

**STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
OFFICIAL ROSTER
YEAR ENDED JUNE 30, 2017**

Name	Title
Brent Earnest	Cabinet Secretary
Sean Pearson	Deputy Secretary/Director, Income Support Division
Mike Nelson	Deputy Secretary
Christopher Collins	General Counsel
Danny Sandoval	Director, Administrative Services Division
Carolee Graham	Deputy Director, Administrative Services Division
Joyce Sandoval	Deputy Director, Administrative Services Division
Mary Brogdon	Director, Income Support Division
Vida Tapia-Sanchez	Deputy Director, Income Support Division
Shanita Harrison	Deputy Director, Income Support Division
Laura Galindo	Director, Child Support Enforcement Division
Betina McCracken	Deputy Director, Child Support Enforcement Division
Nancy Smith-Leslie	Director, Medical Assistance Division
Linda Gonzales	Deputy Director, Medical Assistance Division
Jason Sanchez	Deputy Director, Medical Assistance Division
Wayne Lindstrom	Director, Behavioral Health Services Division
Shilo Stewart	Acting CIO, Information Technology Division
Charles Mondragon	Human Resources Director

INDEPENDENT AUDITORS' REPORT

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the major fund budgetary comparison schedules of the New Mexico Human Services Department (the Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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.

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information, and the major fund budgetary comparison schedules of the Department as of June 30, 2017, 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 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining fund information, the financial position of the fiduciary fund and respective major fund budgetary comparisons of the state of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not present fairly the financial position of the entire state of New Mexico as of June 30, 2017, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this 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 5-13 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 financial statements that collectively comprise the Department's basic financial statements. The combining and individual nonmajor fund financial statements, the schedule of changes in assets and liabilities—agency fund, and the budgetary comparison schedules at the appropriation level 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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of joint powers agreements and schedule of special appropriations, as required by 2.2.2 NMAC, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor

The combining and individual nonmajor fund financial statements, the schedule of changes in assets and liabilities—agency fund, the budgetary comparison schedules at the appropriation level, the schedule of joint powers agreements, the schedule of special appropriations (except prior years' expenditures), and the schedule of expenditures of federal awards 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of special appropriations (prior years' expenditures only) has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017, 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 solely 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 effectiveness of the Department's 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
November 1, 2017

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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, 2017. 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. Budgetary comparison statements, and
4. Notes to financial 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, 2017. 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 2017 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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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 major funds and summary non-major 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 major 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. Also included, are the budgetary comparison statements at the appropriation level in the supplementary information.

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
YEAR ENDED JUNE 30, 2017**

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, detail of special appropriations, 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 2015 through 2017. Management has not attempted to recast this information, except as adjusted in preparation of the fiscal year 2017 financial statements and information.

At the end of Fiscal Year 2017, the Department does not have a deficit balance in any of the funds. The Department is current with reconciliation of expenditures, revenues, and federal reporting.

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, 2017, with comparative balances for the fiscal years ended June 30, 2016 and June 30, 2015.

Table 1 – Net Position

	Governmental Activities <u>FY2017</u>	Governmental Activities <u>FY2016</u>	Governmental Activities <u>FY2015</u>	Increase (Decrease) 2016 to 2017	% Change
Assets:					
Current Assets	\$ 299,619,851	\$ 314,559,412	\$ 398,033,978	\$ (14,939,561)	-5%
Non-Current Assets	87,767,447	93,959,268	100,311,496	(6,191,821)	-7%
Total Assets	<u>\$ 387,387,298</u>	<u>\$ 408,518,680</u>	<u>\$ 498,345,474</u>	<u>\$ (21,131,382)</u>	-5%
Liabilities:					
Current Liabilities	\$ 292,281,363	\$ 308,405,834	\$ 390,446,834	\$ (16,124,471)	-5%
Total Liabilities	<u>292,281,363</u>	<u>308,405,834</u>	<u>390,446,834</u>	<u>(16,124,471)</u>	
Net Position:					
Net Investment in					
Capital Assets	87,767,447	93,959,268	100,311,496	(6,191,821)	-7%
Restricted	512,322	3,187,001	814,327	(2,674,679)	-84%
Unrestricted	6,826,166	2,966,577	6,772,817	3,859,589	130%
Total Net Position	<u>95,105,935</u>	<u>100,112,846</u>	<u>107,898,640</u>	<u>(5,006,911)</u>	-5%
Total Liabilities and Net Position	<u>\$ 387,387,298</u>	<u>\$ 408,518,680</u>	<u>\$ 498,345,474</u>	<u>\$ (21,131,382)</u>	-5%

The Department's net investment in capital assets totaled \$87,767,447 at June 30, 2017, the decrease from 2016 is mostly due to depreciation expense of \$6,558,069.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

The net position of the Department is consistent with that of 2016, the only major change being the depreciation expense and the impact on noncurrent assets. At June 30, 2017, net position was \$95 million.

Table 2 – Changes in Net Position

Table 2 presents the detail changes in net position from 2015 to 2017. Net position decreased by \$5,006,911 in 2017, resulting in net position at June 30 of \$95 million.

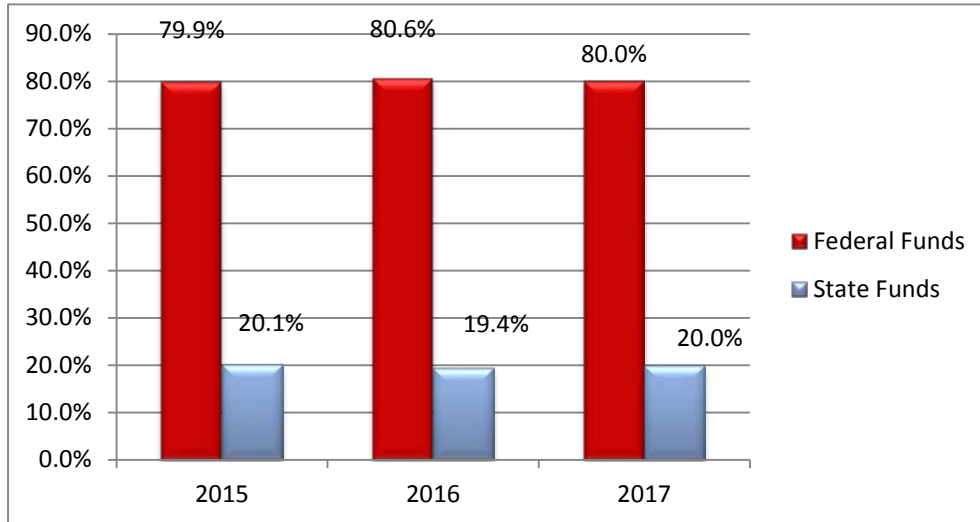
	Governmental Activities <u>FY2017</u>	Governmental Activities <u>FY2016</u>	Governmental Activities <u>FY2015</u>	Increase (Decrease) <u>2016 to 2017</u>	% Change
Revenues:					
Program Revenues:					
Charges for Services	\$ 59,433,715	\$ 106,053,370	\$ 100,865,487	\$ (46,619,655)	-44%
Federal Funds	<u>5,236,602,437</u>	<u>5,481,029,890</u>	<u>5,037,313,915</u>	<u>(244,427,453)</u>	-4%
Total Program Revenues	5,296,036,152	5,587,083,260	5,138,179,402	(291,047,108)	-5%
General Revenues and Special Items:					
State Appropriation, Net	1,032,479,300	1,036,499,100	1,014,587,100	(4,019,800)	0%
STB Proceeds	-	-	747,816	-	0%
Contributed Assets	-	-	209,679	-	0%
Transfers from Other					
State Agencies	<u>216,686,832</u>	<u>178,418,869</u>	<u>145,974,582</u>	<u>38,267,963</u>	21%
Total Revenues	6,545,202,284	6,802,001,229	6,299,698,579	(256,798,945)	-4%
Expenses and Transfers Out					
Healthcare Services	5,355,391,361	5,643,255,813	5,133,388,327	(287,864,452)	-5%
Financial Assistance	861,668,891	860,083,658	821,303,741	1,585,233	0%
General Government	<u>333,148,943</u>	<u>306,448,002</u>	<u>349,704,214</u>	<u>26,700,941</u>	9%
Total Expenses and Transfers	<u>6,550,209,195</u>	<u>6,809,787,473</u>	<u>6,304,396,282</u>	<u>(259,578,278)</u>	-4%
Increase (Decrease) in Net Position	(5,006,911)	(7,786,244)	(4,697,703)	2,779,333	-36%
Net Position - Beginning of Year	<u>100,112,846</u>	<u>107,899,090</u>	<u>112,596,793</u>	<u>(7,786,244)</u>	-7%
Net Position - End of Year	<u>\$ 95,105,935</u>	<u>\$ 100,112,846</u>	<u>\$ 107,899,090</u>	<u>\$ (5,006,911)</u>	-5%

Table 2 reflects 5% reduction in program revenues. Charges for services decreased in 2017 as a result of fluctuations in drug rebate amounts invoiced to managed care organizations and federal funds decreased as a result of the lower Medicaid Federal Financial Participation.

Healthcare services expenditures decreased by 5% due to overall Medicaid enrollment shifts. General government expenditures increased by 9% primarily due to the general fund reversion.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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 2017 decreased to 80.0% primarily due to the FFP drop from 100% federal funding for the expansion of Medicaid and the new adult group to 95%. The remaining 20.0% state funds were comprised of State general revenue appropriations, reimbursements from other state agencies, miscellaneous revenues and transfers.

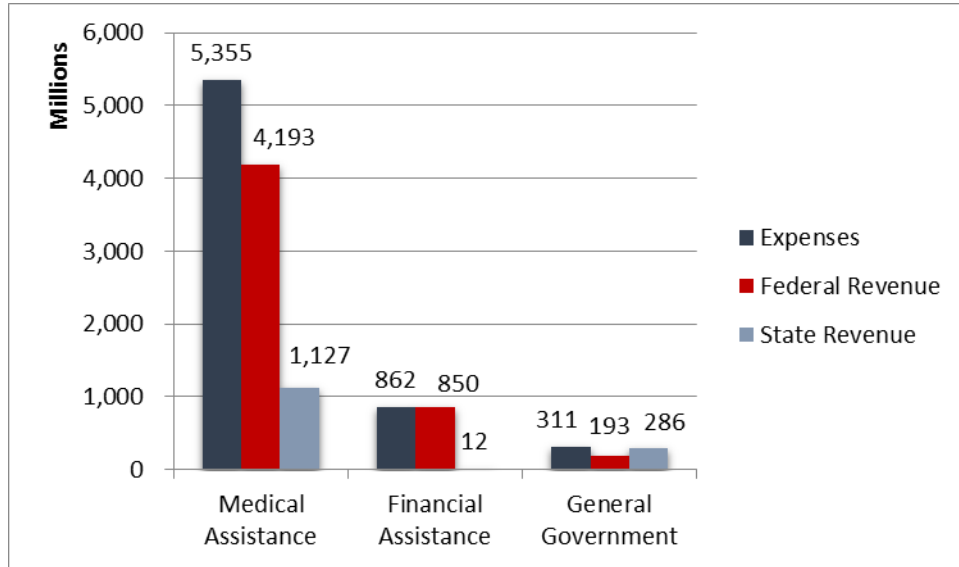
The Department must have approval of the federal awarding agencies CMS and USDA for the maintenance and operations of ASPEN and the cost of eligibility staff using ASPEN. Proposed allocation methods and estimated budgetary amounts are submitted to CMS and USDA on an annual basis and updated as needed. The detail amounts of grant funded expenditures can be seen in the Schedule of Expenditures of Federal Awards (SEFA) on pages 67 and 68.

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 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 2017.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Figure 2 – Total Expenses and Revenues



The total costs of all the Department's governmental activities this year was \$6,527,640,101. Of these total costs, 82% were for medical assistance services provided to eligible residents of the state, primarily under the Medicaid program, of which 78% was financed by federal grants, and general revenues and charges for services funded 21%. 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 \$861,668,891 or 13.2% of total costs pertains to financial assistance provided to eligible residents; 99% of these costs were funded by federal grants. The remaining 1% was financed with state funds.

The overall decrease in expenses from 2016 is caused largely by the decrease in healthcare services (Medicaid).

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. Note that the information below is not intended to be a comprehensive listing of all budget adjustments processed during the year. However, the most significant adjustments, in management's opinion, are presented below. Note that the budget adjustments related to the 2.5% budget reduction are reflected in the original budget amounts presented in the budget comparison schedules.

In Fund 052 (General Operating Fund), there were increases in revenues and expenditures totaling \$9,219,106. In this fund there were also decreases totaling \$2,582,900.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

In P522, there were two budget adjustments processed. One decrease was processed to implement the 2.5% budget reduction authorized by the legislature to most state agencies totaling \$1,080,400. A second adjustment was processed increasing federal funds by \$637,900 to align with the amount projected to be earned in SFY17. The net of adjustments is decrease of \$442,500 for P522.

In P523, there was one budget adjustment processed. A decrease was processed to implement the 2.5% budget reduction authorized by the legislature to most state agencies totaling \$549,100.

In P524, one budget adjustment was processed. The adjustment totaling \$2,370,000 from federal Title XIX funds to allow for funds transfer to DOH. It is important to note that the other agencies certify up the match for the federal funds and HSD as the single Medicaid Agency draws and transfers the federal funds to those agencies.

In P525, four increases were processed totaling \$3,491,077. Three of the increases totaling \$2,374,222 were from federal funds. One of the increases totaling \$1,116,855 was a from fund balance, specifically SNAP Bonus funds which the Department had reserved as fund balance in a prior period. The federal fund increases include an increase of \$474,673 from the Child Nutrition State Administrative Expense to align the budget with the grant of award. A second federal increase of \$115,000 was for the Commodity Supplemental Food Program grant to align the budget to the grant of award. The third federal adjustment was to align federal funds earned under the federally approved cost allocation plan with the projected earn rate totaling \$1,784,549. The 4th adjustment processed was for the SNAP Bonus of \$1,116,855 previously discussed above.

In P767, there were 4 increases processed, totaling \$2,720,129. There were also one budget decreases totaling \$953,400. All of the increases were to budget federal funds that were not part of the beginning operating budget. Those increases include \$1,050,688 for Partnership for Success Grant, \$181,000 for NM Certified Community Behavioral Health Grant, \$308,441 for Strategic Framework for Treatment Grant and \$830,000 for the Prescription Drug Overdose grant. A decrease was processed to implement the 2.5% budget reduction authorized by the legislature to most state agencies totaling \$953,400. The net of adjustments for P767 was an increase of \$1,766,729.

In Fund 974 (Income Support), there was one budget increase of \$6,452,400 from federal funds for the LIHEAP Program. The LIHEAP Program has carryover funds which the program is attempting to spend down. This increase aligned the budget with the projected program expenditure.

In Fund 975 (Income Support) there were three adjustments processed. One adjustment was a federal increasing adjustment for the SNAP program to align the budget with the projected spending. This program does not require a state match. One decreasing adjustment was processed to implement the 2.5% budget reduction authorized by the legislature to most state agencies totaling \$1,101,800. One adjustment was to budget the SNAP Bonus fund balance previously discussed in fund 052.0. These funds were retained in Fund 975 in a previous period and will be expended fund 052.0. In order to budget these funds they were budgeted in the fund where they were reserved in the other transfer category to allow for the transfer to fund 052.0 as prescribed the State Budget Division and the CAFR unit of the Department of Finance and Administration.

In Fund 976 (Medical Assistance), there was one adjustment increase processed totaling \$16,805,900 for the Disproportionate Share Hospital settlement received from CMS. HSD had disputed a

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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disallowance by CMS for this claim in a prior period. HSD and CMS came to a settlement during the current period and that amount was received and budgeted.

In Fund 20520 (Traumatic Brain Injury), there was one adjustment increase processed totaling \$480,700 to recognize and budget revenues which were higher than anticipated.

Special Appropriations that were processed in FY2017

Fund 901 (Data Processing Appropriations). There were two appropriations to the Human Services Department that were appropriated in the General Appropriations Act of 2015. One of the appropriations for \$620,000 in general fund and \$5,850,000 in federal funds to replace the Medicaid Management Information System. A second appropriation of \$3,400,000 from HSD fund balance is from Child Support Incentive Funds retained by the Department appropriated to replace the Child Support Enforcement Information System. There was no budget adjustment processed in Fund 901.

Results of Fund Activity in FY2017

In Fund 052, the ending fund balance of \$5,304,151 has five components. \$74,143 is inventory and prepaid items, \$512,322 reflects the DASIS funding that is reserved for subsequent fiscal year expenditures, \$2,900,832 is Child Support Incentive Funds earned by the Department which will be used to support the Child Support IT system replacement, \$700,000 is a General Fund Appropriation to ISD for Hatton/Gonzales law suit costs for FY17 and FY18 and \$1,116,855 is the SNAP Bonus funds budgeted in ISD in FY17 which were not expended.

In Fund 20520, assets exceeded liabilities by \$401,599, which reflects the non-reverting balances in this fund. The Traumatic Brain Injury Fund is a non-reverting interest-bearing fund.

In Fund 901, the ending fund balance is \$4,331,294, which reflects the balances in the IT appropriations which have not yet expired. Of this amount, \$2,299,744 is for the Child Support replacement system and \$2,031,550 is for the Medicaid Management Information System replacement.

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, the ending fund balance is \$1,078,929 is the SSIAR balances authorized to be retained and rolled forward to SFY18 for the General Assistance Program.

In Fund 976, the ending fund balance is zero. Expenditures in the program will continue for another 18 months after the end of the fiscal year from the IBNR which is recorded as a payable. Secondly, this program by statute has the authority to push expenditures forward to subsequent periods.

Capital Assets and Debt Management

Capital Assets. The Department's investment in capital assets as of June 30, 2017 amounted to \$87,767,447, net of accumulated depreciation. This investment in capital assets includes automobiles, equipment and machinery, data processing, and furniture and fixtures. The decrease in the Department's investment in capital assets for the current period was 6.6%.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Accumulated depreciation at June 30, 2017 was \$28,276,581. 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, 2017, the Department had no long-term debt resulting from borrowing.

Things Affecting the Department's Future

Medicaid Waiver Renewal

The Medicaid Program (Centennial Care) operates under 1115 Waiver approved by the Centers for Medicare and Medicaid Services (CMS). The current waiver is scheduled to expire on December 31, 2018. Over the next 12 months, the Department will continue to engage in a process of evaluating what is working and areas for improvement in the next waiver request. The Department subcommittee will continue to focus on key issues for renewal, obtain input from stakeholders and develop a concept paper to guide the process.

Medicaid Expansion

The Department budget request for 2019 was over \$7.085 billion, an overall increase of 2.34% from 2018. The primary drivers for this the smaller increase are Medicaid enrollment growth in the expansion population is at a slower pace and the Federal Financial Participation percentage continues to drop. This population, which has grown by 3% in the past year, has previously been paid for with 95% federal funds. In FY 2018 the federal match will drop to 94% on January 2018 (half of FY 2018) and again In FY 2019, the federal match steps down to 93% on January 2019. Also, the FMAP reduction from 100% to 72.13% for the CHIP population is coming. The Department in 2019 and in the coming years will continue to pursue cost containment and other revenue options to lessen the burden of Medicaid Expansion, while also ensuring healthcare quality, measuring health outcomes and managing managed care organization (MCO) performance.

Replacement of Medicaid and Child Support Information Systems

The Department is continuing to work on the plan to replace the existing Medicaid Management Information System (MMIS) to meet Centers for Medicare and Medicaid Services (CMS) requirements, and also replace the existing Child Support Enforcement System (CSES) so that it uses current technology and includes business processes that better support CSED activities. Both replacement projects are being undertaken in a coordinated effort called the Health and Human Services (HHS) 2020. The HHS 2020 framework will accommodate changing requirements, allow adoption of advancing technology and support other New Mexico HHS departments. HHS 2020 will be an outcomes-based model and will provide improved access to more extensive, quality data.

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 CFOs, Danny Sandoval or Carolee Graham, at the Administrative Services Division, New Mexico Human Services Department, P.O. Box 2348, Santa Fe, New Mexico 87504-2348.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Governmental Activities
ASSETS	
Current Assets:	
Cash	\$ 25,000
Investment in State General Fund Investment Pool	121,463,583
	121,488,583
Receivables:	
Federal Grants, Net of Allowance of \$2,122,882	136,414,526
Accounts Receivable, Net of Allowance of \$598,271	12,944,898
Due from Other State Agencies	28,176,437
Net Receivables	177,535,861
Supplies and Commodities Inventory	595,407
Total Current Assets	299,619,851
NON-CURRENT ASSETS	
Capital Assets, Net	87,767,447
Total Assets	\$ 387,387,298
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 35,789,574
Accrued Payroll	3,851,292
Healthcare Services Payable	191,253,080
Due to State General Fund	598,215
Compensated Absences	3,777,486
Other Liabilities	2,289,791
Due to Other State Agencies	6,432,769
Unearned Revenue	715,553
Due to Other Component Units of the State	1,800,981
Due to Federal Government	45,772,622
Total Liabilities	292,281,363
NET POSITION	
Net Investment in Capital Assets	87,767,447
Restricted for Special Programs	512,322
Unrestricted	6,826,166
Total Net Position	95,105,935
Total Liabilities and Net Position	\$ 387,387,298

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenue		Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants	
PRIMARY GOVERNMENT				
Governmental Activities:				
Healthcare Services	\$ 5,355,391,361	\$ 54,866,959	\$ 4,193,125,464	\$ (1,107,398,938)
Financial Assistance	861,668,891	-	850,167,923	(11,500,968)
General Government	310,621,140	4,566,756	193,309,050	(112,745,334)
Total Governmental Activities	\$ 6,527,681,392	\$ 59,433,715	\$ 5,236,602,437	(1,231,645,240)
				General Revenues and Transfers:
				State General Fund Appropriations 1,032,479,300
				Reversion of State General Fund Appropriations (17,527,803)
				Transfers In 216,686,832
				Transfers Out (5,000,000)
				Total General Revenues and Transfers 1,226,638,329
				CHANGE IN NET POSITION (5,006,911)
				Net Position - Beginning of Year 100,112,846
				NET POSITION - END OF YEAR \$ 95,105,935

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Major Funds		
	05200	97500	97600
	General Fund	Income Support N Warrants	Medical Assistance
ASSETS			
Cash	\$ -	\$ -	\$ 25,000
Investment in State General Fund			
Investment Pool	8,867,266	2,685,320	104,770,765
Federal Grants Receivable, Net	32,798,970	3,677,687	96,152,060
Accounts Receivable, Net	71,915	980	12,870,023
Due from Other State Agencies	163,505	-	28,012,932
Supplies and Commodities Inventory	74,143	521,264	-
	<u>41,975,799</u>	<u>6,885,251</u>	<u>241,830,780</u>
Total Assets	<u>\$ 41,975,799</u>	<u>\$ 6,885,251</u>	<u>\$ 241,830,780</u>
LIABILITIES			
Accounts Payable	\$ 23,230,070	\$ 2,108,309	\$ 6,287,635
Accrued Payroll	3,851,292	-	-
Healthcare Services Payable	-	-	191,253,080
Due to State General Fund	13,236	584,452	-
Other Liabilities	260,478	1,283,804	745,509
Due to Other State Agencies	5,290,815	763,472	378,482
Due to Other Component Units of the State	1,292,050	508,931	-
Due to Federal Government	2,539,418	36,090	43,166,074
Unearned Revenue	194,289	521,264	-
	<u>36,671,648</u>	<u>5,806,322</u>	<u>241,830,780</u>
Total Liabilities	<u>36,671,648</u>	<u>5,806,322</u>	<u>241,830,780</u>
FUND BALANCES			
Nonspendable - Inventory	74,143	-	-
Restricted	512,322	-	-
Committed	700,000	1,078,929	-
Assigned	4,017,686	-	-
	<u>5,304,151</u>	<u>1,078,929</u>	<u>-</u>
Total Fund Balances	<u>5,304,151</u>	<u>1,078,929</u>	<u>-</u>
	<u>\$ 41,975,799</u>	<u>\$ 6,885,251</u>	<u>\$ 241,830,780</u>
Total Liabilities and Fund Balances	<u>\$ 41,975,799</u>	<u>\$ 6,885,251</u>	<u>\$ 241,830,780</u>

See accompanying Notes to Financial Statements.

Total Non Major Funds	Total Governmental Funds
\$ -	\$ 25,000
5,140,232	121,463,583
3,785,809	136,414,526
1,980	12,944,898
-	28,176,437
-	595,407
<u>\$ 8,928,021</u>	<u>\$ 299,619,851</u>
\$ 4,163,560	\$ 35,789,574
-	3,851,292
-	191,253,080
527	598,215
-	2,289,791
-	6,432,769
-	1,800,981
31,040	45,772,622
-	715,553
<u>4,195,127</u>	<u>288,503,877</u>
-	74,143
-	512,322
4,732,894	6,511,823
-	4,017,686
<u>4,732,894</u>	<u>11,115,974</u>
<u>\$ 8,928,021</u>	<u>\$ 299,619,851</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ 11,115,974
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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	116,044,028
Accumulated Depreciation is	<u>(28,276,581)</u>
Total Capital Assets	<u>87,767,447</u>

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>(3,777,486)</u>
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Net Position of Governmental Activities (Statement of Net Position)	<u><u>\$ 95,105,935</u></u>
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**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	Major Funds		
	05200 General Fund	97500 Income Support N Warrants	97600 Medical Assistance
REVENUES			
Federal Grants	\$ 182,815,954	\$ 829,947,955	\$ 4,193,125,464
Other Revenues	3,628,942	-	54,866,959
Total Revenues	<u>186,444,896</u>	<u>829,947,955</u>	<u>4,247,992,423</u>
EXPENDITURES			
Current:			
Healthcare Services:			
Contractual Services	-	-	10,365,756
Healthcare Services:	-	-	<u>5,345,025,605</u>
Total Healthcare Services	-	-	5,355,391,361
Financial Assistance:			
Personal Services	-	78,430	-
Contractual Services	-	23,690,025	-
Financial Assistance	-	<u>817,680,468</u>	-
Total Financial Assistance	-	841,448,923	-
General Government:			
Personal Services	102,103,104	-	-
Contractual Services	125,261,836	-	-
Other Operating Costs	62,969,947	-	666,292
Total General Government	<u>290,334,887</u>	-	<u>666,292</u>
Capital Outlay	407,539	-	-
Total Expenditures	<u>290,742,426</u>	<u>841,448,923</u>	<u>5,356,057,653</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(104,297,530)	(11,500,968)	(1,108,065,230)
OTHER FINANCING SOURCES (USES)			
State General Fund Appropriations	106,619,700	12,222,514	913,637,086
Transfers In:			
Other State Agencies	759,900	-	172,526,932
Other Funds	1,116,855	-	-
Other Component Units of the State	-	-	40,600,000
Transfers Out:			
Other State Agencies	-	-	(5,000,000)
Other Funds	-	(1,116,855)	-
Reversions	(3,261,655)	(567,360)	(13,698,788)
Net Other Financing Sources	<u>105,234,800</u>	<u>10,538,299</u>	<u>1,108,065,230</u>
NET CHANGE IN FUND BALANCES	937,270	(962,669)	-
Fund Balances - Beginning	<u>4,366,881</u>	<u>2,041,598</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 5,304,151</u>	<u>\$ 1,078,929</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

Non-Major Funds	Total Governmental Funds
\$ 30,713,064	\$ 5,236,602,437
937,814	59,433,715
<u>31,650,878</u>	<u>5,296,036,152</u>
-	10,365,756
-	5,345,025,605
-	<u>5,355,391,361</u>
-	78,430
1,595,000	25,285,025
18,624,968	836,305,436
<u>20,219,968</u>	<u>861,668,891</u>
-	102,103,104
12,572,592	137,834,428
112,425	63,748,664
<u>12,685,017</u>	<u>303,686,196</u>
-	407,539
<u>32,904,985</u>	<u>6,521,153,987</u>
(1,254,107)	(1,225,117,835)
-	1,032,479,300
2,800,000	176,086,832
-	1,116,855
-	40,600,000
-	(5,000,000)
-	(1,116,855)
-	(17,527,803)
<u>2,800,000</u>	<u>1,226,638,329</u>
1,545,893	1,520,494
<u>3,187,001</u>	<u>9,595,480</u>
<u>\$ 4,732,894</u>	<u>\$ 11,115,974</u>

**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, 2017**

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ 1,520,494
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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 decrease in compensated absences for the fiscal year was:	(335,584)
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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	407,539
Depreciation Expense	(6,558,069)
Excess of Depreciation Expense Over Capital Outlay	(6,150,530)

Governmental Funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal.

Loss on disposal of assets	(41,291)
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Change in Net Position of Governmental Activities (Statement of Activities)	\$ (5,006,911)
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**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUND
JUNE 30, 2017**

	97800 Child Support Enforcement
ASSETS	
Current Assets:	
Interest in the State Treasurer General Fund Investment Pool	\$ 331,633
Other Receivables, Net of Allowance of \$1,589,864	<u>598,271</u>
Total Assets	<u><u>\$ 929,904</u></u>
LIABILITIES	
Current Liabilities:	
Deposits Held in Trust for Others	\$ 232,200
Other Liabilities	598,271
Accounts Payable	<u>99,433</u>
Total Liabilities	<u><u>\$ 929,904</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE – FUND 05200 – GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ 190,332,000	\$ 198,434,251	\$ 182,815,954	\$ (15,618,297)
Other	4,713,000	4,713,000	3,628,942	(1,084,058)
Total Revenues	195,045,000	203,147,251	186,444,896	(16,702,355)
EXPENDITURES				
Current:				
Personal Services	106,437,500	106,888,150	102,103,104	4,785,046
Contractual Services	135,455,100	137,519,817	125,261,836	12,257,981
Other Costs	61,318,300	68,022,039	63,377,486	4,644,553
Total Expenditures	303,210,900	312,430,006	290,742,426	21,687,580
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	106,619,700	106,619,700	106,619,700	-
Transfers in:				
Other State Agencies	759,900	759,900	759,900	-
Other Funds	-	1,116,855	1,116,855	-
Reversions	-	-	(3,261,655)	(3,261,655)
Total Other Financing Sources (Uses)	107,379,600	108,496,455	105,234,800	(3,261,655)
PRIOR YEAR FUND BALANCE				
BUDGETED	786,300	786,300	-	-
NET CHANGE IN FUND BALANCE	\$ -	\$ -	\$ 937,270	\$ 937,270

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE – FUND 97500 – INCOME SUPPORT N WARRANTS
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Grants	\$ 850,872,000	\$ 853,371,063	\$ 829,947,955	\$ (23,423,108)
Total Revenues	850,872,000	853,371,063	829,947,955	(23,423,108)
EXPENDITURES				
Current:				
Personal Services	2,000,000	200,000	78,430	121,570
Contractual Services	28,327,700	30,127,700	23,690,025	6,437,675
Other Costs	833,664,744	836,163,807	817,680,468	18,483,339
Total Expenditures	863,992,444	866,491,507	841,448,923	25,042,584
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	12,195,700	12,195,700	12,222,514	26,814
Transfers out:				
Other Funds	-	(1,116,855)	(1,116,855)	-
Reversions	-	-	(567,360)	(567,360)
Total Other Financing Sources (Uses)	12,195,700	11,078,845	10,538,299	(540,546)
PRIOR YEAR FUND BALANCE				
BUDGETED	924,744	2,041,599	-	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (962,669)</u>	<u>\$ (962,669)</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE – FUND 97600 – MEDICAL ASSISTANCE
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Grants	\$ 4,560,204,700	\$ 4,577,010,600	\$ 4,193,125,464	\$ (383,885,136)
Other	52,398,000	52,398,000	54,866,959	2,468,959
Total Revenues	<u>4,612,602,700</u>	<u>4,629,408,600</u>	<u>4,247,992,423</u>	<u>(381,416,177)</u>
EXPENDITURES				
Current:				
Contractual Services	8,965,600	11,461,960	10,365,756	1,096,204
Other Costs	5,733,887,513	5,748,197,053	5,345,691,897	402,505,156
Total Expenditures	<u>5,742,853,113</u>	<u>5,759,659,013</u>	<u>5,356,057,653</u>	<u>403,601,360</u>
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	913,663,900	913,663,900	913,637,086	(26,814)
Transfers in:				
Other State Agencies	173,579,513	173,579,513	172,526,932	(1,052,581)
Other Component Units of the State	43,007,000	43,007,000	40,600,000	(2,407,000)
Transfers out:				
Other State Agencies	-	-	(5,000,000)	(5,000,000)
Reversions	-	-	(13,698,788)	(13,698,788)
Total Other Financing Sources (Uses)	<u>1,130,250,413</u>	<u>1,130,250,413</u>	<u>1,108,065,230</u>	<u>(22,185,183)</u>
PRIOR YEAR FUND BALANCE				
BUDGETED	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 the GASB codification, 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, 2017, federal revenue represented 80% of the Department's total revenue and other financing sources.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 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 nonfiduciary activities of the Department.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. The functions of the Department have been defined as healthcare services, financial assistance, and general government. Healthcare services consist 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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Department-Wide and Fund Financial Statements (Continued)

Governmental Funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria:

Ten percent criterion – An individual fund reports at least ten percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total government fund expenditures.

Five percent criterion – An individual fund reports at least five percent of the total for the governmental funds of any of the items for which it has met the ten percent criterion.

The Department's major governmental funds are as follows:

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 (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.

Fund Accounting

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

Governmental Funds are used to account for most of the Department's general activities, including the collection and disbursement of 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.

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

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.

Special Revenue 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. The Department did not receive funding from severance tax bonds during 2017.

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 (Traumatic Brain Injury) (Laws of 2013, Chapter 44) (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. Unexpended state appropriations in fund 20520 revert back to the State General Fund for reappropriation when the appropriation period expires.

Fiduciary Funds are 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.

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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

The Department estimates that noncustodial parents owe custodial parents a significant amount of past due support. An allowance for doubtful accounts has been recorded equal to the full amount owed by the noncustodial parents that the Department estimates will be uncollectible. 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.

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.

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 six-month availability period is used for federal revenue recognition. A 60-day availability period is used for revenue recognition for all other 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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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 unearned 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 \$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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Pensions

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

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

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 nonliquid, 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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

Restricted – Restricted net position is 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 net position that does not have third-party limitations on its 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, 2017.

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 qualified for reporting in this category as of June 30, 2017.

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).

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Healthcare Services Payable (Continued)

Management develops these estimates using actuarial methods based upon historical data for payment patterns, cost trends, utilization of healthcare services, and other relevant factors. When estimates change, the Department records the adjustment in healthcare services expense in the period the change in estimate occurs. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts recorded. While the ultimate amount of claims and the related payments are dependent on future developments, the Department believes that the reserves for claims are adequate to cover such claims and expenditures.

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.

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.

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

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

The State Controller indicated on August 11, 2017 that resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP and that all claims will be honored at face value.

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the board'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.

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.

NOTE 4 CASH AND 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, 2017, the Department had the following invested in/due to the State General Fund Investment Pool:

	Fund	Department Balances
Interest in the State General Fund Investment Pool:		
General Fund	05200	\$ 8,867,266
Traumatic Brain Injury	20520	545,328
Data Processing Appropriations	90100	4,505,909
Income support - L Warrants	97400	88,995
Income Support - N Warrants	97500	2,685,320
Medical Assistance	97600	<u>104,770,765</u>
Total Governmental Funds		121,463,583
Child Support Enforcement - K Warrants	97800	<u>331,633</u>
Total		<u><u>\$ 121,795,216</u></u>
Other Cash Balances:		
Wells Fargo Bank	97600	<u>\$ 25,000</u>
Total Other Cash Balances		<u><u>\$ 25,000</u></u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 4 CASH AND 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, 2017.

Custodial Credit Risk

The Department's cash balance of \$25,000 is fully insured by the Federal Deposit Insurance Corporation.

NOTE 5 CAPITAL ASSETS

Governmental Activities

The current year depreciation expense of \$6,558,069 was allocated entirely to the general government function in the government-wide statement of activities.

	June 30, 2016	Additions	Deletions	June 30, 2017
Capital Assets:				
Automobiles	\$ 1,199,810	\$ -	\$ -	\$ 1,199,810
Equipment and Machinery	993,073	-	(79,132)	913,941
Data Processing Equipment	114,059,822	407,539	(689,600)	113,777,761
Furniture and Fixtures	152,516	-	-	152,516
Total Capital Assets	<u>116,405,221</u>	<u>407,539</u>	<u>(768,732)</u>	<u>116,044,028</u>
Accumulated Depreciation:				
Automobiles	(393,121)	(94,120)	-	(487,241)
Equipment and Machinery	(868,165)	(16,260)	79,132	(805,293)
Data Processing Equipment	(21,084,952)	(6,447,689)	648,309	(26,884,332)
Furniture and Fixtures	(99,715)	-	-	(99,715)
Total Accumulated Depreciation	<u>(22,445,953)</u>	<u>(6,558,069)</u>	<u>727,441</u>	<u>(28,276,581)</u>
Total Capital Assets	<u>\$ 93,959,268</u>	<u>\$ (6,150,530)</u>	<u>\$ (41,291)</u>	<u>\$ 87,767,447</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 ACCRUED COMPENSATED ABSENCES

Accrued compensated absences consist of the following:

	June 30, 2016	Additions	Deletions	June 30, 2017
Total Compensated Absences	\$ 3,441,902	\$ 4,238,387	\$ (3,902,803)	\$ 3,777,486

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 fiscal years ending between July 1, 2016 and June 30, 2017 were 60.45% complete by June 30, 2017. 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 the GASB codification, 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.

During July of 2016, the Department was held in contempt of court for failure to meet certain deadlines related to a settlement agreement stemming from a case in 1990 involving issues with the application process for income support. A federal judge has issued multiple orders relating to this case, and has appointed a Special Master to oversee the process beginning in November of 2016 and ending in January of 2018. The outcome of this process cannot be determined.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

In fiscal year 2012, the Department of Health and Human Services (HHS) issued audit reports covering personal care service claims submitted by five organizations with respect to 100 reviewed claims for each provider, selected on a random basis. The results of these audits contained alleged overpayment of federal funds. The Department is currently working with HHS to settle this matter, and the outcome is not determined.

On July 22, 2015 HHS notified the Department that a review of certain records indicated that unallowable bonus payments were made related to the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA). HHS has taken no formal action against the Department at this time, and therefore the outcome is not able to be determined.

As of June 30, 2016 there are 12 cases pending in state court involving claims by behavioral health providers seeking remedy for breach of contract. The Department has moved to dismiss the cases, and a favorable or unfavorable outcome is not determined.

In May 2015, HSD was served for violations of the NM Whistleblower Act. Case resolved with substantial award against HSD. The Department has appealed the decision and a favorable or unfavorable outcome is not able to be determined.

There is an on-going federal investigation concerning the Supplemental Nutrition Assistance Program (SNAP) specifically related to possible false modifications to applications that effected the timing of benefit, or possible decline of benefits paid to participants.

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, New Mexico 87504-2123. The report is also available on PERA's website at <http://www.pera.state.nm.us>.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (CONTINUED)

Funding Policy

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's contributions to PERA for the years ended June 30, 2017, 2016, and 2015 were \$11,808,338, \$12,385,434, and \$11,999,761, respectively, equal to the amount of the required contributions for each fiscal year.

NOTE 10 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA 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 postemployment 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 on a subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 10 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy (Continued)

their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us. The employer, employee, and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During fiscal year 2014, 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, 2017, 2016 and 2015 were \$1,390,023, \$1,457,956, and \$1,471,785, respectively, which equal the amount of required contributions for each fiscal year.

NOTE 11 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:

Year Ending December 31,	Amount
2018	\$ 14,239,236
2019	9,832,379
2020	9,182,606
2021	9,194,902
2022	8,351,389
2023-2027	10,153,020
2028-2032	286,772
Total	\$ 61,240,304

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 LEASE COMMITMENTS (CONTINUED)

Total rent expense for office space and equipment for the fiscal year ended June 30, 2017 was as follows:

Office Space		\$ 17,296,997
Equipment		928,747
Total		\$ 18,225,744

NOTE 12 REVERSIONS 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. The Department accrued \$567,360 reversions specifically related to fiscal year ending June 30, 2017. The amount to be reverted to the State General Fund for the stale-dated warrants may be less than shown due to federal participation. The reversion payable by fund, program and appropriation period were as follows:

Current Fiscal Year:			
Fund 052	General Fund P523	Fiscal Year 2017	\$ 954
Fund 052	General Fund P524	Fiscal Year 2017	897,851
Fund 052	General Fund P525	Fiscal Year 2017	1,801,103
Fund 052	General Fund P767	Fiscal Year 2017	328,841
Fund 975	Income Support	Fiscal Year 2017	567,360
Fund 976	Medical Assistance P524	Fiscal Year 2017	8,188,163
Fund 976	Medical Assistance P766	Fiscal Year 2017	5,510,625
			17,294,897
Prior Fiscal Years:			
Fund 052	General Fund P525	Fiscal Year 2016	232,906
			\$ 17,527,803

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 TRANSFERS IN AND TRANSFERS OUT

State Agency/Fund	Business Unit	SHARE Fund No.	Purpose
Transfers In:			
Transfers from Other State Agencies:			
Department of Health	66500	06100	CCIC
Department of Health	66500	40170	Early Intervention
Department of Health	66500	40170	FQHCS
Dept. of Finance & Administration	34100	02100	County Supported Medicaid Fund (Admin)
Dept. of Finance & Administration	34100	69700	Tobacco Settlement
Dept. of Finance & Administration	34100	89000	MMIS
Total Transfers from Other State Agencies			
Transfers from Other Component Units of the State:			
University of New Mexico			UPL
Interfund Transfers:			
Human Services Department	63000	05200	
Total Transfers In			
General Fund Appropriations:			
Dept. of Finance & Administration	34101	85300	Regular Appropriation
Dept. of Finance & Administration	34101	85300	Special Appropriations
Total Transfers from the State General Fund			
Transfers Out:			
Transfers to Other State Agencies:			
Dept. of Finance & Administration	34100	00900	Computer Enhancement Transfer
Interfund Transfers:			
Human Services Department	63000	97600	
Total Transfers Out			

General Fund (05200)	Income Support (97500)	Medical Assistance (97600)	Data Processing Appropriations (90100)	Total
\$ -	\$ -	\$ 105,227,353	\$ -	\$ 105,227,353
-	-	7,632,389	-	7,632,389
-	-	901,124	-	901,124
759,900	-	31,446,766	-	32,206,666
-	-	27,319,300	-	27,319,300
-	-	-	2,800,000	2,800,000
<u>759,900</u>	<u>-</u>	<u>172,526,932</u>	<u>2,800,000</u>	<u>176,086,832</u>
-	-	40,600,000	-	40,600,000
<u>1,116,855</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,116,855</u>
<u>\$ 1,876,755</u>	<u>\$ -</u>	<u>\$ 213,126,932</u>	<u>\$ 2,800,000</u>	<u>\$ 217,803,687</u>
\$ 105,919,700	\$ 12,222,514	\$ 913,637,086	\$ -	\$ 1,031,779,300
700,000	-	-	-	700,000
<u>\$ 106,619,700</u>	<u>\$ 12,222,514</u>	<u>\$ 913,637,086</u>	<u>\$ -</u>	<u>\$ 1,032,479,300</u>
\$ -	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
-	<u>1,116,855</u>	-	-	<u>1,116,855</u>
<u>\$ -</u>	<u>\$ 1,116,855</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ 6,116,855</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 DUE TO/FROM OTHER STATE AGENCIES

State Agency	Business Unit	Purpose
Due to Other State Agencies:		
Children, Youth and Families Department	69000	Medicaid and TANF Services
Department of Education	92400	TANF Services
Aging and Long-Term Services Department	62400	Medicaid and TANF Services
DD Planning Council	64700	Determine Disability Eligibility
Department of Health	66500	Medicaid and TANF Services
Department of Workforce Solutions	63100	Support Services
Department of Transportation	80500	Payroll Liability
1st District Court	23100	Hearing Officer and Court Proceedings
2nd District Court	23200	Hearing Officer and Court Proceedings
3rd District Court	23300	Hearing Officer and Court Proceedings
7th District Court	23700	Hearing Officer and Court Proceedings
9th District Court	23900	Hearing Officer and Court Proceedings
11th District Court	24100	Hearing Officer and Court Proceedings
13th District Court	24300	Hearing Officer and Court Proceedings
Due from Other State Agencies:		
Tax and Revenue Department	33300	Traumatic Brain Injury Fund
Department of Finance & Administration	34100	County Supported Medicaid Funds
Department of Health	66500	CCIC
Department of Health	66500	CMS
Department of Health	66500	Early Intervention
Department of Health	66500	RAC-Long Term Care
NM Veterans' Commission	67000	Reimbursement for Shared Facilities

General Fund	Income Support N Warrants	Medical Assistance	Total
\$ (410,000)	\$ (311,733)	\$ -	\$ (721,733)
(4,971)	-	-	(4,971)
(70,083)	-	-	(70,083)
(123,783)	-	-	(123,783)
(4,360,264)	(286,491)	(378,482)	(5,025,237)
-	(165,248)	-	(165,248)
(242)	-	-	(242)
(26,342)	-	-	(26,342)
(126,852)	-	-	(126,852)
(51,293)	-	-	(51,293)
(11,307)	-	-	(11,307)
(74,097)	-	-	(74,097)
(25,900)	-	-	(25,900)
(5,681)	-	-	(5,681)
<u>\$ (5,290,815)</u>	<u>\$ (763,472)</u>	<u>\$ (378,482)</u>	<u>\$ (6,432,769)</u>
\$ 6,472	\$ -	\$ -	\$ 6,472
155,561	-	11,379,532	11,535,093
-	-	15,625,595	15,625,595
-	-	91,611	91,611
-	-	696,063	696,063
-	-	220,131	220,131
1,472	-	-	1,472
<u>\$ 163,505</u>	<u>\$ -</u>	<u>\$ 28,012,932</u>	<u>\$ 28,176,437</u>

STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 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 2017 fiscal year, the Department paid Risk Management \$\$1,457,724 in insurance premiums. The Department's loss exposure is limited to \$2,500 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, 2017, 2016, and 2015, the Department had no claims for which the Risk Management Division has returned as "not covered" that would become the responsibility of the Department, with one exception.

NOTE 16 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.

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.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 FUND BALANCE (CONTINUED)

A summary of the nature and purpose of fund balance reserves by fund type at June 30, 2017 is as follows:

	Non- Spendable	Restricted Purposes	Committed Purposes	Assigned Purposes
General Fund (Fund 05200):				
Inventory	\$ 74,143	\$ -	\$ -	\$ -
DASIS Funding - Behavioral Health	-	512,322	-	-
DHG Special Appropriation <i>(Laws of 2017, Chapter 135, Section 18)</i>	-	-	700,000	-
SNAP Bonus	-	-	-	1,116,855
Child Support Incentives	-	-	-	2,900,831
Total	<u>\$ 74,143</u>	<u>\$ 512,322</u>	<u>\$ 700,000</u>	<u>\$ 4,017,686</u>
Traumatic Brain Injury (Fund 20520):				
Brain Injury Service Funds	\$ -	\$ -	\$ 401,599	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 401,599</u>	<u>\$ -</u>
Data Processing Appropriations (Fund 90100):				
Child Support Enforcement Replacement System <i>(Laws of 2015, Chapter 101, Section 7 & Laws of 2017, Chapter 135, Section 7)</i>	\$ -	\$ -	\$ 2,299,744	\$ -
Medicaid Management Information Replacement System <i>(Laws of 2015, Chapter 101, Section 7)</i>	-	-	2,031,550	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,331,294</u>	<u>\$ -</u>
Income Support - N Warrants (Fund 97500)				
SSIR <i>(Laws of 2011, Section 5, Chapter 179, Item 17)</i>	\$ -	\$ -	\$ 1,078,929	\$ -
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,078,929</u>	<u>\$ -</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE – PROGRAM SUPPORT PROGRAM – P 522 –
 GENERAL APPROPRIATIONS
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Grants	\$ 37,766,500	\$ 38,404,400	\$ 36,407,109	\$ (1,997,291)
Other	-	-	747,705	747,705
Total Revenues	37,766,500	38,404,400	37,154,814	(1,249,586)
EXPENDITURES				
Current:				
Personal Services	18,791,600	18,111,600	17,876,012	235,588
Contractual Services	20,053,800	18,953,800	18,685,893	267,907
Other Costs	14,633,600	17,051,500	16,285,975	765,525
Total Expenditures	53,479,000	54,116,900	52,847,880	1,269,020
OTHER FINANCING SOURCES				
State General Fund Appropriations	15,712,500	15,712,500	15,712,500	-
Total Other Financing Sources	15,712,500	15,712,500	15,712,500	-
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,434</u>	<u>\$ 19,434</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE – CHILD SUPPORT PROGRAM – P 523 –
 GENERAL APPROPRIATIONS
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ 19,800,700	\$ 19,800,700	\$ 20,155,472	\$ 354,772
Other	3,101,500	3,101,500	2,285,627	(815,873)
Total Revenues	<u>22,902,200</u>	<u>22,902,200</u>	<u>22,441,099</u>	<u>(461,101)</u>
EXPENDITURES				
Current:				
Personal Services	19,256,500	19,061,500	18,856,327	205,173
Contractual Services	6,640,000	7,030,000	6,852,907	177,093
Other Costs	5,073,700	4,878,700	4,799,327	79,373
Total Expenditures	<u>30,970,200</u>	<u>30,970,200</u>	<u>30,508,561</u>	<u>461,639</u>
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	7,281,700	7,281,700	7,281,700	-
Reversions	-	-	(954)	(954)
Total Other Financing Sources (Uses)	<u>7,281,700</u>	<u>7,281,700</u>	<u>7,280,746</u>	<u>(954)</u>
PRIOR YEAR FUND BALANCE				
BUDGETED	<u>786,300</u>	<u>786,300</u>	<u>-</u>	<u>-</u>
REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (786,716)</u>	<u>\$ (786,716)</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE – MEDICAL ASSISTANCE PROGRAM – P 524 –
 GENERAL APPROPRIATIONS
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Grants	\$ 4,222,533,600	\$ 4,241,709,500	\$ 3,855,026,738	\$ (386,682,762)
Other	54,053,300	54,534,000	56,016,465	1,482,465
Total Revenues	<u>4,276,586,900</u>	<u>4,296,243,500</u>	<u>3,911,043,203</u>	<u>(385,200,297)</u>
EXPENDITURES				
Current:				
Personal Services	12,643,100	12,643,100	11,980,077	663,023
Contractual Services	57,131,600	60,108,660	50,923,279	9,185,381
Other Costs	5,244,461,800	5,261,141,340	4,868,207,279	392,934,061
Total Expenditures	<u>5,314,236,500</u>	<u>5,333,893,100</u>	<u>4,931,110,635</u>	<u>402,782,465</u>
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	821,145,300	821,145,300	821,145,300	-
Transfers in:				
Other State Agencies	173,497,300	173,497,300	172,444,719	(1,052,581)
Other Component Units of the State	43,007,000	43,007,000	40,600,000	(2,407,000)
Transfers out:				
Other State Agencies	-	-	(5,000,000)	(5,000,000)
Reversions	-	-	(9,086,016)	(9,086,016)
Total Other Financing Sources (Uses)	<u>1,037,649,600</u>	<u>1,037,649,600</u>	<u>1,020,104,003</u>	<u>(838,690,897)</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,571</u>	<u>\$ 36,571</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE – INCOME SUPPORT PROGRAM – P 525 –
 GENERAL APPROPRIATIONS
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ 917,610,700	\$ 928,936,385	\$ 900,426,882	\$ (28,509,503)
Other	695,500	695,500	369,926	(325,574)
Total Revenues	918,306,200	929,631,885	900,796,808	(28,835,077)
EXPENDITURES				
Current:				
Personal Services	55,895,700	54,195,700	50,818,610	3,377,090
Contractual Services	35,902,500	42,397,500	32,969,035	9,428,465
Other Costs	869,476,300	877,123,840	856,297,165	20,826,675
Total Expenditures	961,274,500	973,717,040	940,084,810	33,632,230
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	42,968,300	42,968,300	42,968,300	-
Reversions	-	-	(2,601,368)	(2,601,368)
Total Other Financing Sources (Uses)	42,968,300	42,968,300	40,366,932	(2,601,368)
PRIOR YEAR FUND BALANCE				
BUDGETED	-	1,116,855	-	-
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,078,930</u>	<u>\$ 1,078,930</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE – MEDICAID BEHAVIORAL HEALTH PROGRAM – P 766
 – GENERAL APPROPRIATIONS
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ 400,694,800	\$ 400,694,800	\$ 394,217,725	\$ (6,477,075)
Total Revenues	400,694,800	400,694,800	394,217,725	(6,477,075)
EXPENDITURES				
Current:				
Other Costs	508,182,700	508,182,700	496,195,000	11,987,700
Total Expenditures	508,182,700	508,182,700	496,195,000	11,987,700
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	107,487,900	107,487,900	107,487,900	-
Reversions	-	-	(5,510,625)	(5,510,625)
Total Other Financing Sources (Uses)	107,487,900	107,487,900	101,977,275	(5,510,625)
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ -	\$ -	\$ -

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE – BEHAVIORAL HEALTH SERVICES PROGRAM –
 P 767 – GENERAL APPROPRIATIONS
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ 19,409,600	\$ 22,129,729	\$ 19,875,809	\$ (2,253,920)
Other	-	-		-
Total Revenues	19,409,600	22,129,729	19,875,809	(2,253,920)
EXPENDITURES				
Current:				
Personal Services	1,850,600	3,076,250	2,433,108	643,142
Contractual Services	52,492,000	54,166,717	52,382,745	1,783,972
Other Costs	2,250,600	2,070,362	1,809,616	260,746
Total Expenditures	56,593,200	59,313,329	56,625,469	2,687,860
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	37,183,600	37,183,600	37,183,600	-
Reversions	-	-	(328,841)	(328,841)
Total Other Financing Sources (Uses)	37,183,600	37,183,600	36,854,759	(328,841)
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,099</u>	<u>\$ 105,099</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE – INCOME SUPPORT Z-CODES
 YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES				
Current:				
Other Costs	924,744	924,744	924,744	-
Total Expenditures	924,744	924,744	924,744	-
PRIOR YEAR FUND BALANCE BUDGETED	924,744	924,744	-	-
REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (924,744)</u>	<u>\$ -</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE – DATA PROCESSING Z-CODES
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ 25,200,000	\$ 25,200,000	\$ 10,493,095	\$ (14,706,905)
Other	-	-	-	-
Total Revenues	25,200,000	25,200,000	10,493,095	(14,706,905)
EXPENDITURES				
Current:				
Personal Services	1,430,740	2,630,740	-	2,630,740
Contractual Services	26,387,675	26,401,675	11,671,350	14,730,325
Other Costs	181,585	167,585	112,425	55,160
Total Expenditures	28,000,000	29,200,000	11,783,775	17,416,225
OTHER FINANCING SOURCES				
Transfers in:				
Other State Agencies	2,800,000	2,800,000	2,800,000	-
Total Other Financing Sources	2,800,000	2,800,000	2,800,000	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ (1,200,000)	\$ 1,509,320	\$ 309,320

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE – MEDICAL ASSISTANCE Z-CODES
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total Revenues	-	-	-	-
EXPENDITURES				
Current:				
Other Costs	842,113	842,113	842,113	-
Total Expenditures	842,113	842,113	842,113	-
OTHER FINANCING SOURCES				
Transfers in:				
Other State Agencies	842,113	842,113	842,113	-
Total Other Financing Sources	842,113	842,113	842,113	-
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND Z-CODES
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal Grants	\$ 567,800	\$ 567,800	\$ -	\$ (567,800)
Total Revenues	567,800	567,800	-	(567,800)
EXPENDITURES				
Current:				
Personal Services	-	-	217,400	(217,400)
Contractual Services	1,267,800	1,267,800	-	1,267,800
Total Expenditures	1,267,800	1,267,800	217,400	1,050,400
OTHER FINANCING SOURCES				
State General Fund Appropriations	700,000	700,000	700,000	-
Total Other Financing Sources	700,000	700,000	700,000	-
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ -	\$ 482,600	\$ 482,600

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
COMBINING BALANCE SHEET – GOVERNMENTAL NONMAJOR FUNDS
JUNE 30, 2017**

	20520 Traumatic Brain Injury	89200 Severance Tax Bond Proceeds	90100 Data Processing Appropriations
ASSETS			
Cash	\$ -	\$ -	\$ -
Investment in State General Fund			
Investment Pool	545,328	-	4,505,909
Federal Grants Receivable, Net	-	-	3,200,602
Accounts Receivable, Net	1,980	-	-
Due from Other State Agencies	-	-	-
Supplies and Commodities Inventory	-	-	-
	<u>547,308</u>	<u>-</u>	<u>7,706,511</u>
Total Assets	<u>\$ 547,308</u>	<u>\$ -</u>	<u>\$ 7,706,511</u>
LIABILITIES			
Accounts Payable	\$ 145,709	\$ -	\$ 3,374,614
Accrued Payroll	-	-	-
Healthcare Services Payable	-	-	-
Due to State General Fund	-	-	527
Other Liabilities	-	-	-
Due to Other State Agencies	-	-	-
Due to Other Component Units of the State	-	-	-
Due to Federal Government	-	-	75
Unearned Revenue	-	-	-
	<u>145,709</u>	<u>-</u>	<u>3,375,216</u>
Total Liabilities	<u>145,709</u>	<u>-</u>	<u>3,375,216</u>
FUND BALANCES			
Nonspendable - Inventory	-	-	-
Restricted	-	-	-
Committed	401,599	-	4,331,295
Assigned	-	-	-
	<u>401,599</u>	<u>-</u>	<u>4,331,295</u>
Total Fund Balances	<u>401,599</u>	<u>-</u>	<u>4,331,295</u>
	<u>\$ 547,308</u>	<u>\$ -</u>	<u>\$ 7,706,511</u>
Total Liabilities and Fund Balances	<u>\$ 547,308</u>	<u>\$ -</u>	<u>\$ 7,706,511</u>

See accompanying Notes to Financial Statements.

97400 Income Support L Warrants	Total NonMajor Funds
\$ -	\$ -
88,995	5,140,232
585,207	3,785,809
-	1,980
-	-
-	-
<u>\$ 674,202</u>	<u>\$ 8,928,021</u>
\$ 643,237	\$ 4,163,560
-	-
-	-
-	527
-	-
-	-
-	-
30,965	31,040
-	-
<u>674,202</u>	<u>4,195,127</u>
-	-
-	-
-	4,732,894
-	-
<u>-</u>	<u>4,732,894</u>
<u>\$ 674,202</u>	<u>\$ 8,928,021</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL NONMAJOR FUNDS
YEAR ENDED JUNE 30, 2017**

	20520 Traumatic Brain Injury	89200 Severance Tax Bond Proceeds	90100 Data Processing Appropriations
REVENUES			
Federal Grants	\$ -	\$ -	\$ 10,493,096
Other Revenues	937,814	-	-
Total Revenues	<u>937,814</u>	<u>-</u>	<u>10,493,096</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	-	-	-
Total Financial Assistance	<u>-</u>	<u>-</u>	<u>-</u>
General Government:			
Personal Services	-	-	-
Contractual Services	901,242	-	11,671,350
Other Operating Costs	-	-	112,425
Total General Government	<u>901,242</u>	<u>-</u>	<u>11,783,775</u>
Capital Outlay	-	-	-
Total Expenditures	<u>901,242</u>	<u>-</u>	<u>11,783,775</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	36,572	-	(1,290,679)
OTHER FINANCING SOURCES (USES)			
State General Fund Appropriations	-	-	-
Transfers In:			
Other State Agencies	-	-	2,800,000
Other Funds	-	-	-
Other Component Units of the State	-	-	-
Transfers Out:			
Other State Agencies	-	-	-
Other Funds	-	-	-
Reversions	-	-	-
Net Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>2,800,000</u>
NET CHANGE IN FUND BALANCES	36,572	-	1,509,321
Fund Balances - Beginning	365,027	-	2,821,974
FUND BALANCES - ENDING	<u>\$ 401,599</u>	<u>\$ -</u>	<u>\$ 4,331,295</u>

See accompanying Notes to Financial Statements.

97400 Income Support L Warrants	Total Non Major Funds
\$ 20,219,968	\$ 30,713,064
-	937,814
<u>20,219,968</u>	<u>31,650,878</u>
-	-
-	-
-	-
-	-
1,595,000	1,595,000
18,624,968	18,624,968
<u>20,219,968</u>	<u>20,219,968</u>
-	-
-	12,572,592
-	112,425
<u>-</u>	<u>12,685,017</u>
-	-
<u>20,219,968</u>	<u>32,904,985</u>
-	(1,254,107)
-	-
-	2,800,000
-	-
-	-
-	-
-	-
<u>-</u>	<u>2,800,000</u>
-	1,545,893
<u>-</u>	<u>3,187,001</u>
<u>\$ -</u>	<u>\$ 4,732,894</u>

**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, 2017**

	June 30, 2016	Additions	Deletions	June 30, 2017
ASSETS				
Interest in the State Treasurer				
General Fund Investment Pool	\$ 329,856	\$ 140,827,648	\$(140,825,871)	\$ 331,633
Other Receivables, Net	597,354	-	917	598,271
Due from other Funds	173,800	-	(173,800)	-
Due from other Agencies	9,207	-	(9,207)	-
	<u>1,110,217</u>	<u>140,827,648</u>	<u>\$(141,007,961)</u>	<u>929,904</u>
Total Assets	<u>\$ 1,110,217</u>	<u>\$ 140,827,648</u>	<u>\$(141,007,961)</u>	<u>\$ 929,904</u>
LIABILITIES				
Deposits Held in Trust for Others	\$ 512,863	\$ 140,644,641	\$(140,925,304)	\$ 232,200
Other Liabilities	597,354	917	-	598,271
Due to Other Agencies	-	99,433	-	99,433
	<u>-</u>	<u>99,433</u>	<u>-</u>	<u>99,433</u>
Total Liabilities	<u>\$ 1,110,217</u>	<u>\$ 140,744,991</u>	<u>\$(140,925,304)</u>	<u>\$ 929,904</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF JOINT POWERS AGREEMENTS
YEAR ENDED JUNE 30, 2017**

Name/ Responsible Party	Program Description	Contract #	Date of Agreement		Fiscal Agent/ Audit Responsibility	Contract Amount	FY17 Contract Amount	Expended Amount
			Beginning	Ending				
CYFD	Case Management - Protective Services	JPA 95-17 A1	6/18/1994	UT	HSD	\$ 5,451,995	\$ 1,557,200	\$ 841,593
Department of Health	EPSDT	JPA 95-29	7/1/1995	UT	HSD	475,000.00	475,000.00	475,090.00
Department of Health	Nurse Aide Training	JPA 96-22 A2	2/8/1996	UT	HSD	1,700,000.00	1,700,000.00	1,700,000.00
Department of Health	Coordinate Services for Medicaid Eligible Families	JPA 96-32	7/1/1994	UT	HSD	500,000.00	500,000.00	335,739.00
Department of Health	Home and Community Based Waivers	JPA 11-630-8000-0003 A4	7/1/2010	UT	HSD	9,160,149.00	9,160,149.00	9,160,149.00
Department of Health	Administrative Funds for Medicaid Assistance Clients	JPA 11-630-8000-0008 A1	7/1/2010	UT	HSD	245,000.00	245,000.00	245,000.00
CSED/Navajo Nation	To Manage Navajo Nation's CSE cases	JPA 16-630-7101-0019	12/11/2015	12/10/2020	HSD	591,267.00	-	-

UT - Until Terminated

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF SPECIAL APPROPRIATIONS
YEAR ENDED JUNE 30, 2017**

Description	Purpose	Appropriation Period	Original Appropriation	Prior Years' Expenditures (Unaudited)	Current Year Expenditures FY17	Amount to be Reverted	Unencumbered Appropriations
FUND 052 - GENERAL FUND							
APPROPRIATIONS							
BHSD	Laws 2016 Chapter 11 Section 5 Item 8 BHSD Expansion staff	July 2016 to June 2018	\$ 217,400	\$ -	\$ -	\$ -	\$ 217,400
BHSD	Laws 2017 Chapter 135 Section 5 Item 18 Attorney fees, special master and other costs associated with Deborah Hatten- Gonzales lawsuit	July 2016 to June 2018	<u>1,223,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,223,600</u>
Fund 052 total			<u><u>\$ 1,441,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,441,000</u></u>
FUND 901 - DATA PROCESSING							
APPROPRIATIONS							
CSED	Laws of 2015, Chapter 101, Section 7 For the planning phase to enhance or replace the current child support enforcement system	July 2014 to June 2018	\$ 3,400,000	\$ 1,100,257	\$ -	\$ -	\$ 2,299,743
CSED	Laws of 2015, Chapter 101, Section 7 To redevelop and replace the Medicaid Management information system	July 2014 to June 2017	6,200,000	2,394,508	3,805,492	-	-
CSED	Laws of 2015, Chapter 101, Section 7 To redevelop and replace the Medicaid Management information system	July 2016 to June 2018	<u>28,000,000</u>	<u>-</u>	<u>7,841,324</u>	<u>-</u>	<u>20,158,676</u>
Fund 901 total			<u><u>\$ 37,600,000</u></u>	<u><u>\$ 3,494,765</u></u>	<u><u>\$ 11,646,816</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,458,419</u></u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF SPECIAL APPROPRIATIONS
YEAR ENDED JUNE 30, 2017**

Description	Purpose	Appropriation Period	Original Appropriation	Prior Years' Expenditures (Unaudited)	Current Year Expenditures FY17	Amount to be Reverted	Unencumbered Appropriations
FUND 975 - INCOME SUPPORT							
APPROPRIATIONS							
SSIAR	Laws of 2016 2SS Chapter 11 Section 005 SSIAR (Social Security Interim Assistance Reimbursement)	July 2016 to June 2017	\$ 924,744	\$ -	\$ 924,744	\$ -	\$ -
Fund 975 total			<u>\$ 924,744</u>	<u>\$ -</u>	<u>\$ 924,744</u>	<u>\$ -</u>	<u>\$ -</u>
FUND 976 - MEDICAL ASSISTANCE							
APPROPRIATIONS							
Medicaid	Laws of 2015, Chapter 101, Section 5 To costs associated with increase in Medicaid enrollment	July 2016 to June 2017	\$ 842,113	\$ -	\$ 842,113	\$ -	\$ -
Fund 976 total			<u>\$ 842,113</u>	<u>\$ -</u>	<u>\$ 842,113</u>	<u>\$ -</u>	<u>\$ -</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Grantor Pass-Through Grantor Number	Amounts Passed Through To Subrecipients	Federal Participating Expenditures
Department of Agriculture (USDA) Direct Programs				
Food and Nutrition Services				
Commodities Assurance (SAE)	10.560	12-35-3501	\$ -	\$ 710,326
Food Distribution Cluster:				
Emergency Food Assistance Program (Food Commodities)	10.569	None	691,486	5,350,746
Emergency Food Assistance Program (Administrative Costs)	10.568	XNM810813	-	825,473
Commodity Supplemental Food Program	10.565	74Y8005	-	1,159,720
Commodity Supplemental Food Program	10.565	None	-	3,078,039
Subtotal for CFDA 10.565			<u>-</u>	<u>4,237,759</u>
Total Food Distribution Cluster			691,486	10,413,978
National School Lunch Program	10.555	none	-	11,134,049
Total Food and Nutrition Services			<u>691,486</u>	<u>22,258,353</u>
Supplemental Nutritional Assistance Program (SNAP) Cluster:				
SNAP & EBT Distribution	10.551	58-3189-8-104	-	681,290,292
Administration and SAVE	10.561	12-35-3501	-	20,676,139
SNAP Employment/Training Grant	10.561	12-35-3501	-	7,577
SNAP State Exchange	10.561	12-35-3501	-	13,238
SNAP Nutrition Education	10.561	12-35-3501	3,442,600	3,729,548
Subtotal for CFDA 10.561			<u>3,442,600</u>	<u>24,426,502</u>
Total Supplemental Nutritional Assistance Program (SNAP) Cluster			3,442,600	705,716,794
Total USDA			<u><u>4,134,086</u></u>	<u><u>727,975,147</u></u>
Department of Health and Human Services (DHHS)				
Family Support Administration Direct Programs:				
Administration of Child Support Enforcement Program	93.563	G-XX-04-NM-4004	16,449,925	27,905,200
Temporary Assistance for Needy Families (TANF)	93.558	G-XX-04-NM-TANF	70,458,708	122,953,198
Low Income Energy Assistance Program (Title XXVI)	93.568	G-XX-B1-NM-LIEA	882,541	20,688,925
Total Family Support Administration Direct Programs			<u>87,791,174</u>	<u>171,547,323</u>
Community Services Block Grant Cluster:				
Community Service Block Grant	93.569	01-XX-B1-NM-COSR	3,612,698	3,762,843
Administration for Children, Youth and Families Direct Programs:				
Direct Programs - Refugee Resettlement Program (Cash & Medical and Social Services)	93.566	G-XX-04-NM-6100	325,477	935,641
Refugee School Impact (RSI) and Refugee TAG	93.576	90RT0153/01	192,661	192,661
Total Administration for Children Youth and Families Direct Programs			<u>518,138</u>	<u>1,128,302</u>
Centers for Medicare & Medicaid Services:				
Medicaid Cluster:				
Office of Health Care Finance Administration Pass-Through Program - Title XIX Certification	93.777	05-XX-05-NM-5001	903,902	1,680,000
Medical Assistance Payments Title XIX	93.778	05-XX-05-NM-5028	-	4,018,415,872
Administration and Training Title XIX	93.778	05-XX-05-NM-5048	24,604,333	117,564,694
Health Information Technology Incentive Payments	93.778	05-1305NMINCT	-	23,410,961
Health Information Technology Implementation Payments	93.778	none	-	882,205
Subtotal for CFDA 93.778			<u>24,604,333</u>	<u>4,160,273,732</u>
Total Medicaid Cluster			25,508,235	4,161,953,732
Children's Health Insurance Program (CHIP)	93.767	05-XX-05-NM5021	-	111,163,965
Total Centers for Medicare & Medicaid Services			<u>25,508,235</u>	<u>4,273,117,697</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Grantor Pass-Through Grantor Number	Amounts Passed Through To Subrecipients	Federal Participating Expenditures
Substance Abuse and Mental Health Services Administration				
Center for Mental Health Services (CMHS):				
CCBHC Planning Grants	93.829	1H79SM062946-01	\$ -	\$ 389,682
Community Mental Health Services Block Grant	93.958	2B09SM010037-11S4	2,510,461	2,775,068
Programs for Assistance in Transition from Homelessness	93.150	2X06SM060032-11	250,000	300,000
Housing Health & Recovery for Homeless Individuals	93.243	5H79TI026053-02	-	1,773,829
NM Suicide Prevention	93.764	1H79SM06085-01	-	378,884
Total Mental Health Services			<u>2,760,461</u>	<u>5,617,463</u>
Center for Substance Abuse Treatment (CSAT)				
Substance Abuse Prevention and Treatment	93.959	2B08T1010037-11S2	8,236,342	9,482,162
Prevent Prescription Drug/Opioid Overdose-Related Deaths	93.243	1H79SP022114-01		722,442
Strategic Prevention Framework for Prescription Drugs	93.243	1U79SP022084-01		265,856
State Epidemiological Outcomes Workgroups (SEOWs)	93.243	1U79SP019429-01	1,210,584	1,210,584
Screening , Brief Intervention and Referral for Treatment	93.243	1U79TI025087-01	-	1,787,466
Subtotal for CFDA 93.243			<u>1,210,584</u>	<u>3,986,348</u>
Total Substance Abuse Treatment			9,446,926	13,468,510
Food & Drug Administration - Center for Tobacco Products	93.XXX	HHSF223201110167C	-	<u>242,298</u>
Total DHHS			<u>129,637,632</u>	<u>4,468,884,436</u>
Total Federal Assistance			<u>\$ 133,771,718</u>	<u>\$ 5,196,859,583</u>

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Department has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Federal Grant Revenue, per Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 5,236,602,437
Less: Federal Grant Revenue, not directly related to Grant Expenditures	(25,290,581)
Less: IBNR Adjustment Due to Change in Federal Matching Percentage	(19,050,743)
Expenditures Relating to Prior Year Revenues Received	2,987,827
Reversal of Prior Year IBNR	1,508,660
Miscellaneous Adjustments	101,983
Federal Grant Revenue, per Statement of Expenditures of Federal Awards	<u><u>\$ 5,196,859,583</u></u>

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

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the major fund budgetary comparison schedules of the New Mexico Human Services Department (the Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 1, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-009, which we consider to be a significant deficiency.

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-005.

The Department's Response to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 1, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited New Mexico Human Services Department's (the Department) compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-006, 2017-007, and 2017-008. 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs items 2017-001, 2017-002, 2017-003, 2017-004, 2017-006, 2017-007, and 2017-008, that we consider 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.

Mr. Brent Earnest, Cabinet Secretary
New Mexico Human Services Department and
Mr. Timothy Keller, New Mexico State Auditor

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 1, 2017

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? X yes _____ none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified? X yes _____ none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
10.555	National School Lunch Program
10.551/10.561	Supplemental Nutrition Assistance Program Cluster
93.558	Temporary Assistance for Needy Families (TANF)
93.777/93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 15,590,578

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

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section II – Financial Statement Findings

2017–009 Due To/From and Transfers In/Out From Other State Agencies

Type of finding: Significant Deficiency in Internal Control over Financial Reporting

Condition: The Department is not recording interagency transactions in a consistent manner with other state agencies.

Criteria or specific requirement: MAPs FIN 3.1 establishes policies and procedures for state agencies to follow to ensure accurate recording and reporting of interagency transactions.

Context: During testing over interagency transactions, inconsistencies in due from/to and transfers in/out between HSD and one other state agency were noted. As a result of these inconsistencies, a net \$1,162,682 variance in interagency receivable/payable and a net \$322,545 variance in transfer-in/out accounts were identified.

Effect: Misstatement to the financial statement and inconsistencies when preparing the State's financial statements occur when agencies do not work together to verify interagency balances.

Cause: Management oversight, lack of timely communication among state agencies to ensure interagency transactions are being recorded consistently amongst each other and in accordance with generally accepted accounting principles.

Recommendation: We recommend management continue to be proactive in working with other state agencies with which the Department transacts, to ensure timely and accurate reporting of these transactions. We also recommend the Department assign one or more employees the role of reviewing and reconciling the interagency activity with the other state agencies. Furthermore, the Department should communicate with the Statewide Financial Reporting and Accounting Bureau regarding any interagency transactions in which the Department is unable to resolve with the agency itself or guidance is needed regarding the appropriate recognition of the transactions.

Views of responsible officials and planned corrective actions: We do not agree with the finding. HSD did reach out to other state agencies and obtained confirmation from all but one. At the beginning of each fiscal year, HSD accrues the contractual obligation from agreed to GSAs and JPAs in lieu of a purchase order. The purpose of the front-end accrual provides the agency assurance that available budget is earmarked and set aside (much like an encumbrance) and serves as mechanism to ensure the contractual agreement is not overspent. The accrual balance is reduced for each OPR payment made. During the fiscal year, ASD monitors and advises Program Division Managers of the available accrual balance. If adjustments are needed, the accrual is either increased or decreased to meet spending needs. Such adjustments are approved by Program Management, ASD Contracts Bureau, Budget Bureau, and Grants Management Bureau. At year-end ASD adjusts the available accrual balance to match the known or estimated year-end invoices. These final accrual balances are forwarded to all the state agencies for their confirmation or rejection. If rejected, the agencies work together to determine the difference. The result is an agreement between both agencies as to the amount due to and from each other. Both agencies attach their JEs to the final JE submitted to DFA-CAFR for their approval and posting. If an agency does not provide the JE, DFA-CAFR is notified of HSDs efforts and DFA-CAFR then contacts the agency that did not comply. We will continue to

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section II – Financial Statement Findings (Continued)

2017–009 Due To/From and Transfers In/Out From Other State Agencies (Continued)

Views of responsible officials and planned corrective actions (continued):

communicate with other agencies though out the year to ensure accurate amounts. The Accountant/Auditors in both the Accounts Payable and Accounts Receivable bureaus will be responsible to ensure accurate tracking and recording of the Due to, Transfers to and Due From, Transfers from respectively.

Section III – Findings and Questioned Costs – Major Federal Programs

2017–001 ACF Reporting

Federal agency: Department of Health and Human Services

Federal program title: Temporary Assistance for Needy Families (TANF)

CFDA number: 93.558

Award period: Multiple Awards; Covering July 1, 2016 – June 30, 2017

Type of finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Condition: The Department incorrectly identified other state programs as TANF programs rather than separate state programs and did not include a description of work activities as applicable in ACF-204 reporting. These programs did not impact the Department’s compliance with Maintenance of Expenditure (MOE) requirements for the program, as they were still eligible MOE expenditures.

Criteria or specific requirement: Per OMB Compliance supplement specific to this program, “Each State must accurately complete the ACF-204 for each program for which the State has claimed basic MOE expenditures for the fiscal year.”

Questioned costs: None

Context: Out of 15 program reports tested, all 15 were incorrectly identified as TANF programs rather than separate state programs and did not include a description of work activities as applicable.

Cause: There was not a clear understanding in identifying the Program Type when completing the form.

Effect: The information on the ACF-204 submitted was inaccurate.

Recommendation: We recommend the person signing/submitted ACF-204 compare amounts in MOE Summary Table and ACF-204 to individual program certifications.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017–001 ACF Reporting (Continued)

Views of responsible officials: There is no disagreement with the audit finding. The Work and Family Support Bureau Chief will ensure that the person submitting the ACF-204 identifies the correct program type and description of work activities and compares/ amounts in MOE Summary Table to the individual Program certifications with all future submissions. This will be completed with the FFY17 ACF-204 MOE Report which is due December 31, 2017.

2017–002 Long-Term Care Audits

Federal agency: Department of Health and Human Services

Federal program title: Medicaid Cluster

CFDA number: 93.777 & 93.778

Award period: Multiple Awards; Covering July 1, 2016 – June 30, 2017

Type of finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Condition: The Department was not following NMAC requirements for due dates of hospital cost reports.

Criteria or specific requirement: Per New Mexico Administrative Code (NMAC) 8.311.3.14, “At the end of each of its fiscal years, the hospital will provide to the department or its audit agent an itemized list of allowable costs (financial and statistical report) on the New Mexico MAD cost reporting form. The cost report must be submitted within 90 calendar days after the close of the hospital’s fiscal year. Failure to file a report within the 90 calendar day limit, unless an extension is granted, will result in suspension of MAD payments, until such time as the report is received.”

Questioned costs: None

Context: During review of the hospital cost reports due in state fiscal year 2017, the cost report due dates were stated as 5 months after period end, rather than 90 days.

Cause: The Department utilizes a policy that is similar to the due dates for Medicare providers, as many of the providers are certifying the reports for Medicaid and Medicare.

Effect: The Department is out of compliance with the NMAC.

Recommendation: We recommend the department request revision of the New Mexico Administrative Code 8.311.3.14 to five months; to ensure that the Department is in compliance with the NMAC.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017–002 Long-Term Care Audits (Continued)

Views of responsible officials: There is no disagreement with the audit finding. The Staff Manager in the Medical Assistance Division, Financial Management Bureau will revise the New Mexico Administrative Code 8.311.3.14 to reference 42 CFR Part 413. This CFR rule extended the time frame providers have to file cost reports from no later than 3 months after the close of the period covered by the report to no later than 5 months after the close of that period. This change was necessary to ensure that providers have an adequate amount of time to file complete and accurate cost reports. While the agency is in compliance with the CFR, it recognizes that NMAC 8.311.3.14 needs to be revised. It is anticipated that this will be completed by the end of FY18 as other entities will be involved.

2017–003 Processes and Controls over Eligibility

Federal agency: Department of Health and Human Services

Federal program title: Temporary Assistance for Needy Families (TANF) and Medicaid Cluster

CFDA number: 93.558 & 93.777/93.778

Award period: Multiple Awards; Covering July 1, 2016 – June 30, 2017

Type of finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Questioned costs: None

Condition: For each program, instances were identified where there was no evidence in the ASPEN eligibility system that the required government database scans were taking place through either initial intake or recertification procedures.

Management's Progress for Repeat Findings: Although the scans were not documented in the case notes, SQL histories show that the scans were ran. Management is continuously training employees to ensure they are following internal procedures.

Criteria or specific requirement: Per the eligibility requirements of the OMB compliance supplement specific to this program, there are a number of criteria that must be met in order for a family to receive TANF assistance. The ASPEN system was implemented in order to address these complex requirements. The Department's review and performance of certain checks on applicants' or participants' information is critical to maintaining the integrity of the process. These reviews and scans should be documented in the ASPEN system as they occur, through case notes.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017–003 Processes and Controls over Eligibility (Continued)

Context:

- TANF - Out of 40 cases tested, three such instances were identified.
- Medicaid - Out of 40 cases tested, four such instance was identified.

Cause: The Department employees assigned to perform intake or recertification reviews either did not perform the required monitoring procedures, or failed to document in the case files the outcomes of such reviews.

Effect: For the identified cases, the required government database checks were not documented, and therefore their eligibility is questionable.

Repeat finding: 2016-004, 2015-003, and 2015-004

Recommendation: We recommend that the Department continue its efforts to train employees assigned to perform intake and recertification procedures on the required documentation procedures necessary to achieve compliance with eligibility requirements, both upon intake and at recertification.

Views of responsible officials: There is no disagreement with the audit finding. Management is continuously training employees to ensure they are following internal procedures. Training is conducted upon hire and periodically thereafter. Additionally training is provided upon manager case reviews. The Policy & Program Development Bureau has begun a monthly TANF desk audit review to identify offices in need of additional training. The Deputy Director of Field Operations will be responsible for monitoring the Department's response to this finding, beginning immediately. The User Interface will be released December 2, 2017. At that time, procedures will be reevaluated and a new GI will be issued with the updated process.

2017–004 Eligibility

Federal agency: Department of Health and Human Services

Federal program title: Temporary Assistance for Needy Families (TANF)

CFDA number: 93.558

Award period: Multiple Awards; Covering July 1, 2016 – June 30, 2017

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017–004 Eligibility (Continued)

Questioned costs: \$145

Condition: The Department incorrectly reduced the child care deduction used in benefit calculations.

Criteria or specific requirement: Per Earned Income Deductions policies set forth in New Mexico Administrative Code (NMAC) 8.102.520.12, “From earnings remaining after allowing the excess hours and work incentive deductions, deduct an amount not to exceed \$200 per month for a child under age two and \$175 per month for a child age two or older”.

Context: Out of 40 samples tested, one case was identified where the benefit calculation incorrectly reduced the child care deduction from \$175 to \$30.

Cause: It was determined that the cause of this issue was an error in the ASPEN system. The Department’s monitoring controls over eligibility failed to prevent or detect these errors.

Effect: Certain households received benefits less than what is allowable by law.

Recommendation: We recommend that the Department employees assigned to monitor eligibility compliance incorporate a consideration of child care deductions. On an information system level, we recommend the Department make the necessary changes in order to prevent such errors going forward.

Views of responsible officials: There is no disagreement with the audit finding. WR 141032 (see resolution below) was put into production with the 9/30/2017 release to fix the incorrect calculation of the TANF child care deduction. The TANF Coordinator in the Program and Policy Development Bureau (PPDB) also conducts desk audits of cases to identify issues whether system or caseworker error. This is an ongoing initiative.

Issue: WR 141032 for TANF cases with multiple dependent care expense records, ASPEN includes the actual amount of the expenses rather than the maximum countable in the benefit calculation resulting in the wrong amount of benefits being issued. Resolution: For TANF benefit calculation ASPEN will deduct an amount not to exceed \$200 per month for a child under age two and \$175 per month for a child age two or older where applicable.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017–006 CMS Quarterly Statement of Expenditures for the Medical Assistance Reporting

Federal agency: Department of Health and Human Services

Federal program title: Medicaid Cluster

CFDA number: 93.777 & 93.778

Award period: Multiple Awards; Covering July 1, 2016 – June 30, 2017

Type of finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Questioned costs: None

Condition: The Department did not timely submit CMS 64 Quarterly Reports.

Criteria or specific requirement: Per OMB Compliance supplement specific to this program, CMS-64 Quarterly Statement of Expenditures for the Medical Assistance Program (OMB No. 0938-0067) are required to be prepared quarterly, and submitted electronically to Center for Medicare and Medicaid Services (CMS) within 30 days after the end of the quarter

Context: During review of the CMS-64 Quarterly Statement of Expenditures for the Medical Assistance Reports during fiscal year 2017, the following items were noted:

- The CMS 64.09 Program quarter ending 9/30/16 and 12/31/16 were originally submitted 11/10/16 (11 days past due) and 2/13/17 (14 days past due), respectively.
- The CMS 64.10 Admin quarter ending 9/30/16 and 3/31/17 were originally submitted 11/10/16 (11 days past due) and 5/8/17 (8 days past due), respectively.

Cause: Due to extensive manual adjustments and staff workloads, the report was not ready to be certified as required. Extensions were requested from CMS for all three reports; however, there is currently not a waiver that can be granted and therefore, no extension was granted.

Effect: The Department may not meet financial reporting requirements of the CMS.

Recommendation: We recommend the Department follow its procedure already in place and file reports timely as required by CMS.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017– 006 CMS Quarterly Statement of Expenditures for the Medical Assistance Reporting (Continued)

Views of responsible officials: There is no disagreement with the audit finding. Management agrees and The Grants Bureau will closely monitor the schedule/calendar of deliverables provided to MAD and follow-up with MAD staff when timelines are in jeopardy of not being met. Further, they will work with the MAD Systems Bureau to mitigate the amount of work required to process manual adjustments and to minimize manual adjustments overall. The Grants Bureau is currently recruiting for all vacant Grants Bureau positions and plan on being fully staffed by the end of the December 2017 quarter.

2017-007 Noncooperation with Child Support Enforcement Division

Federal agency: Department of Health and Human Services

Federal program title: Temporary Assistance for Needy Families (TANF)

CFDA number: 93.558

Award period: Multiple Awards; Covering July 1, 2016 – June 30, 2017

Type of finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Questioned costs: \$7,669

Condition: Per Child Support Enforcement Division's (CSED) sanction requirements, appropriate levels of sanctions were not properly applied to benefits.

Management's Progress for Repeat Findings: HSD implemented several changes over the last year to correct the finding. In prior years, this issue was a result of interface issues, which have been addressed. The items identified in the audit are related to manual adjustments by ASPEN or CSED caseworkers. Caseworkers are no longer able to lift CSED noncompliance sanctions effective August 20, 2017.

Criteria or specific requirement: Per the 2017 compliance supplement for this program, if state agencies determine that an individual is not cooperating with the state in regards to child support orders, that individual must receive progressive levels of sanctions, up to and including refusal of benefits.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017-007 Noncooperation with Child Support Enforcement Division (Continued)

Context: Out of the 40 instances of noncompliance tested for compliance with the CSED’s sanction requirements, three did not have the appropriate level of sanctions applied to their benefits, resulting in \$7,669 of known questioned costs.

- Out of the 3 instances identified, one sanction was canceled by the case worker and the support for canceling the sanction was not retained in electronic file or noted in the case comments.
- One sanction was not created because the CSED case worker closed the case erroneously and therefore the non-coop referral was not transmitted to ASPEN to create the referral.
- The remaining sanction was caused when an ASPEN Mass update did not occur because the case was pending caseworker action.

Cause: These instances were caused by caseworker error during the processing of the cases.

Effect: The Department was unable to effectively apply the sanctions, resulting in known amounts of questioned costs of \$7,669.

Repeat finding: 2014-006, 2015-001, and 2016-003

Recommendation: We recommend that the Department perform a comprehensive review of the potentially affected individuals, and sanction future benefits if applicable. The Department should consider a complimentary control process, such as a monthly reconciliation between systems, which could identify these types of issues more timely.

Views of responsible officials: There is no disagreement with the audit finding. The HSD ASPEN Steering Committee requested several changes over the last year to correct the finding. The proposed changes were implemented by the end of October 2017. These changes are summarized in the table below:

WR69020	Overlapping noncooperation data cleanup, created by manual intervention.	3.3
WR118989	Cooperation details are not updated for an existing noncooperation in ASPEN if the client's TANF is Closed.	3.4
WR133775	Sanctions/renewed cooperation not happening at correct time.	3.5
CR1473	Client is receiving the incorrect benefit amount the month of a Sanction Roll over. Change is needed to ensure that the month the roll over is effective, proper reduction in benefits occurs and client gets proper notice.	3.6
CR2438	Remove access for ASPEN users from updating Sanction screens.	3.6
WR133657	30 days from date of non-coop referral not calculating correctly.	3.6

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017– 008 Medicaid Eligibility

Federal agency: Department of Health and Human Services

Federal program title: Medicaid Cluster

CFDA number: 93.777 & 93.778

Award period: Multiple Awards; Covering July 1, 2016 – June 30, 2017

Type of finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Questioned costs: \$2,522

Condition: The Department was not following NMAC eligibility requirements related to the Medicaid program.

Criteria or specific requirement: According to NMAC 8.290.600.10, Benefit Determination for Home and Community Based Services Waiver, “Applications must be acted upon and notice of approval, denial, or delay sent out within 45 calendar days from the date of application, or within 90 calendar days if a disability determination is required from the DDSU.”

According to various NMAC sections, eligibility will be redetermined annually.

Context: Out of 40 samples tested, the following items were noted:

- Five Developmentally Disabled waiver cases had eligibility determinations performed more than 45 days after receipt of the application, in violation of NMAC.
- Seven cases did not complete the required redetermination of benefits during the year and received benefits totaling \$184,085.
- One of these cases issued ineligible benefits to a participant who had aged out of the category of eligibility, resulting in \$2,522 of known questioned costs.

Cause: The Department has faced a significant volume of Medicaid renewals and was not able to process the application in the allotted time frames. The seven cases were not closed because ASPEN does not automatically terminate benefits at the end of a benefit period. The one case was an error that caused the case to stay in “case action” status and was not aged out of the category of benefits.

Effect: The Department is out of compliance with NMAC.

Recommendation: We recommend that the Department review procedures to ensure compliance with timelines stated in the NMAC and review procedures to ensure that cases are redetermined annually.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2017– 008 Medicaid Eligibility (Continued)

Views of responsible officials: There is no disagreement with the audit finding. Timely processing will continue to be monitored by the IC Waiver Unit Staff Manager and the Deputy Director of Field Operations. Medicaid timeliness is reported on a monthly basis as part of the court order and is an ongoing initiative. Timeliness continues to improve as the backlog of suspended cases is worked. Currently, the department is unable to automatically close cases based on procedural reasons due to the court order. Once auto closure is reinstated, cases will close once the certification period has expired and no recertification is received. As of now there is no definite time period to reinstate automatic closure.

Section IV – Other

2017–005 Noncompliance with Notification Requirements for Disposals of Capital Assets

Type of Finding: Other

Condition: Capital assets were disposed of prior to required pre-notification to Office of the State Auditor of New Mexico.

Management's Progress for Repeat Findings: The steps outlined in management's response below were initially implemented at the beginning of the state fiscal year 2017.

Criteria or specific requirement: Section 13-6-1 of NMSA 1978 requires state agencies to give notification at least thirty days prior to the physical disposal of capitalized assets. Such notification must include the proposed method of disposition for the property.

Context: During June 2017, the Department identified one capital asset that was disposed of prior to submitting the required notification to the Office of the State Auditor of New Mexico. The asset was disposed in October of 2015.

Cause: The Department disposed of the asset without the required pre-notification. The asset could not be identified during the physical inventory of capital assets for FY 2017.

Effect: The Department is out of compliance with Section 13-6-1 NMSA 1978.

Repeat finding: 2016-002

Recommendation: We recommend that in the future, the Department provide training regarding the disposal process to ensure the proper steps are completed prior to disposal.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section IV – Other (Continued)

2017–005 Noncompliance with Notification Requirements for Disposals of Capital Assets (Continued)

Views of responsible officials: There is no disagreement with the audit finding. The steps below were implemented following the Fiscal Year 2016 audit, after the item above was e-wasted. The Systems Administration Bureau Chief and System Administration Supervisor will continue to ensure the following efforts are taken to minimize mistakes in future e-wasting efforts:

1. ITD staff that are involved with fixed assets will be trained when employment begins and retrained annually of the disposal process to ensure the proper steps are followed.
2. Inventory forms (063 and 062) attached to outgoing items will be checked by ITD staff against equipment actually loaded on the pallets before requesting disposal. No equipment will be released for disposal without a verified entry on the correct corresponding form.
3. Once forms are completed and the move and/or disposal process has started, ITD staff will not remove items from pallets without notifying the person in charge and submitting the proper paperwork documenting the change.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2017**

Section V – Prior Year Financial Statement Findings

There were no financial statement findings for the year ended June 30, 2016.

Section VI – Prior Year Federal Award Findings and Questioned Costs

Finding 2016–001 Eligibility (Significant Deficiency and Instance of Noncompliance) – RESOLVED

Federal program: Low Income Home Energy Assistance Program (LIHEAP)

Federal agency: Department of Health and Human Services

Applicable compliance requirement: Eligibility

Questioned costs: \$180

Condition: Out of 40 samples tested, we noted the following:

- One payment was made for \$120; when based on NM LIHEAP Income/Points Guide calculations, the payment should have been \$90.
- The Department made another payment of \$150 to an individual whose income was above the threshold for LIHEAP benefits.

Finding 2016–003 (Original Finding 2014–006) Noncooperation with Child Support Enforcement Division (Significant Deficiency and Instance of Noncompliance) – REPEATED AND MODIFIED

Federal program: Temporary Assistance for Needy Families (TANF), 93.558

Federal agency: Department of Health and Human Services

Applicable compliance requirement: Special Tests and Provisions

Questioned costs: \$24,050

Condition: Out of the 40 individuals tested for compliance with the Child Support Enforcement Division's (CSED) sanction requirements, 13 did not have the appropriate level of sanctions applied to their benefits, resulting in \$24,050 of known questioned costs.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2017**

Section VI – Prior Year Federal Award Findings and Questioned Costs (Continued)

Finding 2016–004 (Original Findings 2015-003 & 2015-004) Processes and Controls Over Eligibility (Significant Deficiency and Instance of Noncompliance) – REPEATED AND MODIFIED

Federal program: Temporary Assistance for Needy Families (TANF), 93.558, Medicaid, 93.777 & 93.778, LIHEAP, 93.568, and SNAP, 10.551 & 10.561

Federal agency: Department of Health and Human Services and United States Department of Agriculture

Applicable compliance requirement: eligibility

Questioned Costs: None

Condition: For each program, instances were identified where there was no evidence in the ASPEN eligibility system that the required government database scans were taking place through either initial intake or recertification procedures.

- TANF - Out of 40 cases tested, four such instances were identified.
- Medicaid - Out of 40 cases tested, one such instance was identified.
- LIHEAP - Out of 40 cases tested, ten such instances were identified.
- SNAP - Out of 22 cases tested, seven such instances were identified.

Finding 2016–005 Internal Controls over Federal Program Identification (Significant Deficiency) - RESOLVED

Federal program: National School Lunch Program (NSLP), 10.555

Federal agency: United States Department of Agriculture

Condition: During the audit, the Department identified that the commodities received from USDA were from two separate programs, Temporary Food Assistance Program (TEFAP), 10.569, and National School Lunch Program (NSLP), 10.555. The commodities were previously misidentified as solely TEFAP funding.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2017**

Section VI – Prior Year Federal Award Findings and Questioned Costs (Continued)

Finding 2016–006 Long Term Care Audits (Significant Deficiency and Instance of Noncompliance) – RESOLVED

Federal program: Medicaid Cluster, 93.777 & 93.778

Federal agency: Department of Health and Human Services

Applicable compliance requirement: Special Requirements

Condition: During the review of the long-term care audits completed during fiscal year 2016, the following items were noted:

- Out of the 37 hospitals' audit reports received, 28 were for periods ending in 2012 and 2013.
- Out of the 75 nursing facilities' audit reports received, 75 were for periods ending in 2010, 2011, and 2012.
- No Intermediate Care Facility audits have been completed since 2014.

Finding 2016–007 Periodic Reviews of ASPEN User Access (Significant Deficiency and Instance of Noncompliance) – RESOLVED

Federal program: SNAP, 10.551/10.561

Federal agency: United States Department of Agriculture

Applicable compliance requirement: Special Tests and Provisions

Condition: It was noted that the Department is not performing periodic ASPEN (SNAP's eligibility system) user access reviews. While the Department is performing a review of terminated users' access rights every two months, this review does not include a consideration of the access rights and privileges of exiting users, to consider whether duties are properly segregated based on employees' job titles and assignments.

Section VII – Other

Finding 2016–002 Noncompliance with Notification Requirements for Disposals of Capital Assets (Compliance and Other Matters) – REPEATED AND MODIFIED

Condition: During June 2016, the Department identified 10 capital assets that were disposed of prior to submitting the required notification to the Office of the State Auditor of New Mexico. Eight of the assets were disposed in October of 2015. Two of the assets were disposed in December 2014.

**STATE OF NEW MEXICO HUMAN SERVICES DEPARTMENT
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2017**

An exit conference was held with the Department on October 27, 2017. 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

Brent Earnest, Secretary
Sean Pearson, Deputy Secretary
Chris Collins, General Counsel
Joyce Sandoval, ASD Deputy Director, Administrative Services
Carolee Graham, ASD Deputy Director, Administrative Services
Jeanette Lujan, ASD Accounting Bureau Chief
Marilyn Martinez, ASD Compliance and Financial Systems Bureau Chief
Wayne Lindstrom, BHSD
Jeremy Toulouse, CSED
Laura Galindo, CSED
Mary Brogdon, ISD
Jason Sanchez, MAD
Jennifer Mondragon, MAD

CLIFTONLARSONALLEN LLP

Georgie Ortiz, CPA, CGFM, Managing Principal
Andres Gamez, CPA, Senior Associate
Judith Rohde, CPA, 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.