



REPORTS OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

STATE OF NEW MEXICO
HUMAN SERVICES DEPARTMENT

June 30, 2019

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State of New Mexico Human Services Department
Official Roster
Year Ended June 30, 2019

Name	Title
David Scrase, MD	Cabinet Secretary
Angela Medrano	Deputy Secretary
Russell Toal	Deputy Secretary
Paul Ritzma	General Counsel
Danny Sandoval	Director, Administrative Services Division
Carolee Graham	Deputy Director, Administrative Services Division
Joyce Sandoval	Deputy Director, Administrative Services Division
Karmela Martinez	Director, Income Support Division
Judith Parks	Deputy Director, Income Support Division
Vida Tapia-Sanchez	Deputy Director, Income Support Division
Jeremy Toulouse	Director, Child Support Enforcement Division
Betina McCracken	Deputy Director, Child Support Enforcement Division
Anthony Webb	Deputy Director, Child Support Enforcement Division
Nicole Comeaux	Director, Medical Assistance Division
Kari Armijo	Deputy Director, Medical Assistance Division
Jason Sanchez	Deputy Director, Medical Assistance Division
Neal Bowen	Director, Behavioral Health Services Division
Sean Pearson	CIO, Information Technology Division
Dustin Acklin	Acting Human Resources Director

Report of Independent Auditors

David R. Scrase, MD, Cabinet Secretary
New Mexico Human Services Department
Mr. Brian S. Colón, Esq., 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 statements of the New Mexico Human Services Department (the Department) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department'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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information, and the major fund budgetary comparison statements of the Department as of June 30, 2019, 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 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, 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, 2019, 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 page 4 through 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.

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, and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2019, 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.

Mess Adams LLP

Albuquerque, New Mexico
November 1, 2019

State of New Mexico Human Services Department

Management's Discussion and Analysis

Year Ended June 30, 2019

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, 2019. 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. Government-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.

Statement of Net Position reports the assets of the Department and the corresponding claims and liabilities against those assets at June 30, 2019. 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 position legally limited to a particular use is reported as restricted. Unrestricted net position can be used to fund operating expenses in future years.

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 2019 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, 2019

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 Financial Statements – The notes to the 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, 2019

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 2017 through 2019. Management has not attempted to recast this information, except as adjusted in preparation of the fiscal 2019 financial statements and information.

At the end of fiscal 2019, 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 year ended June 30, 2019, with comparative balances for the years ended June 30, 2018 and 2017.

Table 1 – Net Position

	Governmental Activities FY2019	Governmental Activities FY2018	Governmental Activities FY2017	Increase (Decrease) FY2018 to FY2019
ASSETS				
Current assets	\$ 548,040,761	\$ 528,559,555	\$ 299,619,851	\$ 19,481,206
Non-current assets	78,897,406	83,086,093	87,767,447	(4,188,687)
Total assets	<u>\$ 626,938,167</u>	<u>\$ 611,645,648</u>	<u>\$ 387,387,298</u>	<u>\$ 15,292,519</u>
LIABILITIES				
Current liabilities	<u>\$ 534,094,956</u>	<u>\$ 518,646,377</u>	<u>\$ 292,281,363</u>	<u>\$ 15,448,579</u>
NET POSITION				
Net investment in capital assets	78,897,406	83,086,093	87,767,447	(4,188,687)
Restricted	754,939	623,182	512,322	131,757
Unrestricted	13,190,866	9,289,996	6,826,166	3,900,870
Total net position	<u>92,843,211</u>	<u>92,999,271</u>	<u>95,105,935</u>	<u>(156,060)</u>
Total liabilities and net position	<u>\$ 626,938,167</u>	<u>\$ 611,645,648</u>	<u>\$ 387,387,298</u>	<u>\$ 15,292,519</u>

The Department's net investment in capital assets totaled \$78.9 million at June 30, 2019. The decrease from 2018 is mostly due to depreciation expense of \$6,221,770.

**State of New Mexico Human Services Department
Management's Discussion and Analysis
Year Ended June 30, 2019**

The net position of the Department is consistent with that of 2018, the only major change being the depreciation expense and the impact on non-current assets; at June 30, 2019 net position was \$92.8 million.

Table 2 – Changes in Net Position

Table 2 presents the detail changes in net position from 2017 to 2019. Net position decreased by \$155,577 in 2019, resulting in net position at June 30 of \$92.8 million.

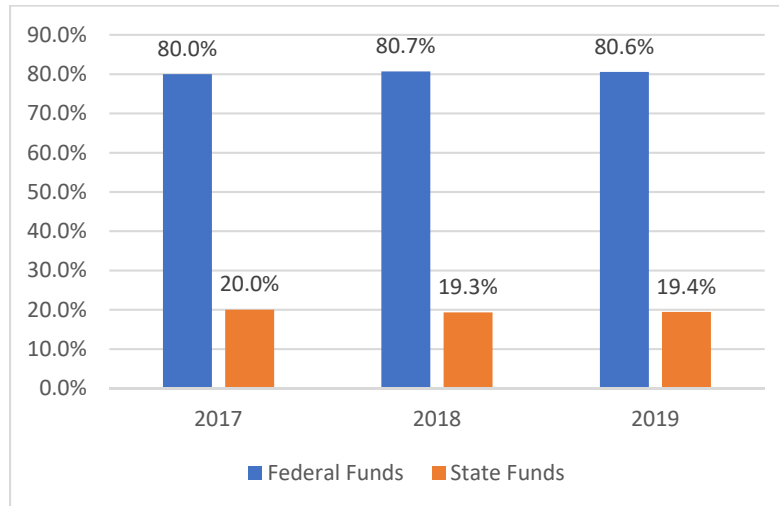
	Governmental Activities <u>FY2019</u>	Governmental Activities <u>FY2018</u>	Governmental Activities <u>FY2017</u>	Increase (Decrease) <u>FY2018 to FY2019</u>
REVENUES				
Program Revenues:				
Charges for Services	\$ 58,300,118	\$ 67,176,156	\$ 59,433,715	\$ (8,876,038)
Federal Funds	5,453,346,092	5,479,083,607	5,236,602,437	(25,737,515)
Total Program Revenues	<u>5,511,646,210</u>	<u>5,546,259,763</u>	<u>5,296,036,152</u>	<u>(34,613,553)</u>
GENERAL REVENUES AND SPECIAL ITEMS				
State Appropriations	1,055,910,000	1,034,129,600	1,032,479,300	21,780,400
Transfers from Other				
State Agencies	201,123,335	213,008,981	219,686,832	(11,885,646)
Total Revenues	<u>6,768,679,545</u>	<u>6,793,398,344</u>	<u>6,548,202,284</u>	<u>(24,718,799)</u>
EXPENSES AND TRANSFERS OUT				
Healthcare Services	5,574,758,866	5,615,221,431	5,355,391,361	(40,462,565)
Financial Assistance	817,756,943	825,222,239	861,668,891	(7,465,296)
General Government	376,319,796	355,061,338	333,148,943	21,258,458
Total Expenses and Transfers	<u>6,768,835,605</u>	<u>6,795,505,008</u>	<u>6,550,209,195</u>	<u>(26,669,403)</u>
Increase (Decrease) in Net Position	(156,060)	(2,106,664)	(5,006,911)	1,950,604
NET POSITION				
Beginning of Year	<u>92,999,271</u>	<u>95,105,935</u>	<u>100,112,846</u>	<u>(2,106,664)</u>
End of Year	<u>\$ 92,843,211</u>	<u>\$ 92,999,271</u>	<u>\$ 95,105,935</u>	<u>\$ (156,060)</u>

Table 2 reflects 1% reduction in program revenues. Charges for services decreased in 2019 as a result of fluctuations in drug rebate and federal funds decreased as a result of lower Medicaid enrollment Participation.

Healthcare services expenditures decreased by 1% due to overall Medicaid enrollment shifts. General government expenditures decreased by 3%, primarily due to the general fund reversions.

State of New Mexico Human Services Department Management's Discussion and Analysis Year Ended June 30, 2019

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 2019 decreased to 80.6% primarily due to the FFP drop from 95% federal funding for the expansion of Medicaid and the new adult group to 93%. The remaining 19.4% state funds were comprised of State general revenue appropriations, reimbursements from other state agencies, miscellaneous revenues and transfers.

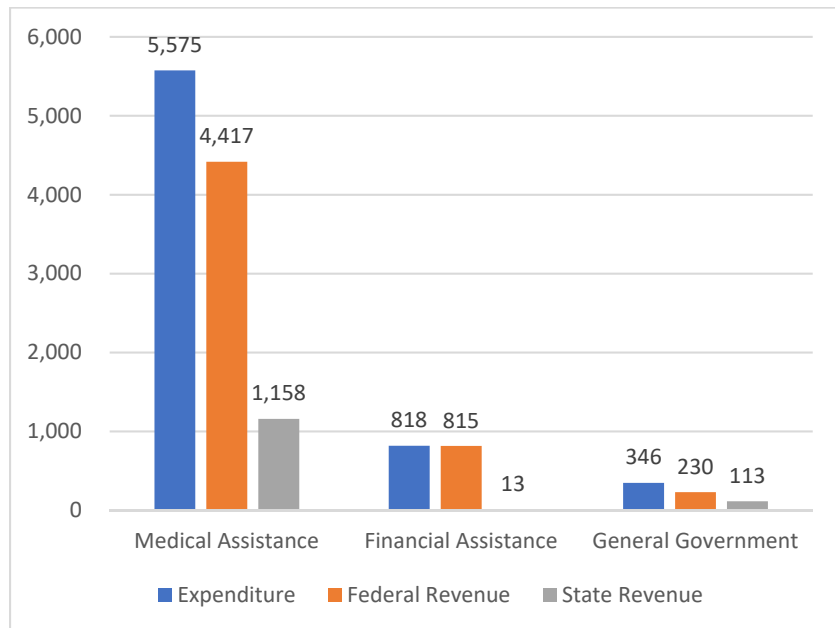
The Department must have approval of the federal awarding agencies CMS and USDA for the maintenance and operations of ASPEN and the cost of eligibility staff using ASPEN. Proposed allocation methods and estimated budgetary amounts are submitted to CMS and USDA on an annual basis and updated as-needed. The detail amounts of grant funded expenditures can be seen in the Schedule of Expenditures of Federal Awards (SEFA) on page 62.

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 2019.

**State of New Mexico Human Services Department
Management's Discussion and Analysis
Year Ended June 30, 2019**

Figure 2 – Total Expenses and Revenues



The total costs of all the Department's governmental activities this year was \$6,738,630,969. Of these total costs, 83% were for medical assistance services provided to eligible residents of the state, primarily under the Medicaid program, of which 79% 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 \$817,756,943 or 12% 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 expenditures from fiscal 2018 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 the 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.

State of New Mexico Human Services Department Management's Discussion and Analysis Year Ended June 30, 2019

In Fund 052 (General Operating Fund), there were fourteen budget increases totaling \$15,242,584. These increases will be further discussed by Program Code.

In P522 there was one budget adjustment processed to increase federal funds. That adjustment was to increase federal funds by \$1,313,000 to align with the amount projected to be earned in fiscal 2019.

In P523 there were no budget adjustments processed to increase or decrease the beginning budget.

In P524, there were no budget adjustments processed to increase or decrease the beginning operating budget.

In P525, six budget increases were processed totaling \$4,099,972. Four of the increases totaling \$1,005,757 were from federal funds. These budget increases align the budget with the grant of award for FY19. The grants included are: The State Administrative Expense (SAE) for \$308,409, the Emergency Food Assistance Program (TEFAP) for \$123,804, the TEFAP Mitigation for \$182,000 and the TEFAP Supplement for \$391,544. One increase totaling \$2,494,215 was from fund balance, specifically SNAP Bonus of \$816,855 which the Department had reserved as fund balance in a prior period. This increase also contained federal matching funds of \$1,677,360. A general fund budget increase of \$600,000 was processed from Fund 975 to align the budget in this fund with projected expenditures.

In P767, there were seven increases processed totaling \$9,829,612. The increases were to budget federal funds that were not part of the beginning operating budget. Those increases include \$1,500,000 for Promoting Integration Behavioral Health Care (PIPBHC), \$508,500 for the Assertive Community Treatment (ACT) Grant, \$3,835,715 for the State Opioid Response (OPIOID SOR) Grant, two increases of \$1,065,000 for the Substance Abuse Prevention Treatment (SAPT) grant, \$150,000 for the National Association of State Mental Health Program Directors (NASMHPD) Grant and \$2,770,397 for the State Opioid Response Supplemental Grant.

In Fund 974 (Income Support), there was one budget increase of \$3,663,900 from federal funds for the LIHEAP Program. The LIHEAP Program has carryover funds which the program is using to fund the projected benefits for the current year.

In Fund 975 (Income Support), there were three adjustments processed totaling \$2,188,853. One adjustment of \$2,132,053 was to increase the budget revenue from Social Security Intermediate Assistance Reimbursement (SSIAR) carryover funds which are reimbursements to the Department from the Social Security Administration. The Department has authority in law to retain recoveries from the Social Security Administration for persons who were served in the General Assistance Program. These funds go back into the General Assistance program to allow the program to serve more clients. An increase of \$656,800 was processed to budget Community Services Block Grant carryover funds which were not part of the beginning operating budget. An adjustment to decrease General Fund by \$600,000 previously discussed above was also processed in order to move the funds to Fund 052 P525.

State of New Mexico Human Services Department Management's Discussion and Analysis Year Ended June 30, 2019

In Fund 976 (Medical Assistance), there was an adjustment processed totaling \$9,156,000 to increase the budget for anticipated revenues from the Department of Health for costs associated with the Developmental Disability Waiver of \$4,400,000 and revenue from the Safety Net Care Pool of \$4,756,000 which were higher than anticipated. Another adjustment was processed which transferred general fund and federal funds totaling \$17,417,000 from P524 to P766 (Medicaid Program to Medicaid Behavioral Health) to align the budget with projected expenditures

In Fund 20520 (Traumatic Brain Injury), there were no adjustments processed to increase or decrease the beginning operating budget.

Special Appropriations that were Processed in FY2018.

Fund 901 (Data Processing Appropriations). There were six budget adjustments totaling \$17,439,663 processed to establish budget for the Medicaid Management Information System Replacement (MMISR) project. These adjustments were approved based on Project Certifications approved by the Department of Information Technology or to establish budget to allow for transfers to the Children, Youth and Families Department or the State of New Mexico Department of Health for their portions of the MMISR project as approved in the Advanced Planning Document.

Results of Fiscal Year Fund Activity

In Fund 052, the ending fund balance of \$9,636,280 has several components. \$68,233 is inventory and prepaid items, \$575,910 reflects the Drug and Alcohol Services Information System (DASIS) funding that is reserved for subsequent fiscal year expenditures, \$179,028 is State Outcomes Management & Measurement System (SOMMS) funding that is reserved for subsequent fiscal year expenditures, \$5,496,213 is Child Support Incentive Funds earned by the Department which will be used to support the Child Support IT system replacement, \$2,500,000 is a General Fund Appropriations to the Department for fiscal 2019 and fiscal 2020. This appropriation is for a Prison Recidivism Reduction Program and will be expended in fiscal 2020. The ending fund balance also includes \$816,855 Supplemental Nutrition Assistance Program (SNAP) Bonus funds budgeted in Income Support Division (ISD) in fiscal 2019 which were not expended.

In Fund 20520, assets exceeded liabilities by \$809,108 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 \$3,097,892 which reflects the balances in the IT appropriations which have not yet expired. Of this amount, \$2,245,398 is for the Child Support replacement system and \$852,493 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 \$3,824,506 which are the SSIAR balances authorized to be retained and rolled forward to fiscal 2020 for the General Assistance Program.

State of New Mexico Human Services Department

Management's Discussion and Analysis

Year Ended June 30, 2019

In Fund 976, the ending fund balance is \$289,000 which is composed of two General Fund Appropriations to HSD for FY19 and FY20. The appropriations include \$157,000 for a Graduate Medical Expenditure Program and \$132,000 for a Medicaid Buy-In Program and both will be expended in FY20. It is important to note that 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, 2019 amounted to \$78,897,406, 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 5.0%.

Accumulated depreciation at June 30, 2019 totaled \$39,875,279. 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, 2019, 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 a 1115 Waiver approved by the Centers for Medicare and Medicaid Services (CMS). A waiver renewal request was submitted to CMS which was approved on December 14, 2018 and is effective January 1, 2019 through December 31, 2023.

Medicaid Expansion

The Department budget request for fiscal year 2020 was over \$7.143 billion, an overall increase of 3.89% from 2019. The primary driver for this was the Medicaid Program for which the increases are attributable to Medicaid enrollment growth, Medicaid rate increases and the FMAP reduction for the expansion population. This population, which has grown by 2% in the past year, has previously been paid for with 95% federal funds. In FY 2018 the federal match dropped to 94% on January 2018 (half of FY 2018) and again in FY 2019, the federal match steps down to 93% on January 2019 and finally to 90% on January 2020. Also, the Federal Medical Assistance Percentage (FMAP) reduction from 100% to 80.90% for the Children Health Insurance Program (CHIP) population is coming. The Department in 2020 and in the coming years will pursue enhancing the network of providers in the Medicaid Program and focus on stabilizing and growing the Behavioral Health service delivery system in New Mexico.

State of New Mexico Human Services Department Management's Discussion and Analysis Year Ended June 30, 2019

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 CMS requirements and 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, 2019

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 25,250
Investment in State General Fund Investment Pool	56,490,496
	<u>56,515,746</u>
Receivables	
Federal grants, net of allowance of \$2,122,882	472,604,871
Accounts, net of allowance of \$95,324,608	10,957,253
Due from other state agencies	7,067,557
Due from local governments	3,357
Net receivables	<u>490,633,038</u>
Supplies and commodities inventory	891,977
Total current assets	<u>548,040,761</u>
NON-CURRENT ASSETS	
Capital assets, net of accumulated depreciation	78,897,406
Total assets	<u>\$ 626,938,167</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 45,083,257
Accrued payroll	4,231,858
Healthcare services payable	417,216,018
Due to State General Fund	24,204
Due to other state agencies	457,631
Due to other component units of the state	1,696,995
Due to federal government	55,640,246
Other liabilities	5,015,396
Unearned revenue	1,018,370
Compensated absences	3,710,981
Total liabilities	<u>534,094,956</u>
NET POSITION	
Net investment in capital assets	78,897,406
Restricted for special programs	754,939
Unrestricted	13,190,866
Total net position	<u>92,843,211</u>
Total liabilities and net position	<u>\$ 626,938,167</u>

State of New Mexico Human Services Department
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenue		Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants	
PRIMARY GOVERNMENT				
Governmental activities				
Healthcare services	\$ 5,574,758,866	\$ 53,883,165	\$ 4,416,792,961	\$ (1,104,082,740)
Financial assistance	817,756,943	26,844	806,483,220	(11,246,879)
General government	346,148,438	4,390,109	230,069,911	(111,688,418)
	<u>\$ 6,738,664,247</u>	<u>\$ 58,300,118</u>	<u>\$ 5,453,346,092</u>	<u>(1,227,018,037)</u>
General Revenues and Transfers				
State General Fund appropriations				1,055,910,000
Transfers in				201,123,335
Reversion of State General Fund appropriations				<u>(30,171,358)</u>
Total general revenues and transfers				<u>1,226,861,977</u>
Change in net position				(156,060)
Net position				
Beginning of year				<u>92,999,271</u>
End of year				<u>\$ 92,843,211</u>

State of New Mexico Human Services Department
Balance Sheet – Governmental Funds
June 30, 2019

	Major Funds			Total Non Major Funds	Total Governmental Funds
	05200 General Fund	97500 Income Support N Warrants	97600 Medical Assistance		
ASSETS					
Cash	\$ 250	\$ -	\$ 25,000	\$ -	\$ 25,250
Investment in State General Fund					
Investment Pool	8,245,592	4,006,537	39,065,061	5,173,306	56,490,496
Federal grants receivable, net	47,194,002	5,736,923	413,446,083	6,227,863	472,604,871
Accounts receivable, net	173,277	980	10,782,996	-	10,957,253
Due from other state agencies	-	-	7,067,557	-	7,067,557
Due from local governments	-	-	3,357	-	3,357
Supplies and commodities inventory	68,223	823,754	-	-	891,977
Total assets	\$ 55,681,344	\$ 10,568,194	\$ 470,390,054	\$ 11,401,169	\$ 548,040,761
LIABILITIES					
Accounts payable	\$ 28,952,698	\$ 4,179,866	\$ 6,774,013	\$ 5,176,680	\$ 45,083,257
Accrued payroll	4,231,858	-	-	-	4,231,858
Healthcare services payable	-	-	417,216,018	-	417,216,018
Due to State General Fund	17,113	1,409	5,682	-	24,204
Due to other state agencies	457,631	-	-	-	457,631
Due to other component units of the state	1,218,902	478,093	-	-	1,696,995
Due to federal government	10,709,945	42,716	42,570,096	2,317,489	55,640,246
Other liabilities	262,301	1,217,850	3,535,245	-	5,015,396
Unearned revenue	194,616	823,754	-	-	1,018,370
Total liabilities	46,045,064	6,743,688	470,101,054	7,494,169	530,383,975
FUND BALANCES					
Nonspendable - inventory	68,223	-	-	-	68,223
Restricted	754,939	-	-	-	754,939
Committed	2,500,000	3,824,506	289,000	3,907,000	10,520,506
Assigned	6,313,118	-	-	-	6,313,118
Total fund balances	9,636,280	3,824,506	289,000	3,907,000	17,656,786
Total liabilities and fund balances	\$ 55,681,344	\$ 10,568,194	\$ 470,390,054	\$ 11,401,169	\$ 548,040,761

**State of New Mexico Human Services Department
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
June 30, 2019**

Total fund balance - governmental funds (Governmental Fund Balance Sheet)	\$	17,656,786
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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		118,772,685
Accumulated depreciation is		(39,875,279)
Total capital assets		78,897,406

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		(3,710,981)
Net position of governmental activities (Statement of Net Position)	\$	92,843,211

State of New Mexico Human Services Department
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2019

	Major Funds			Non-Major Funds	Total Governmental Funds
	05200 General Fund	97500 Income Support N Warrants	97600 Medical Assistance		
REVENUES					
Federal grants	\$ 205,950,827	\$ 783,974,202	\$ 4,416,792,961	\$ 46,628,102	\$ 5,453,346,092
Other revenues	3,475,137	26,844	53,883,165	914,972	58,300,118
Total revenues	<u>209,425,964</u>	<u>784,001,046</u>	<u>4,470,676,126</u>	<u>47,543,074</u>	<u>5,511,646,210</u>
EXPENDITURES					
Current					
Healthcare services					
Contractual services	-	-	12,305,541	-	12,305,541
Healthcare services:	-	-	5,562,453,325	-	5,562,453,325
Total healthcare services	<u>-</u>	<u>-</u>	<u>5,574,758,866</u>	<u>-</u>	<u>5,574,758,866</u>
Financial assistance					
Contractual services	-	26,569,755	-	-	26,569,755
Financial assistance	-	768,678,170	-	22,509,018	791,187,188
Total financial assistance	<u>-</u>	<u>795,247,925</u>	<u>-</u>	<u>22,509,018</u>	<u>817,756,943</u>
General government					
Personnel services	106,621,936	-	-	2,079,910	108,701,846
Contractual services	141,819,807	-	-	18,891,484	160,711,291
Other operating costs	65,817,123	-	-	4,581,162	70,398,285
Total general government	<u>314,258,866</u>	<u>-</u>	<u>-</u>	<u>25,552,556</u>	<u>339,811,422</u>
Capital outlay	437,923	-	-	1,599,916	2,037,839
Total expenditures	<u>314,696,789</u>	<u>795,247,925</u>	<u>5,574,758,866</u>	<u>49,661,490</u>	<u>6,734,365,070</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(105,270,825)</u>	<u>(11,246,879)</u>	<u>(1,104,082,740)</u>	<u>(2,118,416)</u>	<u>(1,222,718,860)</u>
OTHER FINANCING SOURCES (USES)					
State General Fund Appropriations	109,341,000	12,628,000	933,941,000	-	1,055,910,000
Transfers in					
Other State Agencies	1,352,300	-	157,750,602	1,420,433	160,523,335
Other Component Units of the State	-	-	40,600,000	-	40,600,000
Reversions to the State General Fund - FY 19	(1,037,709)	(63,668)	(27,919,862)	-	(29,021,239)
Reversions to the State General Fund - FY 18	(1,150,119)	-	-	-	(1,150,119)
Net other financing sources	<u>108,505,472</u>	<u>12,564,332</u>	<u>1,104,371,740</u>	<u>1,420,433</u>	<u>1,226,861,977</u>
NET CHANGE IN FUND BALANCES	<u>3,234,647</u>	<u>1,317,453</u>	<u>289,000</u>	<u>(697,983)</u>	<u>4,143,117</u>
FUND BALANCES					
Beginning of year	6,401,633	2,507,053	-	4,604,983	13,513,669
End of year	<u>\$ 9,636,280</u>	<u>\$ 3,824,506</u>	<u>\$ 289,000</u>	<u>\$ 3,907,000</u>	<u>\$ 17,656,786</u>

**State of New Mexico Human Services Department
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance – Governmental Funds
to the Statement of Activities
Year Ended June 30, 2019**

Net changes in fund balances - total governmental funds
(Statement of revenues, expenditures, and changes in
fund balances) \$ 4,143,117

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

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

The increase in compensated absences for the fiscal year was: (110,490)

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	2,037,839
Depreciation expense	<u>(6,221,770)</u>
Excess of depreciation expense over capital outlay	<u>(4,183,931)</u>

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 (4,756)

Change in net position of governmental activities
(statement of activities) \$ (156,060)

State of New Mexico Human Services Department
Statement of Fiduciary Assets and Liabilities – Agency Fund
June 30, 2019

	97800 Child Support Enforcement
ASSETS	
Current assets	
Interest in the State Treasurer General Fund Investment Pool	\$ 605,013
Other receivables, net of allowance of \$1,646,381	598,682
Total assets	<u>\$ 1,203,695</u>
LIABILITIES	
Current liabilities	
Deposits held in trust for others	\$ 543,152
Other liabilities	598,683
Accounts payable	61,860
Total liabilities	<u>\$ 1,203,695</u>

**State of New Mexico Human Services Department
Budgetary Comparison Statement – Fund 05200 – General Fund
Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance From
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 205,467,600	\$ 219,550,529	\$ 205,950,827	\$ (13,599,702)
Other	5,523,800	5,523,800	3,475,137	(2,048,663)
Total revenues	<u>210,991,400</u>	<u>225,074,329</u>	<u>209,425,964</u>	<u>(15,648,365)</u>
EXPENDITURES				
Current				
Personnel services	111,152,000	109,865,965	106,621,936	3,244,029
Contractual services	140,445,900	154,945,263	141,819,807	13,125,456
Other costs	66,986,800	70,173,256	66,255,046	3,918,210
Total expenditures	<u>318,584,700</u>	<u>334,984,484</u>	<u>314,696,789</u>	<u>20,287,695</u>
OTHER FINANCING SOURCES (USES)				
State General Fund appropriations	106,537,100	109,341,000	109,341,000	-
Transfers in				
Other State Agencies	1,056,200	1,352,300	1,352,300	-
Reversions	-	-	(2,187,828)	(2,187,828)
Total other financing sources (uses)	<u>107,593,300</u>	<u>110,693,300</u>	<u>108,505,472</u>	<u>(2,187,828)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ 783,145</u>	<u>\$ 3,234,647</u>	<u>\$ 4,017,792</u>

**State of New Mexico Human Services Department
Budgetary Comparison Statement – Fund 97500 – Income
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 846,343,700	\$ 847,000,500	\$ 783,974,202	\$ (63,026,298)
Other	-	-	26,844	26,844
Total revenues	846,343,700	847,000,500	784,001,046	(62,999,454)
EXPENDITURES				
Current				
Contractual services	29,161,400	29,818,200	26,569,755	3,248,445
Financial assistance	830,410,300	832,317,353	768,678,170	63,639,183
Total expenditures	859,571,700	862,135,553	795,247,925	66,887,628
OTHER FINANCING SOURCES (USES)				
State General Fund appropriations	13,603,000	13,003,000	12,628,000	(375,000)
Reversions	-	-	(63,668)	(63,668)
Total other financing sources (uses)	13,603,000	13,003,000	12,564,332	(438,668)
PRIOR YEAR FUND BALANCE				
BUDGETED	-	2,507,053	-	(2,507,053)
EXCESS OF REVENUES OVER EXPENDITURES AND NET CHANGE IN FUND BALANCE				
	\$ 375,000	\$ 375,000	\$ 1,317,453	\$ 1,692,453

**State of New Mexico Human Services Department
Budgetary Comparison Statement – Fund 97600 – Medical Assistance
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 4,491,612,700	\$ 4,491,612,700	\$ 4,416,792,961	\$ (74,819,739)
Other	60,573,000	65,329,000	53,883,165	(11,445,835)
Total revenues	<u>4,552,185,700</u>	<u>4,556,941,700</u>	<u>4,470,676,126</u>	<u>(86,265,574)</u>
EXPENDITURES				
Current				
Contractual services	11,027,700	13,938,840	12,305,541	1,633,299
Healthcare services	5,669,509,000	5,676,042,860	5,562,453,325	113,589,535
Total expenditures	<u>5,680,536,700</u>	<u>5,689,981,700</u>	<u>5,574,758,866</u>	<u>115,222,834</u>
OTHER FINANCING SOURCES (USES)				
State General Fund appropriations	933,652,000	933,941,000	933,941,000	-
Transfers in				
Other State Agencies	152,351,700	156,751,700	157,750,602	998,902
Other Component Units of the State	42,347,300	42,347,300	40,600,000	(1,747,300)
Reversions	-	-	(27,919,862)	(27,919,862)
Total other financing sources (uses)	<u>1,128,351,000</u>	<u>1,133,040,000</u>	<u>1,104,371,740</u>	<u>(28,668,260)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289,000</u>	<u>\$ 289,000</u>

State of New Mexico Human Services Department

Notes to Financial Statements

Note 1 – Organization and Purpose

The State of Human Services Department (the Department) is the primary provider of social welfare services to the citizens of New Mexico (the 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.

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, 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, 2019, federal revenue represented 81% of the Department's total revenue and other financing sources.

Note 2 – Summary of Significant Accounting Policies

Use of Estimates

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

State of New Mexico Human Services Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

State of New Mexico Human Services Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

The funds are used to account for most of the Department’s general activities, including the collection and disbursement of restricted or committed monies (special revenue funds). The *General Fund* is used to account for all activities of the Department not required to be accounted for in other funds.

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for a specified purpose other than debt service or capital projects.

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 2019.

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.

State of New Mexico Human Services Department Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

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.

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 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.

State of New Mexico Human Services Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Accounting

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

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

The modified accrual basis of accounting is used for all governmental funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A 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.

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.

State of New Mexico Human Services Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 acquisition 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.

Compensated Absences

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon length of service and employee's hire date. A maximum of 30 working days (240 hours) of such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess leave is lost.

When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours. Accumulated annual leave is not expected to be liquidated with expendable available financial resources and is reported only in the government-wide financial statements.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave that an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid up to 50% of accrued sick leave in excess of 600 up to 720 hours, but not to exceed 120 hours (net 60 hours can be paid). In the case of retiring employees, up to 200 net hours in excess of the 600 hour minimum limit can be paid. Sick leave balances from 600 to 720 hours are recorded at 50% of the employee's current hourly rate in the compensated absences category.

State of New Mexico Human Services Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Pensions

The Office, 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). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the 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 State of New Mexico CAFR for the year ended June 30, 2019 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.

Other Post-Employment Benefits (OPEB)

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting by state and local governments for other postemployment benefits. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

Compliant with the requirements of GASB Statement No. 75, the State of New Mexico has implemented the standards for the year ended June 30, 2019.

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides a comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The Other Postemployment Benefits (OPEB) Plan is administered by the Retiree Healthcare Authority of the State of New Mexico. Overall, the total OPEB liability exceeds OPEB Plan net position resulting in a net other postemployment benefit liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the CAFR of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2019 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.

State of New Mexico Human Services Department Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2019.

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.

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.

Fund Balance

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 Department's fund balances represent: 1) Nonspendable, which include balances that cannot be spent because they are not in spendable form or funds contractually required to be maintained intact; 2) 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; 3) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 4) 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

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2019.

Other Revenues and Transfers

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

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

Budgets and Budgetary Accounting

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

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

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

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

The budgets for the governmental funds are adopted on a basis consistent with 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.

State of New Mexico Human Services Department Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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. The Department determines whether amounts are collectible. The Department recorded an allowance of \$2,122,882 as of June 30, 2019.

Accounts Receivable

Accounts receivables consist mostly of managed care, drug rebate receivables and restitution receivables. The Department determines whether amounts are collectible. Accordingly, the reported balance of \$10,957,253 for year ended June 30, 2019 is net of allowances of \$95,324,608.

Healthcare Services Payable

Healthcare expenditures are accrued in the period during which services are provided and are based, in part, on estimates of accrued services provided but not yet reported by the providers to the Department. Healthcare services payable in the accompanying financial statements are payments to be made to providers for reported claims and for estimated incurred claims not yet reported to the Department.

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

Note 3 – 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 (SGFIP), which is managed by the Office of the New Mexico State Treasurer (STO). 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 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.

State of New Mexico Human Services Department

Notes to Financial Statements

Note 3 – State General Fund Investment Pool (continued)

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. 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

At June 30, 2019, 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	\$ 8,245,592
Income Support - N Warrants	97500	4,006,537
Medical Assistance	97600	39,065,061
Traumatic Brain Injury	20520	815,367
Data Processing Appropriations	90100	2,449,519
Income Support - L Warrants	97400	1,908,420
Total governmental activities		<u>\$ 56,490,496</u>
Agency funds		
Child Support Enforcement - K Warrants	97800	<u>\$ 605,013</u>
Other cash balances		
Wells Fargo Bank	05200	\$ 250
Wells Fargo Bank	97600	25,000
Total other cash balances		<u>\$ 25,250</u>

State of New Mexico Human Services Department Notes to Financial Statements

Note 4 – Cash and Interest in the State General Fund Investment Pool (continued)

Interest Rate Risk

The New Mexico STO 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 STO pools are not rated. For additional GASB Statement No. 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate financial statements of the New Mexico STO for the year ended June 30, 2019.

Custodial Credit Risk

The Department's cash balance of \$25,250 is fully insured by the Federal Deposit Insurance Corporation.

Note 5 – Capital Assets

Governmental Activities

The current year depreciation expense of \$6,221,770 was allocated entirely to the general government function in the government-wide statement of activities.

	June 30, 2018	Additions	Deletions	June 30, 2019
Capital assets				
Automobiles	\$ 1,393,610	\$ 312,735	\$ (231,762)	\$ 1,474,583
Equipment and machinery	765,286	14,736	(9,488)	770,534
Data processing equipment	114,941,121	1,710,368	(269,516)	116,381,973
Furniture and fixtures	145,595	-	-	145,595
Total capital assets	<u>117,245,612</u>	<u>2,037,839</u>	<u>(510,766)</u>	<u>118,772,685</u>
Accumulated depreciation				
Automobiles	(607,307)	(104,098)	227,490	(483,915)
Equipment and machinery	(672,898)	(16,611)	9,488	(680,021)
Data processing equipment	(32,786,520)	(6,101,061)	269,032	(38,618,549)
Furniture and fixtures	(92,794)	-	-	(92,794)
Total accumulated depreciation	<u>(34,159,519)</u>	<u>(6,221,770)</u>	<u>506,010</u>	<u>(39,875,279)</u>
Total capital assets, net	<u>\$ 83,086,093</u>	<u>\$ (4,183,931)</u>	<u>\$ (4,756)</u>	<u>\$ 78,897,406</u>

State of New Mexico Human Services Department

Notes to Financial Statements

Note 6 – Compensated Absences

Accrued compensated absences consist of the following:

	June 30, 2018	Additions	Deletions	June 30, 2019
Compensated absences	<u>\$ 3,600,491</u>	<u>\$ 2,660,335</u>	<u>\$ (2,549,845)</u>	<u>\$ 3,710,981</u>

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

The Department has recorded all of the accrued compensated absences as a current liability on the statement of net 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, 2015 and June 30, 2019 were 75.29% complete by June 30, 2019. 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 December of 2018. It is the discretion of the court whether or the Special Master will be renewed. HSD is responsible for all cost related to the Special Master and his compliance specialist. The Department expects the settlement compliance activities to continue and the matter to be dismissed.

State of New Mexico Human Services Department Notes to Financial Statements

Note 8 – Contingent Liabilities and Commitments (continued)

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, 2018, there were 12 cases pending from claims made in October 2014 in state court involving claims by behavioral health providers seeking remedy for breach of contract. All but 5 cases remain. The Department is in settlement negotiations with the remaining claims.

In November 2018, HSD was served for violations alleging the Department failed to provide medical and behavioral health services to foster children in New Mexico. There is currently no decision made in this case 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 affected the timing of benefit, or possible decline of benefits paid to participants.

USDA FNS has asserted a claim against HSD in the amount of approximately \$164,000,000 for alleged overpayment of benefits. HSD has appealed this assessment and requested administrative review. The appeal was filed on October 5, 2018 with support for the administrative review due November 2018. HSD does not agree with the claim. The outcome is not able to be determined.

There are other lawsuits and other pending personnel matters that at this time the outcome cannot be determined.

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>.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature.

State of New Mexico Human Services Department

Notes to Financial Statements

Note 9 – Pension Plan – Public Employees Retirement Association (continued)

The Department's contributions to PERA for the years ended June 30, 2019, 2018, and 2017 were \$12,575,536, \$11,984,312 and \$11,808,338, 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 care policies.

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

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

Funding Policy

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

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.

State of New Mexico Human Services Department Notes to Financial Statements

Note 10 – Post-Employment Benefits – State Retiree Health Care Plan (continued)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2019, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary.

For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2019, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2015, the Legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the fiscal years ending June 30, 2019, 2018 and 2017 were \$1,480,422, \$1,410,736 and \$1,390,023, 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:

Year Ending June 30,	Amount
2020	\$ 16,000,657
2021	17,409,527
2022	16,668,637
2023	14,944,407
2024	11,731,497
2025-2029	43,884,816
2030-2034	6,919,050
	\$ 127,558,591

State of New Mexico Human Services Department

Notes to Financial Statements

Note 11 – Lease Commitments (continued)

Total rent expense for office space and equipment for the fiscal year ended June 30, 2019 was as follows:

Office Space	\$ 16,959,077
Equipment	694,476
	<u>\$ 17,653,553</u>

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 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 2019	\$ 9,260
Fund 052	General Fund P524	Fiscal Year 2019	506,470
Fund 052	General Fund P525	Fiscal Year 2019	190,351
Fund 052	General Fund P767	Fiscal Year 2019	62,262
Fund 052	General Fund ZC5582	Fiscal Year 2019	269,366
Fund 975	Income Support P525	Fiscal Year 2019	63,668
Fund 976	Medical Assistance P524	Fiscal Year 2019	22,793,962
Fund 976	Medical Assistance P525	Fiscal Year 2019	25,513
Fund 976	Medical Assistance P766	Fiscal Year 2019	5,100,387
			<u>29,021,239</u>

Prior Fiscal Year:

Fund 052	General Fund P523	Fiscal Year 2018	381,580
Fund 052	General Fund P524	Fiscal Year 2018	233,759
Fund 052	General Fund P525	Fiscal Year 2018	403,671
Fund 052	General Fund P767	Fiscal Year 2018	500
Fund 052	General Fund ZB0518	Fiscal Year 2018	130,609
			<u>1,150,119</u>
			<u>\$ 30,171,358</u>

**State of New Mexico Human Services Department
Notes to Financial Statements**

Note 13 – Transfers In and Transfers Out

State Agency/Fund	Business Unit	SHARE Fund No.	Purpose	General Fund (05200)	Income Support (97500)	Medical Assistance (97600)	Data Processing Appropriations (90100)	Total
Transfers In:								
Transfers from Other State Agencies:								
Department of Health	66500	06100	Children's Court Improvement Commission	\$ -	\$ -	\$ 114,702,394	\$ -	\$ 114,702,394
Department of Health	66500	40170	Early Intervention	-	-	8,390,208	-	8,390,208
Department of Health	66500	40170	Federally Qualified Health Centers	-	-	462,300	-	462,300
Dept. of Finance & Administration	34100	00900	Computer Enhancement Transfer	-	-	-	1,420,433	1,420,433
Dept. of Finance & Administration	34100	62000	Compensation Section A3	592,400	-	-	-	592,400
Dept. of Finance & Administration	34100	02100	County Supported Medicaid Fund (Admin)	759,900	-	26,176,100	-	26,936,000
Dept. of Finance & Administration	34100	69700	Tobacco Settlement	-	-	8,019,600	-	8,019,600
Total Transfers from Other State Agencies				<u>1,352,300</u>	<u>-</u>	<u>157,750,602</u>	<u>1,420,433</u>	<u>160,523,335</u>
Transfers from Other Component Units of the State:								
University of New Mexico			Upper Payment Limit	<u>-</u>	<u>-</u>	<u>40,600,000</u>	<u>-</u>	<u>40,600,000</u>
Total Transfers In				<u>\$ 1,352,300</u>	<u>\$ -</u>	<u>\$ 198,350,602</u>	<u>\$ 1,420,433</u>	<u>\$ 201,123,335</u>
General Fund Appropriations:								
Dept. of Finance & Administration	34101	85300	Regular Appropriation	\$ 106,841,000	\$ 12,628,000	\$ 933,652,000	\$ -	\$ 1,053,121,000
Dept. of Finance & Administration	34101	85300	Special Appropriations	2,500,000	-	289,000	-	2,789,000
Total Appropriations from the State General Fund				<u>\$ 109,341,000</u>	<u>\$ 12,628,000</u>	<u>\$ 933,941,000</u>	<u>\$ -</u>	<u>\$ 1,055,910,000</u>

State of New Mexico Human Services Department
Notes to Financial Statements

Note 14 – Due to/from Other State Agencies

State Agency	Business Unit	SHARE Fund No.	Purpose	General Fund	Medical Assistance	Total
Due to Other State Agencies:						
Department of Health	66500	06100	Medicaid and TANF Services	\$ 431,029	\$ -	\$ 431,029
Department of Public Safety	79000	20100	Substance Abuse Enforcement Visits	26,602	-	26,602
				<u>\$ 457,631</u>	<u>\$ -</u>	<u>\$ 457,631</u>
Due from Other State Agencies:						
Department of Health	66500	40170	Children's Court Improvement Commission	\$ -	\$ 7,067,557	\$ 7,067,557
				<u>\$ -</u>	<u>\$ 7,067,557</u>	<u>\$ 7,067,557</u>

State of New Mexico Human Services Department

Notes to Financial Statements

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 2019 fiscal year, the Department paid Risk Management \$1,861,305 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, 2019, 2018, and 2017, 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

A summary of the nature and purpose of fund balance reserves by fund type at June 30, 2019 is as follows:

	Non-Spendable	Restricted Purposes	Committed Purposes	Assigned Purposes
General Fund (Fund 05200):				
Inventory	\$ 68,223	\$ -	\$ -	\$ -
DASIS Funding - Behavioral Health	-	575,910	-	-
SOMMS	-	179,029	-	-
SNAP Bonus	-	-	-	816,855
Child Support Incentives	-	-	-	5,496,263
Behavioral Health Reincarceration and Homelessness Prevention <i>(Laws 2019, 1 S, C271-S005-1077)</i>	-	-	2,500,000	-
	<u>\$ 68,223</u>	<u>\$ 754,939</u>	<u>\$ 2,500,000</u>	<u>\$ 6,313,118</u>
Income Support - N Warrants (Fund 97500):				
SSIR <i>(Laws of 2011, Section 5, Chapter 179, Item 17)</i>	\$ -	\$ -	\$ 3,824,506	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,824,506</u>	<u>\$ -</u>
Medical Assistance (Fund 97600):				
Graduate Medical Education Expansion <i>(SB 536-Junior Bill L19, 1S, C278, S19A, 101)</i>	\$ -	\$ -	\$ 157,000	\$ -
Medicaid Buy-In <i>(SB536-Junior Bill L19, 1S, C278, S19A, 102)</i>	-	-	132,000	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289,000</u>	<u>\$ -</u>
Nonmajor Funds:				
Traumatic Brain Injury (Fund 20520):				
Brain Injury Service Funds	\$ -	\$ -	\$ 809,108	\$ -
Data Processing Appropriations (Fund 90100):				
Child Support Enforcement Replacement System <i>(Laws of 2015, Chapter 101, Section 7 & Laws of 2017, Chapter 135, Section & Laws of 2017, IS C135, S007, 109)</i>	-	-	2,245,398	-
Medicaid Management Information System Replacement <i>(Laws of 2017, Chapter 101, Section 7 & Laws of 2019, IS, C271, S007, 1019)</i>	-	-	852,494	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,907,000</u>	<u>\$ -</u>

State of New Mexico Human Services Department

Notes to Financial Statements

Note 17 – Upcoming Accounting Standards

GASB has issued the following statements, which are applicable in future fiscal years. At this time, management is evaluating the impact, if any, on the Department.

GASB Statement No. 84

Fiduciary Activities

Effective Date: The provisions in Statement No. 84 are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

The Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on:

1. Whether a government is controlling the assets of the fiduciary activity and
2. The beneficiaries with whom a fiduciary relationship exists.

The Statement describes four fiduciary funds that should be reported, if applicable:

1. Pension (and other employee benefit) trust funds,
2. Investment trust funds,
3. Private-purpose trust funds, and
4. Custodial funds.

Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

GASB Statement No. 87

Leases

Effective Date: The provisions in Statement No. 87 are effective for reporting periods beginning after December 15, 2019.

The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Supplementary Information

**State of New Mexico Human Services Department
 Budgetary Comparison Schedule – Program Support Program – P 522 –
 General Appropriations
 Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget
	Original	Final		
REVENUES				
Federal grants	\$ 36,973,400	\$ 38,286,400	\$ 35,706,431	\$ (2,579,969)
Other	711,400	711,400	711,400	-
Total revenues	<u>37,684,800</u>	<u>38,997,800</u>	<u>36,417,831</u>	<u>(2,579,969)</u>
EXPENDITURES				
Current				
Personnel services	17,580,200	16,780,200	15,554,427	1,225,773
Contractual services	20,157,200	20,157,200	19,798,373	358,827
Other costs	15,826,000	17,939,000	16,940,742	998,258
Total expenditures	<u>53,563,400</u>	<u>54,876,400</u>	<u>52,293,542</u>	<u>2,582,858</u>
OTHER FINANCING SOURCES				
State General Fund appropriations	15,755,500	15,755,500	15,755,500	-
Transfers in	123,100	123,100	123,100	-
Reversions	-	-	-	-
Total other financing sources	<u>15,878,600</u>	<u>15,878,600</u>	<u>15,878,600</u>	<u>-</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,889</u>	<u>\$ 2,889</u>

**State of New Mexico Human Services Department
Budgetary Comparison Schedule – Child Support Program – P 523 –
General Appropriations
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 20,501,400	\$ 20,501,400	\$ 21,640,609	\$ 1,139,209
Other	3,016,400	3,016,400	1,990,433	(1,025,967)
Total revenues	<u>23,517,800</u>	<u>23,517,800</u>	<u>23,631,042</u>	<u>113,242</u>
EXPENDITURES				
Current				
Personnel services	19,683,500	19,683,500	18,646,569	1,036,931
Contractual services	6,608,000	6,608,000	6,384,843	223,157
Other costs	4,963,100	4,963,100	4,445,590	517,510
Total expenditures	<u>31,254,600</u>	<u>31,254,600</u>	<u>29,477,002</u>	<u>1,777,598</u>
OTHER FINANCING SOURCES				
State General Fund appropriations	7,640,100	7,640,100	7,640,100	-
Transfers in	96,700	96,700	96,700	-
Reversions	-	-	(390,840)	(390,840)
Total other financing sources	<u>7,736,800</u>	<u>7,736,800</u>	<u>7,345,960</u>	<u>(390,840)</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

State of New Mexico Human Services Department
Budgetary Comparison Schedule – Medical Assistance Program – P 524 –
General Appropriations
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 4,157,386,900	\$ 4,143,058,900	\$ 4,081,451,391	\$ (61,607,509)
Other	62,228,300	66,984,300	54,999,136	(11,985,164)
Total revenues	4,219,615,200	4,210,043,200	4,136,450,527	(73,592,673)
EXPENDITURES				
Current				
Personnel services	12,512,000	12,512,000	11,939,177	572,823
Contractual services	60,135,800	62,506,940	53,232,914	9,274,026
Other costs	5,190,049,100	5,179,416,960	5,090,860,232	88,556,728
Total expenditures	5,262,696,900	5,254,435,900	5,156,032,323	98,403,577
OTHER FINANCING SOURCES				
State General Fund appropriations	847,546,300	844,457,300	844,457,300	-
Transfers in	195,535,400	199,935,400	199,187,002	(748,398)
Reversions	-	-	(23,534,191)	(23,534,191)
Total other financing sources	1,043,081,700	1,044,392,700	1,020,110,111	(24,282,589)
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ -	\$ 528,315	\$ 528,315

**State of New Mexico Human Services Department
Budgetary Comparison Schedule – Income Support Program – P 525 –
General Appropriations
Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance From
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 924,164,000	\$ 931,137,817	\$ 866,368,363	\$ (64,769,454)
Other	695,500	695,500	588,311	(107,189)
Total revenues	<u>924,859,500</u>	<u>931,833,317</u>	<u>866,956,674</u>	<u>(64,876,643)</u>
EXPENDITURES				
Current				
Personnel services	58,452,400	57,156,564	57,113,463	43,101
Contractual services	39,641,200	45,848,063	40,768,376	5,079,687
Other costs	870,954,100	875,965,798	810,887,380	65,078,418
Total expenditures	<u>969,047,700</u>	<u>978,970,425</u>	<u>908,769,219</u>	<u>70,201,206</u>
OTHER FINANCING SOURCES				
State General Fund appropriations	44,188,200	44,188,200	44,188,200	-
Transfers in	-	-	-	-
Reversions	-	-	(683,204)	(683,204)
Total other financing sources	<u>44,188,200</u>	<u>44,188,200</u>	<u>43,504,996</u>	<u>(683,204)</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ (2,948,908)</u>	<u>\$ 1,692,451</u>	<u>\$ (1,256,457)</u>

State of New Mexico Human Services Department
Budgetary Comparison Schedule – Income Support Program – P 766 –
General Appropriations
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 401,071,000	\$ 415,399,000	\$ 394,836,152	\$ (20,562,848)
Other	-	-	-	-
Total revenues	401,071,000	415,399,000	394,836,152	(20,562,848)
EXPENDITURES				
Current				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Other costs	502,285,000	519,702,000	494,038,765	25,663,235
Total expenditures	502,285,000	519,702,000	494,038,765	25,663,235
OTHER FINANCING SOURCES				
State General Fund appropriations	101,214,000	104,303,000	104,303,000	-
Transfers in	-	-	-	-
Reversions	-	-	(5,100,387)	(5,100,387)
Total other financing sources	101,214,000	104,303,000	99,202,613	(5,100,387)
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, 2019**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ 22,396,200	\$ 32,225,812	\$ 28,913,077	\$ (3,312,735)
Other	184,500	184,500	191,019	6,519
Total revenues	<u>22,580,700</u>	<u>32,410,312</u>	<u>29,104,096</u>	<u>(3,306,216)</u>
EXPENDITURES				
Current				
Personnel services	2,923,900	3,333,701	3,006,865	326,836
Contractual services	54,832,100	63,564,200	60,627,868	2,936,332
Other costs	1,897,700	2,585,411	2,347,848	237,563
Total expenditures	<u>59,653,700</u>	<u>69,483,312</u>	<u>65,982,581</u>	<u>3,500,731</u>
OTHER FINANCING SOURCES				
State General Fund appropriations	37,073,000	37,073,000	37,073,000	-
Transfers in	-	-	-	-
Reversions	-	-	(62,762)	(62,762)
Total other financing sources	<u>37,073,000</u>	<u>37,073,000</u>	<u>37,010,238</u>	<u>(62,762)</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,753</u>	<u>\$ 131,753</u>

**State of New Mexico Human Services Department
 Budgetary Comparison Schedule – Income Support Z-Codes
 Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget
	Original	Final		
REVENUES				
Federal grants	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
Current				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Other costs	375,000	375,000	375,000	-
Total expenditures	375,000	375,000	375,000	-
OTHER FINANCING SOURCES				
State General Fund appropriations	375,000	375,000	375,000	-
Transfers in	-	-	-	-
Reversions	-	-	-	-
Total other financing sources	375,000	375,000	375,000	-
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ -	\$ -	\$ -

**State of New Mexico Human Services Department
Budgetary Comparison Schedule – Data Processing Z-Codes
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ -	\$ 34,274,674	\$ 24,119,084	\$ (10,155,590)
Other	-	-	-	-
Total revenues	-	34,274,674	24,119,084	(10,155,590)
EXPENDITURES				
Current				
Personnel services	-	2,799,802	2,079,910	719,892
Contractual services	-	32,444,387	18,504,828	13,939,559
Other costs	-	4,775,107	6,181,077	(1,405,970)
Total expenditures	-	40,019,296	26,765,815	13,253,481
OTHER FINANCING SOURCES				
State General Fund appropriations	-	-	-	-
Transfers in	-	1,420,433	1,420,433	-
Reversions	-	-	-	-
Total other financing sources	-	1,420,433	1,420,433	-
REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ (4,324,189)	\$ (1,226,298)	\$ (3,097,891)

**State of New Mexico Human Services Department
 Budgetary Comparison Schedule – General Fund Z-Codes
 Year Ended June 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget
	Original	Final		
REVENUES				
Federal grants	\$ -	\$ 257,200	\$ 130,801	\$ (126,399)
Other	-	-	-	-
Total revenues	-	257,200	130,801	(126,399)
EXPENDITURES				
Current				
Personnel services	-	400,000	361,436	38,564
Contractual services	-	757,200	269,391	487,809
Other costs	-	-	-	-
Total expenditures	-	1,157,200	630,827	526,373
OTHER FINANCING SOURCES				
State General Fund appropriations	-	2,500,000	2,500,000	-
Transfers in	-	-	-	-
Reversions	-	-	(399,974)	(399,974)
Total other financing sources	-	2,500,000	2,100,026	(399,974)
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ 1,600,000	\$ 1,600,000	\$ -

**State of New Mexico Human Services Department
Budgetary Comparison Schedule – Medical Assistance Division Z-Codes
Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget
REVENUES				
Federal grants	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
Current				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Other costs	-	289,000	-	289,000
Total expenditures	-	289,000	-	289,000
OTHER FINANCING SOURCES				
State General Fund appropriations	-	289,000	289,000	-
Transfers in	-	-	-	-
Reversions	-	-	-	-
Total other financing sources	-	289,000	289,000	-
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				
	\$ -	\$ -	\$ 289,000	\$ (289,000)

State of New Mexico Human Services Department
Combining Balance Sheet – Governmental Nonmajor Funds
June 30, 2019

	20520 Traumatic Brain Injury	90100 Data Processing Appropriations	97400 Income Support L Warrants	Total Nonmajor Funds
ASSETS				
Investment in State General Fund				
Investment Pool	\$ 815,367	\$ 2,449,519	\$ 1,908,420	\$ 5,173,306
Federal grants receivable, net	-	5,284,362	943,501	6,227,863
Total assets	<u>\$ 815,367</u>	<u>\$ 7,733,881</u>	<u>\$ 2,851,921</u>	<u>\$ 11,401,169</u>
LIABILITIES				
Accounts payable	\$ 6,259	\$ 4,614,560	\$ 555,861	\$ 5,176,680
Due to federal government	-	21,429	2,296,060	2,317,489
Total liabilities	<u>6,259</u>	<u>4,635,989</u>	<u>2,851,921</u>	<u>7,494,169</u>
FUND BALANCES				
Committed	809,108	3,097,892	-	3,907,000
Total fund balances	<u>809,108</u>	<u>3,097,892</u>	<u>-</u>	<u>3,907,000</u>
Total liabilities and fund balances	<u>\$ 815,367</u>	<u>\$ 7,733,881</u>	<u>\$ 2,851,921</u>	<u>\$ 11,401,169</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, 2019

	20520 Traumatic Brain Injury	90100 Data Processing Appropriations	97400 Income Support L Warrants	Total Non Major Funds
REVENUES				
Federal grants	\$ -	\$ 24,119,084	\$ 22,509,018	\$ 46,628,102
Other revenues	914,972	-	-	914,972
Total revenues	<u>914,972</u>	<u>24,119,084</u>	<u>22,509,018</u>	<u>47,543,074</u>
EXPENDITURES				
Current				
Financial assistance				
Financial assistance	-	-	22,509,018	22,509,018
Total financial assistance	<u>-</u>	<u>-</u>	<u>22,509,018</u>	<u>22,509,018</u>
General government				
Personnel services	-	2,079,910	-	2,079,910
Contractual services	386,657	18,504,827	-	18,891,484
Other operating costs	-	4,581,162	-	4,581,162
Total general government	<u>386,657</u>	<u>25,165,899</u>	<u>-</u>	<u>25,552,556</u>
Capital outlay	-	1,599,916	-	1,599,916
Total expenditures	<u>386,657</u>	<u>26,765,815</u>	<u>22,509,018</u>	<u>49,661,490</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	528,315	(2,646,731)	-	(2,118,416)
OTHER FINANCING SOURCES				
Transfers in				
Other State Agencies	-	1,420,433	-	1,420,433
NET CHANGE IN FUND BALANCES	528,315	(1,226,298)	-	(697,983)
FUND BALANCES				
Beginning of year	<u>280,793</u>	<u>4,324,190</u>	<u>-</u>	<u>4,604,983</u>
End of year	<u>\$ 809,108</u>	<u>\$ 3,097,892</u>	<u>\$ -</u>	<u>\$ 3,907,000</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, 2019

	June 30, 2018	Additions	Deletions	June 30, 2019
ASSETS				
Interest in the State Treasurer General Fund Investment Pool	\$ 971,390	\$ 139,731,047	\$ (140,097,424)	\$ 605,013
Other receivables, net	589,095	312,999	(303,412)	598,682
Total assets	<u>\$ 1,560,485</u>	<u>\$ 140,044,046</u>	<u>\$ (140,400,836)</u>	<u>\$ 1,203,695</u>
LIABILITIES				
Deposits held in trust for others	\$ 931,399	\$ 137,855,725	\$ (138,243,972)	\$ 543,152
Other liabilities	589,095	9,588	-	598,683
Accounts payable	39,991	21,869	-	61,860
Total liabilities	<u>\$ 1,560,485</u>	<u>\$ 137,887,182</u>	<u>\$ (138,243,972)</u>	<u>\$ 1,203,695</u>

**State of New Mexico Human Services Department
Schedule of Joint Powers Agreements
Year Ended June 30, 2019**

Name/ Responsible Party	Program Description	Contract #	Date of Agreement		Fiscal Agent/ Audit Responsibility	Contract Amount	FY 2019 Contract Amount	Expended Amount
			Beginning	Ending				
CYFD	Case Management - Protective Services	JPA 95-17 A1	6/18/1994	UT	HSD	\$ 5,451,995	\$ 1,645,000	\$ 364,679
Department of Health	EPSDT	JPA 95-29 A1	7/1/1995	UT	HSD	1,000,000	525,000	231,575
Department of Health	Nurse Aide Training	JPA 96-22 A2	2/8/1996	UT	HSD	3,525,000	1,715,000	608,063
Department of Health	Coordinate Services for Medicaid Eligible Families	JPA 96-32	7/1/1994	UT	HSD	1,000,000	500,000	143,414
Department of Health	Home and Community Based Waivers	JPA 11-630-8000-0003 A4	7/1/2010	UT	HSD	20,185,149	11,025,000	6,636,587
Department of Health	Administrative Funds for Medicaid Assistance Clients	JPA 11-630-8000-0008 A1	7/1/2010	UT	HSD	1,645,000	1,400,000	1,329,815
CSED/Navajo Nation	To Manage Navajo Nation's CSE Cases	JPA 16-630-7101-0019 A1	12/11/2015	6/30/2020	HSD	3,072,262	629,909	-

UT - Until Terminated

**State of New Mexico Human Services Department
Schedule of Special Appropriations
Year Ended June 30, 2019**

<u>Description</u>	<u>Purpose</u>	<u>Appropriation Period</u>	<u>Original/ Adjusted Appropriation</u>	<u>Prior Years' Expenditures (Unaudited)</u>	<u>Current Year Expenditures FY19</u>	<u>Amount to be Reverted</u>	<u>Unencumbered Appropriations</u>
FUND 05200 - GENERAL FUND							
APPROPRIATIONS							
BHSD	Laws 2018 Chapter 73 Section 5 Item 79 For a demonstration project providing evidence-based residential substance use disorder treatment	June 2018 to June 2019	\$ 300,000	\$ 300,000	\$ -	\$ -	\$ -
BHSD	Laws 2018 Chapter 73 Section 5 Item 81 For housing for people who are homeless or at risk of homelessness due to behavioral health disabilities	June 2018 to June 2019	100,000	100,000	-	-	-
BHSD	Laws 2018 Chapter 73 Section 5 Item 82 To assist jails and prisons to initiate a recidivism reduction program	June 2018 to June 2019	500,000	-	361,435	138,565	-
BHSD	Laws 2019 Chapter 271 Section 5 Item 77 To reduce incarceration and homelessness rates and to improve prison and county jail re-entry services	June 2018 to June 2020	2,500,000	-	-	-	2,500,000
Fund 05200 total			<u>\$ 3,400,000</u>	<u>\$ 400,000</u>	<u>\$ 361,435</u>	<u>\$ 138,565</u>	<u>\$ 2,500,000</u>

**State of New Mexico Human Services Department
Schedule of Special Appropriations (continued)
Year Ended June 30, 2019**

Description	Purpose	Appropriation Period	Original/ Adjusted Appropriation	Prior Years' Expenditures (Unaudited)	Current Year Expenditures FY19	Amount to be Reverted	Unencumbered Appropriations
FUND 90100 - DATA PROCESSING							
APPROPRIATIONS							
CSED	Laws of 2015, Chapter 101, Section 7 To enhance or replace the current child support enforcement system	July 2014 to June 2019	\$ 3,400,000	\$ 1,109,025	\$ 45,577	\$ -	\$ 2,245,398
CSED	Laws of 2015, Chapter 101, Section 7 To redevelop and replace the Medicaid Management information system	July 2016 to June 2019	30,800,000	20,983,144	8,031,257	-	1,785,599
CSED	Laws of 2015, Chapter 101, Section 7 To redevelop and replace the Medicaid Management information system	July 2017 to June 2019	<u>50,000,000</u>	<u>454,026</u>	<u>18,688,980</u>	<u>-</u>	<u>30,856,994</u>
Fund 90100 total			<u>\$ 84,200,000</u>	<u>\$ 22,546,195</u>	<u>\$ 26,765,814</u>	<u>\$ -</u>	<u>\$ 34,887,991</u>
FUND 97500 - INCOME SUPPORT							
APPROPRIATIONS							
SSIAR	Laws 2018 Chapter 73 Section 5 Item 80 For statewide food banks	June 2018 to June 2019	<u>\$ 375,000</u>	<u>\$ 375,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND 97600 - MEDICAID ASSISTANCE							
APPROPRIATIONS							
MAD	Laws 2019 Chapter 278 Section 19 Item 1 For start-up costs of a graduate medical education expansion grant program	June 2019 to June 2020	\$ 157,000	\$ -	\$ -	\$ -	\$ 157,000
MAD	Laws 2019 Chapter 278 Section 19 Item 2 For the study and administrative development of a Medicaid buy-in plan	June 2019 to June 2020	<u>132,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,000</u>
Fund 97600 total			<u>\$ 289,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289,000</u>

State of New Mexico Human Services Department Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

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)				
Food and Nutrition Services Direct Programs:				
State Administrative Expenses For Child Nutrition	10.560	12-35-3501	\$ -	\$ 521,797
Food Distribution Cluster:				
Commodity Supplemental Food Program	10.565	74Y8005	569,798	1,154,523
Emergency Food Assistance Program (Administrative Costs)	10.568	XNM810813	1,409,346	1,518,431
Emergency Food Assistance Program (Food Commodities)	10.569	None	-	9,432,850
Total Food Distribution Cluster			<u>1,979,144</u>	<u>12,105,804</u>
National School Lunch Program (Child Nutrition Cluster)	10.555	None	-	10,822,785
Total Food and Nutrition Services			<u>1,979,144</u>	<u>23,450,386</u>
Supplemental Nutritional Assistance Program (SNAP) Cluster Direct Program:				
Supplemental Nutrition Assistance Program	10.551	58-3189-8-104	-	633,145,298
State Administrative Matching Grants For The Supplemental Nutrition Assistance Program	10.561	12-35-3501	2,113,938	21,358,433
Total Supplemental Nutritional Assistance Program (SNAP) Cluster			<u>\$ 2,113,938</u>	<u>\$ 654,503,731</u>
Total USDA Federal Direct Programs			<u>\$ 4,093,082</u>	<u>\$ 677,954,117</u>
Department of Health and Human Services (DHHS)				
Family Support Administration Direct Programs:				
Child Support Enforcement	93.563	G-XX-04-NM-4004	\$ 3,186,960	\$ 26,168,880
Temporary Assistance For Needy Families (TANF Cluster)	93.558	G-XX-04-NM-TANF	75,416,621	123,301,339
Low-Income Home Energy Assistance	93.568	G-XX-B1-NM-LIEA	2,348,367	22,913,987
Total Family Support Administration Direct Programs			<u>\$ 80,951,948</u>	<u>\$ 172,384,206</u>
Family Support Administration Pass-Through Program:				
Community Services Block Grant	93.569	01-XX-B1-NM-COSR	\$ 3,053,973	\$ 4,715,350
Administration for Children, Youth and Families Direct Programs:				
Refugee and Entrant Assistance - State Administered Programs	93.566	G-XX-04-NM-6100	\$ 454,157	\$ 647,363
Refugee And Entrant Assistance - Discretionary Grants	93.576	G-XX-04-NM-6110	147,689	147,689
Total Administration for Children Youth and Families Direct Programs			<u>\$ 601,846</u>	<u>\$ 795,052</u>

**State of New Mexico Human Services Department
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2019**

Center for Substance Abuse Treatment (CSAT) Direct Programs:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2B08T1010037-11S2	\$ 9,855,227	\$ 10,730,354
Opioid STR	93.788	1H79TI080267-01	4,335,420	4,341,181
Opioid STR	93.788	3H79T1081696-01S1	<u>2,557,831</u>	<u>3,619,720</u>
Subtotal for CFDA 93.788			6,893,251	7,960,901
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	6H79SM080246-01M001	1,436,667	1,477,841
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	5H79TI026053-02	433,293	433,292
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	1H79SM080899-01	280,896	330,642
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	HHSS283201200021	-	101,250
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	1H79SP022114-01	918,331	1,049,451
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	1U79SP022084-01	443,171	461,113
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	1U79SP019429-01	1,443,213	2,014,334
Substance Abuse and Mental Health Services - Projects of Regional And National Significance	93.243	1U79TI025087-01	<u>171,874</u>	<u>171,874</u>
Subtotal for CFDA 93.243			5,127,445	6,039,797
Total Substance Abuse Treatment Direct Programs			<u>\$ 21,875,923</u>	<u>\$ 24,731,052</u>
Substance Abuse and Mental Health Services Administration Direct Programs:				
Center for Mental Health Services:				
Block Grants For Community Mental Health Services	93.958	2B09SM010037-11S4	\$ 3,448,299	\$ 3,634,732
Projects For Assistance In Transition From Homelessness (Path)	93.150	2X06SM060032-11	<u>290,833</u>	<u>300,000</u>
Total Mental Health Services Administration Direct Programs:			3,739,132	3,934,732
Centers for Medicare & Medicaid Services Pass-Through Program:				
Medicaid Cluster:				
Office of Health Care Finance Administration				
State Survey And Certification Of Health Care Providers And Suppliers (Title XVIII) Medicare	93.777	05-XX-05-NM-5001	<u>\$ 1,217,746</u>	<u>\$ 1,217,746</u>
Centers for Medicare & Medicaid Services Direct Programs:				
Medical Assistance Program	93.778	05-XX-05-NM-5028	-	4,314,690,571
Medical Assistance Program	93.778	05-XX-05-NM-5048	32,231,862	146,655,444
Medical Assistance Program	93.778	05-1305NMINCT	-	1,715,480
Medical Assistance Program	93.778	None	-	624,852
Subtotal for CFDA 93.778			<u>32,231,862</u>	<u>4,463,686,347</u>
Total Medicaid Cluster			33,449,608	4,464,904,093
Children's Health Insurance Program	93.767	05-XX-05-NM5021	-	97,381,749
Total Centers for Medicare & Medicaid Services			<u>\$ 33,449,608</u>	<u>\$ 4,562,285,842</u>
Total DHHS			<u>143,672,430</u>	<u>4,768,846,234</u>
Total Expenditures of Federal Awards			<u>\$ 147,765,512</u>	<u>\$ 5,446,800,351</u>

**State of New Mexico Human Services Department
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019**

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the State of New Mexico Human Services Department (the Department) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position or changes in net position of the Department.

Note 2 – Basis of Accounting

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

Note 3 – Reconciliation to Financial Statements

Federal Grant Revenue, per Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 5,453,346,092
Less: Federal Grant Revenue, not directly related to Grant Expenditures	(7,025,993)
Miscellaneous Adjustments	<u>480,252</u>
Federal Grant Revenue, per Statement of Expenditures of Federal Awards	<u><u>\$ 5,446,800,351</u></u>

Report of Independent Auditors 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*

David Scrase, MD, Cabinet Secretary
State of New Mexico Human Services Department
Mr. Brian S. Colón, Esq., 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 statements of the New Mexico Human Services Department (the Department) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Department's basic financial statements, and have issued our report thereon dated November 1, 2019.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that are required to be reported per Section 12-6-5 NMSA 1978, that we have described in the Section 12-6-5 NMSA 1978 schedule of findings and questioned costs, as item 2019-003.

The Department's Response to Findings

The Department's response to the findings 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 results 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.

Mess Adams LLP

Albuquerque, New Mexico
November 1, 2019

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

David Scrase, MD, Cabinet Secretary
State of New Mexico Human Services Department
Mr. Brian S. Colón, Esq., New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the State of 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, 2019. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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.

Auditor's 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, 2019.

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 did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-002 that we consider to be a significant deficiency.

The Department's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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.

Mess Adams LLP

Albuquerque, New Mexico
November 1, 2019

**State of New Mexico Human Services Department
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2019**

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs and type of auditor’s report issued on compliance for major federal programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
10.551 10.561	Supplemental Nutrition Assistance Program Cluster	Unmodified
93.568	Low-Income Home Energy Assistance	Unmodified
93.777 93.778	Medicaid Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 16,340,401

Auditee qualified as low-risk auditee? Yes No

**State of New Mexico Human Services Department
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Section II – Financial Statement Findings

2019-001 (2018-001) Reconciliation of Amounts Due to the Federal Government (Material Weakness)

Condition: The Department is not reconciling and repaying the balance in the due to federal government account as presented on the Statement of Net Position.

Management's progress: Management has not made progress in correcting this finding.

Criteria: Proper internal controls over federal programs include a review and prompt repayment of any federal overbillings. Additionally, these amounts should be reconciled at least annually for reporting purposes in the Department's financial statements in accordance with Generally Accepted Accounting Principles.

Context: In fiscal year 2016, the Department received about \$40 million in revenues that should have been used to offset federal reimbursements. As the reimbursements for the year had been completed, the amount was recorded as a due to the federal government. Since that time, the Department has not utilized the amounts to offset the federal reimbursement requests, and the amount has since continued to increase.

Cause: Management oversight.

Effect: Misstatement to the financial statements and obligation to payback any earnings on these funds.

Repeat Finding: Previously reported as finding 2018-001.

Recommendation: We recommend management reconcile the amount due to the federal government for proper recognition and repayment of any amounts owed with the federal government.

Current Status/Plan of Action: Management agrees with this finding. HSD has not received any communication or confirmation from the Federal Government showing monies due. Management will continue to reconcile grant programs and work with bureaus within the Administrative Services Division to process and return funds to our federal partners for all other HSD programs. The Grants Management Bureau Chief will ensure timely reconciliation and monitoring of "Due to the Federal Government" with the quarterly Trial Balance meetings and monthly management review. ASD Management started the reconciliation process in FY2019 but has not completed the analysis and intends to address any prior year balances by June 30, 2020. Any current amounts, subsequent to FY16, which have caused this balance to increase will be reconciled and will be offset against any current draws or payment will be sent to the Federal Government.

Responsible Person: Deputy Director, Administration Services Division

**State of New Mexico Human Services Department
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2019**

Section III – Federal Award Findings and Questioned Costs

2019-002 Eligibility (Significant Deficiency)

<i>CFDA Number(s)</i>	<i>Program Name/Title</i>	<i>Federal Agency/ Pass-through Entity</i>	<i>Award Number</i>	<i>Award Year</i>
10.551/ 10.561	Supplemental Nutrition Assistance Program (SNAP)	U.S. Department of Agriculture	Multiple Awards	2019

Condition: The Department did not appropriately verify income sources for one participant, resulting in an incorrect benefit amount calculation in ASPEN, the Department’s eligibility and benefit system.

Context: Out of 65 items tested for compliance, one did not have the appropriate income verifications performed. Pay stubs for a contract employee were used rather than obtaining the current contract and averaging the income over a 12-month period.

Cause: The Department did not adhere to the NMAC regarding income verification for a contract employee, which resulted in incorrect income used in the eligibility system for SNAP benefit eligibility.

Effect: The participant received benefits more than what is allowed by law. Total amount of overpayment was \$715.

Questioned Cost: Unknown

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the Department provide training to ensure all case workers are aware of income verification guidelines.

Current Status/Plan of Action: The Department agrees with this error and agrees that the income was not verified for SNAP eligibility in accordance with NMAC for Contract income. The Department would also like to recognize that this is an isolated error and would like to contribute this to our previous and continual trainings that are conducted with the staff. A review of the case revealed the determination for SNAP eligibility was a worker error, who is no longer employed with the Department. Since this error occurred the field has received training addressing Contract Income and how to handle it. The Self-Employment training through the Continuing Education training was conducted February 11 - February 28, 2019. To correct this finding, the Department requested the field office review the finding and establish appropriate claims. The case was reviewed and claims established on October 23, 2019.

Responsible Person: Cash Program Manager

**State of New Mexico Human Services Department
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Section IV – Other Findings as Required by Section 12-6-5 NMSA 1978

**2019-003 (2018-005) Noncooperation with Child Support Enforcement Division
(Other Noncompliance)**

Condition: Child Support Enforcement Division (CSED) sanction requirements, appropriate levels of sanctions were not properly applied to ASPEN, the Department's eligibility and benefit system.

Management Progress: *Management has made progress on this finding by additional processes and procedures, however the documentation in the ASPEN system was not completed for the condition noted.*

Criteria: NMAC 8.102.420.14D states on notification by CSED of failure to cooperate, the caseworker shall take immediate action to issue a conciliation notice or to impose a noncompliance sanction.

Context: Out of 25 items tested for compliance with the CSED's sanction requirements, one was not enforced in ASPEN because the participant already had benefits terminated when the referral from CSED was batched. However, when the participant re-applied and began receiving benefits in a future month no sanctions were imposed.

Cause: The Department's CSED is not appropriately interfacing with ASPEN, causing participant files to not be updated with all sanctions appropriately.

Effect: The Department was unable to effectively apply appropriate sanctions, resulting in potential overpayment of benefits.

Repeat Finding: Previously reported as 2018-005.

Recommendation: We recommend 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.

Current Status/Plan of Action: The Department did receive the noncompliance for this individual on September 14, 2018, but the TANF benefits were closed. Due to the TANF benefits being closed the noncompliance initiation didn't not take effect. The functionality of ASPEN is designed to not allow the sanction process to be allowed because the individual is no longer receiving the benefit.

The household's TANF benefits did get approved in February 2019, and ASPEN did send the referral to CSED. CSED sent over the noncompliance again September 27, 2019, and this is when ASPEN took the appropriate action. The Department does agree that the noncompliance should have been impacted after February 2019 TANF approval.

**State of New Mexico Human Services Department
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019**

Section IV – Other Findings as Required by Section 12-6-5 NMSA 1978

**2019-003 (2018-005) Noncooperation with Child Support Enforcement Division
(Other Noncompliance)**

The Department has created CR 2877 to create a daily report to show the non-coop that ASPEN didn't act on during a mass update. The report will identify the reason the mass update did not take effect and allow manual intervention to ensure the noncompliance is acted upon timely. This CR is still pending prioritization to implement the change. CSED and Income Support Division (ISD) do a quarterly reconciliation to ensure that the non-compliance was imposed timely and if not to ensure the manual processes.

Responsible Person: Cash Program Manager and CSED Director

**State of New Mexico Human Services Department
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019**



Michelle Lujan Grisham, Governor
David R. Scrase, M.D., Secretary

Financial Statement Finding

2018-001	The Department is not reconciling and repaying the balance in the due to federal government account.	Uncorrected, Repeated as 2019-001
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Federal Award Findings

2018-003	Processes and Controls over Eligibility Temporary Assistance for Needy Families (CFDA 93.558)	Corrected
2018-004	Eligibility Temporary Assistance for Needy Families (CFDA 93.558)	Corrected
2018-005	Noncooperation with Child Support Enforcement Division Temporary Assistance for Needy Families (CFDA 93.558)	Uncorrected, Repeated as 2019-003
2019-006	Subrecipient Monitoring Child Support Enforcement (CFDA 93.563)	Corrected

Other Finding as Required by Section 12-6-5 NMSA 1978

2019-002	Lease Schedules	Corrected
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State of New Mexico Human Services Department

Exit Conference

Year Ended June 30, 2019

An exit conference was held on October 29, 2019. During this meeting, the contents of this report were discussed with the following individuals:

State of New Mexico Human Services Department

David Scrase, Secretary
Angela Medrano, Deputy Secretary
Russell Toal, Deputy Secretary
Danny Sandoval, ASD Director
Joyce Sandoval, ASD Deputy Director
Carolee Graham, ASD Deputy Director
Joseph Anaya, ASD CFS Bureau Chief
Jeanette Lujan, ASD Financial Accounting Bureau Chief
Karmela Martinez, ISD Director
Jeremy Toulouse, CSED Director
Kari Armijo, MAD Director
Marilyn Wright, LIHEAP Manager
Lisa Medina-Lujan, OIG Program Integrity Manager
Jennifer Globe, OIG
Suzanne Duran-Vigil, Cash Program Manager
Paul Ritzman, General Counsel
Consuelo Pena, BHSD Deputy Director

Moss Adams LLP

Kory Hoggan, Partner
Sheila Herrera, Senior Manager
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State of New Mexico Human Services Department is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.