MFCU staff, Optum staff and representatives from HSD/BHSD, and CYFD to discuss the parameters of the audit and begin to work on the audit protocols.

On February 25, 2013, PCG and state staff began their on-site audits. From that date until the end of June, HSD leadership received updates from PCG every two weeks. HSD leadership, including representatives from HSD/MAD, including, at times, Julie Weinberg, Mark Pitcock, and Everet Apodaca.

On June 21, 2013, PCG presented its findings to HSD, MFCU, representatives from the United States Attorney's Office, Federal Bureau of Investigation, and New Mexico Taxation of Revenue. HSD was represented at this meeting by: Brent Earnest, Diana McWilliams, Raymond Mensack, Larry Heyeck, Mark Pitcock and Everet Apodaca. All law enforcement representatives were provided the PCG report and the Optum report. These documents

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-006 Procedures for Investigating Allegations of Fraud (Significant Deficiency, Instance of Non-compliance) (continued)

referenced the “referral” of credible allegations of fraud from HSD. The acceptance of these referrals occurred on June 24, 2013. The MFCU referral form was initialed by Everet Apodaca, HSD/MAD’s Program Integrity Manager and signed by MFCU Director, Jody Curran.

HSD leadership, MAD leadership, HSD Office of General Counsel, and the Collaborative were represented throughout this process. This process is consistent with the HSD/MAD Credible Fraud Referral Guide as HSD/MAD Program Policy Integrity Bureau, from which Everet Apodaca is the Program Integrity Unit Manager, reports to Mark Pitcock, HSD/MAD Deputy Director who, in turn, reports to Julie Weinberg, HSD/MAD Director. Ms. Weinberg reports to Deputy Cabinet Secretary Earnest and Cabinet Secretary Squier. See HSD/MAD organization chart, attached hereto as Exhibit C and HSD/MAD/PPIB organizational chart. ALL had been involved in the process regarding the audits of these fifteen (15) behavioral health provider agencies.

In addition, nowhere does the auditor reference the amount of work involved in conducting the type of audit that was required under federal statute and regulation given the fact that Optum had made a significant referral to HSD. HSD presented the auditor with all of PCG’s invoices that indicated the hundreds of man hours required to complete this project. Nor does this finding take into consideration the specialty work, such as forensic auditors, IT billing specialists, clinical reviewers, and certified coders, that PCG engaged to review the number of claims (for statistical sampling), charts, personnel records, and program rules and regulations. HSD had no choice but to retain an outside consultant; otherwise, Medicaid program dollars (taxpayer monies) would have been in jeopardy.

Auditors’ Response: CLA acknowledges the Department’s response. CLA maintains that the finding and related recommendation are appropriate. Additionally, CLA has not received any supporting information to indicate that the PIU was involved in the investigative process for the fifteen referrals noted above.

Finding 2013-007 Significant Deficiency in Controls Surrounding Eligibility Documentation (Instance of Non-compliance)

Federal Program: Temporary Assistance for Needy Families, 93.558

Federal Agency: Department of Health and Human Services

Questioned Costs: None

Applicable Compliance Requirement: Eligibility

Condition: During our testwork over eligibility, we noted five clients out of 40 tested whose applications or recertifications were not signed by ISD staff at the field offices. The signature of the ISD staff documenting receipt, review, and database entering is considered a key control to prevent potentially misstated information from being entered into the Department’s databases.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-007 Significant Deficiency in Controls Surrounding Eligibility Documentation (Instance of Non-compliance) (continued)

Criteria: Per the eligibility requirements of the OMB A-133 compliance supplement specific to this program, there are numbers criteria that must be met in order for a family to receive TANF assistance. a recipient of federal awards that involve a complex eligibility system, it is important that controls are in place to prevent erroneous or inconsistent client information from being processed to calculate benefits. The initial review of information contained in a client's application, and documentation of that review through an employee's signature on the application, will help to reduce the likelihood that improper information is initially entered into the Department's database.

Cause: Internal controls over compliance were not operating effectively. The clients' information was processed accurately; however, the ISD staff in the field failed to document receipt and initial review on the application.

Effect: Without a proper review, ineligible individuals may receive benefits, or benefits may end up being miscalculated based on erroneous information.

Recommendation: We recommend that the Department's procedures internal control procedures be such that they provide evidence that control is in place.

Management's Response: ISD disagrees with this finding and disagrees that a staff signature on a form will prevent key entry errors, or documents database entering. The application "for office use only" section was created as an internal tool to address a DHG settlement agreement pertaining to SNAP cases; it is not required by regulation. The procedure is not required by TANF regulation. The application received date is documented in CTS when applications are received and the procedure will continue to be electronic as we move to a paperless process.

The paper applications are date stamped and comments in CTS are updated when applications are worked/processed as part of the SNAP procedure. NMAC 8.100.110.8 A, states: "...The employee will review the application, assist the applicant in completing the application, if it is incomplete or assistance is otherwise necessary, and will assist in identifying the public assistance program(s) that the applicant wishes to apply." NMAC does not require ISD Staff to document the review with a signature by staff. With the implementation of the new eligibility system, ASPEN, applications are in electronic format and are reviewed as part of the Application Registration process; all actions taken by an individual are tracked systematically.

Auditors' Response: CLA acknowledges the Department's response. Internal control procedures should be properly documented to ensure that management and/or auditors can verify that the procedures are being performed. CLA maintains that the finding and related recommendation are appropriate.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-008 Invoice Approval Process for Contracts (Instance of Non-Compliance)

Federal Program: Medicaid Cluster, 93.777/93.778

Federal Agency: Department of Health and Human Services

Questioned Costs: \$6,940

Applicable Compliance Requirement: Allowable Costs

Condition: During testwork over invoices approved relating to a reimbursement-based professional services contract, we noted that certain costs were approved by the Department but included inappropriate costs paid with federal awards money. These included the following:

- Excess per diem reimbursements to contractor employees in the amount of \$2,797. These resulted from duplicate per diems reported on the same day and per diem paid in addition to reimbursement for actual travel expenses.
- Reimbursement of alcoholic beverages totaling \$115.
- Reimbursement of expenses previously billed in the amount of \$3,315.
- Reimbursement for State of New Mexico employees' meals in the amount of \$713.

Criteria: Internal controls over the approval process for invoices should include a detailed review of the amounts being requested by the contractor for reimbursement. State employees who are receiving per diem reimbursement or prepayment should process their requests through the prescribed channels, which for the Department include a travel reimbursement request required to be approved by a supervisor. Alcoholic beverages should not be reimbursed with federal funds.

Cause: The review process for this professional services contract failed to detect the inappropriate costs reimbursed to the contractor.

Effect: A total of \$6,940 was reimbursed to the contractor inappropriately.

Recommendation: We recommend that, for future reimbursement-based contracts, the approver of invoices perform a detailed review of the invoice support prior to approval for payment.

Management's Response: Management disputes this finding. PCG conducted a post-payment review of all invoices submitted to HSD for reimbursement and compared those against the allegations presented in this finding. PCG's review is submitted and clearly indicates that there was never a payment for alcoholic beverages and disputes other issues and has provided justification. Needless to say, this took many hours to review and to the extent there was any finding, it was for duplicate billing included in the July 2013 invoice. Moreover,

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2013-008 Invoice Approval Process for Contracts (Instance of Non-Compliance)
(continued)

HSD did authorize PCG to pay for (and be reimbursed) for State employees' room/meals. This was done because: (1) PCG controlled the timing of where/when the on-site unannounced audits of behavioral health provider agencies took place; (2) HSD wanted to have State staff present when PCG arrived and conducted work on-site (which is significantly different than PCG audits on other states, such as North Carolina); and (3) HSD wanted to maintain control over who had information regarding the audits. For state staff (from different agencies) were to seek an "advance" for room/meals, it would have caused others within their respective agencies (such as administrative services) to have knowledge of this particularly sensitive issue.

Auditors' Response: CLA acknowledges management's response. CLA is not in receipt of documentation that clears the finding above. CLA maintains that the finding and related recommendation are appropriate.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Section IV. Other Findings

Finding 2013-009 Late Audit Report Submission (Other Matter)

Condition: The Department's audited financial statements were not submitted to the New Mexico State Auditor until February 14, 2014.

Criteria: Per 2.2.2.9(f) NMAC, the deadline for audited financial statement submission for state agencies was December 15th, 2013. As this date fell on a weekend in 2013, the report was due December 16th.

Cause: The primary cause of the late submission was that the auditors were unable to obtain sufficient audit evidence pertaining to a proposed prior-period adjustment in the amount of \$60,212,204.

Effect: The Department is out of compliance with 2.2.2.9(f) NMAC.

Recommendation: We recommend that, for all proposed audit entries, the Department have the ability to substantiate the adjustments with evidence that agrees to the adjustment requested.

Management's Response: The New Mexico Human Services Department ("HSD") disputes this finding. HSD's audited financial statements should have been submitted on or before December 16, 2013, pursuant to 2.2.2.9(A)(1)(f) (not, as stated in the finding, 2.2.2.9(f)). HSD disagrees that the primary cause of the late submission was related to a proposed prior-period adjustment, as the Medicaid trial balances were provided on November 14, 2013. Rather, it is evident that any delay in the submission of the audited financial statements was due to ongoing requests from the Office of the State Auditor for information related to the behavioral health audits that were outside of the scope of HSD's fiscal audit, including, but not limited to, billings by providers that occurred during Fiscal Year 2014. (See, for example, the Office of the State Auditor Referral letter dated December 11, 2013.) Further, as was noted in the December 13, 2013 letter to CliftonLarsonAllen LLP (CLA) from HSD's general counsel, HSD would not agree to a delay in submission of the audit that resulted from the Office of the State Auditor providing CLA with documents for review on December 11, 2013 that HSD had submitted to the Office of the State Auditor pursuant to subpoena on December 2, 2013.

Auditors' Response: CLA requested and received additional information and supporting documentation from the Department related to the \$60.2 million restatement (see Note 19) on various dates from January 15, 2014 through February 14, 2014. CLA also had several conversations with the Department during this period to ensure our understanding of the restatement issue was correct, and to effectively test the supporting evidence. CLA completed all test work and quality review procedures over the additional information and supporting documentation on February 14, 2014. Other procedures related to State Auditor requested procedures were received by CLA on October 22, 2013, November 18, 2013, and December 11, 2013). These procedures were completed on December 20, 2013 and, per the State Auditor's request, we provided copies of our workpapers to the State Auditor on January 8, 2014, with the remaining test work provided on January 9, 2014. CLA maintains that the finding and related recommendation are appropriate.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section IV - Other Findings (continued)

Finding 2013-009 Late Audit Report Submission (Other Matter) (continued)

OSA Response: The responsibility for the delay in completing and submitting HSD's fiscal year 2013 financial audit report rests solely with HSD. As detailed in Finding 2013-001, HSD for many years failed to make timely requests for federal reimbursement for payments made to Medicaid recipients. The Department also incurred expenditures in excess of approved award amounts for Medicaid funds. Over time, HSD's lack of effective procedures and controls for these federal accounts receivable led to a \$60,212,204 uncollectible federal receivable, which has contributed to a negative fund balance for the Medicaid Fund. According to CLA, prior to and on the regulatory due date for HSD's fiscal year 2013 financial audit report, HSD failed to provide CLA with sufficient audit evidence pertaining to HSD's proposed prior-period adjustment in the amount of \$60,212,204. It was HSD's responsibility to provide CLA with supporting documentation related to this adjustment, which the Department failed to do until January 15, 2014. This failure by HSD contributed to multiple delays and significantly impacted CLA's ability to complete its audit on time.

HSD's lack of transparency related to the Public Consulting Group, Inc. (PCG) audit report that formed the basis for HSD's suspension of payments to behavioral health providers also contributed to delays in the completion of HSD's fiscal year 2013 financial audit. The Audit Act (Sections 12-6-1 NMSA 1978 et seq.) requires the State Auditor and independent auditors approved by him to thoroughly examine and audit the financial affairs and transactions of every government agency. Due to HSD's significant expenditure of federal funds, independent auditors are required by federal law to test and report whether HSD has adequate procedures in place to identify fraud and safeguard federal funds. It is within this jurisdictional context that it was necessary for auditors to review and analyze the PCG audit report. It was also necessary to review the report in order to assess the risks to public funds and the potential impact on HSD's financial affairs.

HSD refused to provide a copy of the PCG report to the OSA and CLA, and the State Auditor was consequently forced to subpoena the report from HSD on July 16, 2013. It ultimately took an Order from the First Judicial District Court on July 26, 2013 to compel HSD to provide the PCG report to the State Auditor and CLA. In October 2013, the OSA discovered that the PCG audit report that formed the basis of HSD's suspension of payments and that formed the basis of HSD's fraud referral to the Attorney General was altered before HSD provided the report to the State Auditor and CLA. HSD failed to inform CLA and the State Auditor of the alteration, and HSD's explanation of the facts and circumstances surrounding the alteration was inconsistent with the facts as presented by both the Attorney General and PCG. The State Auditor once again engaged the court on November 18, 2013 for a second subpoena to sort out the inconsistencies caused by HSD's lack of transparency. This further contributed to the delay in the completion of HSD's audit report.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section IV - Other Findings (continued)

Finding 2013-010 Noncompliance with Contractual Requirements for Reimbursements to Behavioral Health Providers (Other Matter)

Condition: During testwork over invoices approved relating to reimbursement-based professional services contracts, we noted that certain costs were approved by the Department but included inappropriate costs that violated the PSC contracts. These included the following:

- Reimbursements for invoices for services provided in SFY2013 that were received more than 15 days after the end of the fiscal year (contract stipulation), totaling \$412,747.
- Payments that include prepayments for estimates or projections rather than reimbursement, totaling \$187,896.
- Reimbursement for purchases of tangible personal property over \$10,000 that was not approved prior by HSD, totaling \$19,740.

Criteria: The various Professional Service Contracts between HSD and certain behavioral health providers include specific language pertaining to when invoices were to be received, that the reimbursements had to be based on actual costs incurred, and that purchases of tangible personal property in excess of \$10,000 required pre-approval from the Department.

Cause: The review process for these professional services contracts failed to detect the inappropriate costs reimbursed to the contractor.

Effect: A total of \$620,383 was reimbursed to contractors without proper approval or in advance of actual expenditures.

Recommendation: We recommend that for future reimbursement-based contracts, only invoices received during the allowable timeframe and for which pre-approval has been granted for costs that exceed contractual thresholds are approved for payment. We also recommend that the Department ensure that costs have been incurred by the contractor prior to reimbursement.

Management's Response: Management disagrees. ALL of the transitional provider contracts were entered into in State Fiscal Year 2014 and therefore outside the scope of CLA's SFY 2013 audit. CLA exceeded the scope of its authority and its contractual obligations. The contracts were entered into under the "Emergency Procurement" provision of the New Mexico Procurement Code. HSD was aware of all invoices that the transitional providers submitted for payment and approved such payments given the emergency to individual health and safety, i.e., the inability of the current behavioral health provider agencies to continue in operation.

With regards to the IT purchase, during the early part of the transition, each transition agency had daily calls with HSD and OptumHealth staff. HSD recognized that it was necessary for these transitional providers to purchase certain IT equipment in order to begin operations. This was required because the IT equipment used by the former behavioral health providers, as electronic medical records, laptops, etc., was part of a criminal investigation and was not be used until such time (in some cases, weeks after transition) that the Attorney General's office could copy information that was found in the IT systems.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section IV - Other Findings (continued)

Finding 2013-010 Noncompliance with Contractual Requirements for Reimbursements to Behavioral Health Providers (Other Matter) (continued)

In certain situations, payroll for New Mexico employees had to be advanced either to the existing behavioral health provider or to the transitional provider in order to meet payroll obligations. In ALL payroll situations, HSD coordinated the transfer of funds, i.e., providing banking information, so that employees could be paid on time. These employees consisted of: (1) clinical staff, i.e., those individuals that provided direct services to eligible consumers; and (2) admin staff, i.e., those individuals that were needed to schedule appointments, create new files, etc.

Due to the emergent nature of the situation and HSD's federal obligations to continue services and protect the integrity of Medicaid and non-Medicaid funding, certain measures had to be taken; however, no expenditures were made without HSD's knowledge and consent.

Auditors' Response: CLA acknowledges the Department's response and the emergent nature of the situation. The services noted above were provided in FY2013; however, they were not paid until after the 15 day period (as outlined in the contract) during FY2014.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

Section II – Financial Statement Findings

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

In our testing of Fund 978 Child Support Enforcement Fund Reconciliation, it was noted that the undistributed receipts balance did not reconcile between the Child Support Enforcement System (CSES) and the general ledger, SHARE. The current year annual reconciliation of activity had an un-reconciled difference of \$31,320.

Finding 12-02 – Accounts Receivable Reconciliation (Significant Deficiency) – Repeated

During test work over accounts receivable, it was discovered that a third party receivable with a balance of \$12,409,275 recorded on the Department's general ledger, SHARE, had not been reconciled to the underlying reports. The aging report from OMNICAID, the Medical Management Information System, a subsidiary system, did not agree to SHARE. After inquiry by the audit team, the aging was reviewed by the Department and an allowance for \$10,687,313 was recorded.

Finding 12-03 – Analysis of Financial Claiming (Material Weakness) – Resolved

The Department, in collaboration with an external consulting firm, performed a thorough review of the period July 1, 2006 through June 30, 2011 of financial reporting claims of the Department to the Centers for Medicare and Medicaid Services (CMS) and the United States Department of Agriculture (USDA). Through this collaborative effort, the Department identified \$21,054,207 of possible invalid federal reimbursements. Of this amount, \$14,218,647 belonged to balances outside the permissible reporting period for corrections and required a restatement of prior year federal revenue. The Department has since reconciled its federal grants in fund 05200 with CMS for fiscal years 2010 and 2011 and has repaid the federal government for amounts overdrawn.

Section III – Federal Award Findings and Questioned Costs

Finding 12-04 – ISD2 System Access - Terminated Employees (Significant Deficiency, Compliance) – Resolved

Federal Program: Supplemental Nutrition Assistance Program (SNAP) Cluster, 10.551/661

We performed test work related to the ISD2 – specific to SNAP system access for terminated employees. We tested access for forty terminated employees to ascertain if access to the SNAP application was removed upon termination of employment. We noted three out of forty instances where access was not removed for terminated employees.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 12-05 – Cash Management Compliance and Internal Controls (Significant Deficiency, Compliance) – Resolved

Federal Program: Temporary Assistance for Needy Families Cluster, 93.558

Based on our test work over cash management, we noted that the Department was in noncompliance with the Treasury State Agreement-Cash Management Improvement Act (TSA-CMIA) as follows:

- Program 93.558 (TANF): Amounts refunded from subrecipient of \$142,251.70 exceeded \$50,000 threshold per TSA-CMIA, requiring calculation and recording of interest liability; no liability calculated or incurred for interest related to amount refunded.

Finding 12-06 – Results of External Audits/Program Reviews over Federal Programs (Significant Deficiency, Compliance) – Resolved

Federal Program: Medicaid Cluster, 93.777 / 778

We reviewed the various external audits and reviews conducted over HSD's federal programs. Included below are the results of these external audits and reviews that impact the compliance requirements tested during single audit:

1. **Department of Health and Human Services, Office of Inspector General, NM Medicaid Personal Care Services Provider Audit, Report dated May 2012 (period covered - October 1, 2006 September 30, 2008)**
 - Allowable costs – 36 out of 100 claims tested did not comply with allowable cost requirements, resulting in improper payments claimed of at least \$2,243. Estimated improper claims of \$4,483,492 (Federal Share) payable back to federal government.
2. **Department of Health and Human Services, Office of Inspector General, NM Medicaid Personal Care Services Provider Audits, Report dated June 2012 (period covered - October 1, 2008 through March 31, 2009)**
 - Allowable costs – 24 out of 100 claims tested did not comply with allowable cost requirements, resulting in improper payments claimed of at least \$5,560. Estimated improper claims of \$404,817 (Federal Share) are payable back to federal government.

Finding 12-07 – Management Evaluation over Federal Program (Significant Deficiency, Compliance) – Resolved

Federal Program: Emergency Food Assistance, 10.568/569

The U.S. Department of Agriculture conducted a management evaluation (ME) over the Emergency Food Assistance Program. The evaluation covered the period of Fiscal Year 2011. The ME identified the following issues:

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 12-07 – Management Evaluation over Federal Program (Significant Deficiency, Compliance) (continued) – Resolved

1. Delegation of Authority. The Department delegated its administrative authority to another entity of specific program areas, including monitoring responsibilities and disbursement of administrative funds to sub-recipient agencies. Furthermore, the agreement with the entity does not clearly define the roles and responsibilities of the parties.
2. Administrative funds were distributed to food banks using an incorrect distribution rate – pounds per person.
3. The Department did not provide prior-year documentation of the required TEFAP agency reviews.
4. A volunteer at a mobile pantry entered into an agreement with a food bank to receive USDA commodities.
5. The Department monitors administrative funds; however it does not monitor the value of TEFAP commodities.

As of June 30, 2012, we noted that item number 1 above was still an exception as the contract with the entity delegating administrative authority was in place through July 1, 2012.

Section IV. Other Findings

Finding 12-01 – Personnel Files (Compliance) – Resolved

During our review of personnel files, out of 22 files reviewed we noted two employee personnel file did that did not contain a signed I-9 form.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
EXIT CONFERENCE
June 30, 2013**

An exit conference was held with the Department on January 31, 2014. The conference was held at the Department's offices in Santa Fe, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT

Sidonie Squier, Cabinet Secretary
Charissa Saavedra, Deputy Secretary
Brent Earnest, Deputy Secretary, HSD/VOS
Danny Sandoval, ASD Director, Administrative Services
Donna Sandoval, ASD Deputy Director, Administrative Services
Carolee Graham, ASD Deputy Director, Administrative Services
Martin Ortega, ASD/CFSB Bureau Chief
Frank Sherman, OIG
Sean Pearson, ITD
Julie Weinberg, MAD
Robert Kenney, HSD/ASD
Larry Heyeck, HSD/OGC/CSED
Matt Onstott, HSD/MAD
Nicole Taylor, HSD/ISD

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Audit Principal
Ryan Jones, CPA, Senior Associate

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditors' Report. Management reviewed and approved the financial statements.