



*REPORT OF INDEPENDENT AUDITORS OF  
FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION*

*FOR*

**STATE OF NEW MEXICO  
WORKFORCE SOLUTIONS DEPARTMENT**

*June 30, 2017*

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**State of New Mexico Workforce Solutions Department**  
**Official Roster**  
**June 30, 2017**

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Celina Bussey, Cabinet Secretary

Joy Forehand, Deputy Cabinet Secretary

David Robbins, Administrative Services Division Director and  
Chief Financial Officer

Sue Anne Athens, Chief Information Officer

Aaron Hinds, Unemployment Insurance Director

Jason Dean, Labor Relations Division Director

Marcos Martinez, Employment Services Director

Yolanda Montoya-Cordova, Workforce Innovation and Opportunity Act Administrator

## Report of Independent Auditors

Ms. Celina Bussey, Cabinet Secretary  
New Mexico Workforce Solutions Department  
Mr. Timothy Keller  
New Mexico State Auditor

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of New Mexico Workforce Solutions Department, a department of the State of New Mexico (the Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements 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, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of the Department as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof 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 present the financial position and changes in financial position of only that portion of governmental activities, business-type activities, each major fund, the aggregate remaining fund information, and all the respective budgetary comparisons of the State of New Mexico that are attributable to the transactions of the Department. The financial statements do not present fairly the financial position of the entire State of New Mexico as of June 30, 2017, the changes in its financial position, and its cash flows for the year then ended in accordance 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 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.

#### *Supplementary 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 schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the supplementary information required by 2.2.2 NMAC as listed in the table of contents as Schedule 1 - Combining balance sheet – nonmajor governmental funds, Schedule 2 - Combining statement of revenues, expenses, and changes in fund balances – nonmajor governmental funds, Schedule 3 - Combining statement of net position – proprietary funds, Schedule 4 - Combining statement of revenues, expenditures, and changes in fund net position – proprietary funds, Schedule 5 - Schedule of individual deposit accounts, Schedule 6 – Schedule of pledged collateral, Schedule 7 – Schedule of changes in fiduciary assets and liabilities, and Schedule 8 - Joint powers agreement are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents 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 schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents 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 October 27, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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  
October 27, 2017

**State of New Mexico Workforce Solutions Department  
Management's Discussion and Analysis  
Year Ended June 30, 2017**

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The Management's Discussion and Analysis of the New Mexico Department of Workforce Solutions (the Department) is designed to assist the reader in focusing on significant financial issues, provide an overview of the Department's financial activity, identify changes in the Department's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

The Management's Discussion and Analysis (MD&A) is designed to focus on the past year's activities, resulting changes and currently known facts; please read it in conjunction with the Department's financial statements and notes which follow this section.

The Department's annual report consists of a series of financial exhibits and accompanying notes. The Statement of Net Position and the Statement of Activities provide information on the activities of the Department in the aggregate and present a longer-term view of the Department's finances. For governmental activities, these statements describe how services were financed in the short-term and what remains for future spending by the Department. Fund financial statements also report the Department's operations in more detail than the government-wide financial statements by providing additional information about the Department's major funds. A description of the Department's major funds is contained in Note 1 to the financial statements. The remaining statements provide financial information about activities for which the Department acts as an agent, primarily in the collection of funds related to wage claim assignments on employers that the Department's Labor Relations Division makes on behalf of employees and laborers.

**Financial Highlights**

Table A-1  
Comparative Statement of Total Net Position

	FY 2017	FY 2016	\$ Change	% Change
<b>Assets</b>				
Current and Other Assets	\$ 482,846,746	\$ 446,766,758	\$ 36,079,988	8.1%
Capital and Non-Current Assets	14,720,957	22,228,345	(7,507,388)	-33.8%
<b>Total Assets</b>	<u>\$ 497,567,703</u>	<u>\$ 468,995,103</u>	<u>\$ 28,572,600</u>	6.1%
<b>Liabilities</b>				
Current Liabilities	\$ 20,322,311	\$ 23,116,579	\$ (2,794,268)	-12.1%
Long-Term Obligations	-	-	-	0.0%
<b>Total Liabilities</b>	<u>\$ 20,322,311</u>	<u>\$ 23,116,579</u>	<u>\$ (2,794,268)</u>	-12.1%
<b>Net Assets</b>				
Net Investment in Capital Assets	\$ 14,720,957	\$ 22,228,345	\$ (7,507,388)	-33.8%
Restricted	462,779,031	424,003,417	38,775,614	9.1%
Unrestricted	(254,596)	(353,238)	98,642	-27.9%
Total Net Position	<u>477,245,392</u>	<u>445,878,524</u>	<u>31,366,868</u>	7.0%
<b>Total Liabilities and Net Position</b>	<u>\$ 497,567,703</u>	<u>\$ 468,995,103</u>	<u>\$ 28,572,600</u>	6.1%



**State of New Mexico Workforce Solutions Department  
Management's Discussion and Analysis  
Year Ended June 30, 2017**

**Financial Highlights (continued)**

Table A-2  
Comparative Statement of Activities

	FY 2017	FY 2016	\$ Change	% Change
<b>REVENUE:</b>				
<u>Program Revenues by Major Sources</u>				
Governmental Activities				
Employment Services				
Charges for Services	\$ 1,175,016	\$ 4,554,050	\$ (3,379,034)	-74.2%
Operating Grants	46,647,204	43,832,004	2,815,200	6.4%
Total Governmental Activities Revenue	<u>47,822,220</u>	<u>48,386,054</u>	<u>(563,834)</u>	-1.2%
Business-Type Activities				
Unemployment Activities				
Charges for Services	210,222,582	347,985,603	(137,763,021)	-39.6%
Operating Grants	4,322,130	3,272,825	1,049,305	32.1%
Total Business-Type Activities Revenue	<u>214,544,712</u>	<u>351,258,428</u>	<u>(136,713,716)</u>	-38.9%
Total Program Revenues by Major Sources	262,366,932	399,644,482	(137,277,550)	-34.3%
<u>General Revenues by Major Source</u>				
Governmental Activities				
State Appropriations	8,976,600	10,814,900	(1,838,300)	-17.0%
Reversions	(1,000,000)	-	(1,000,000)	100.0%
Investment Earnings /Miscellaneous	9,899	5,467	4,432	81.1%
Other-Transfers In	1,637,300	1,515,714	121,586	8.0%
Total Governmental Activities Revenue	<u>9,623,799</u>	<u>12,336,081</u>	<u>(2,712,282)</u>	-22.0%
Business-Type Activities				
Other Revenue				
Other-Transfers Out	-	(17,514)	17,514	-100.0%
Investment Earnings	9,028,560	5,827,902	3,200,658	54.9%
Total Business-Type Activities Revenues	<u>9,028,560</u>	<u>5,810,388</u>	<u>3,218,172</u>	55.4%
Total General Revenues by Major Sources	<u>18,652,359</u>	<u>18,146,469</u>	<u>505,890</u>	2.8%
Total Revenues by Major Sources	<u>\$ 281,019,291</u>	<u>\$ 417,790,951</u>	<u>\$ (136,771,660)</u>	-32.7%

**Revenue**

- The Unemployment Trust Fund experienced a decrease in revenue which coincides with a legislative approved employer tax rate reduction. Unemployment claims are presently at approximately 42,797 weekly claims, down from a year ago of approximately 43,419 weekly claims. Federal funds for administering unemployment activities slightly increased from \$13,299,899 in fiscal year 2016 to \$13,778,625 in fiscal year 2017.
- Appropriations from the State General Fund decreased from \$10,814,900 to \$8,976,600, as mandated to alleviate the state budget deficit.
- Other revenue sources remained fairly constant, although the Department continues to experience an overall decline in many federal grants.

**State of New Mexico Workforce Solutions Department  
Management's Discussion and Analysis  
Year Ended June 30, 2017**

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**Financial Highlights (continued)**

Table A-2b  
Comparative Statement of Activities

	<u>FY 2017</u>	<u>FY 2016</u>	<u>\$ Change</u>	<u>% Change</u>
<b>EXPENSES:</b>				
<u>Program Expenses by Major Sources</u>				
Governmental Activities				
Governmental	\$ 71,318,351	\$ 69,908,987	\$ 1,409,364	2.0%
Total Governmental Activities Expenses	<u>71,318,351</u>	<u>69,908,987</u>	<u>1,409,364</u>	
Business-Type Activities				
Unemployment Services	178,334,072	195,505,665	(17,171,593)	-8.8%
Total Business-Type Activities Expenses	<u>178,334,072</u>	<u>195,505,665</u>	<u>(17,171,593)</u>	-8.8%
Total Program Expenses by Major Sources	<u>\$ 249,652,423</u>	<u>\$ 265,414,652</u>	<u>\$ (15,762,229)</u>	-5.9%

**Expenses**

The cost of business-type activities related to unemployment services decreased in fiscal year 2017. The Department paid out about 9% less unemployment benefits in fiscal year 2017 than in 2016. For further information regarding the decrease in paid unemployment services see the Economic Outlook. The total costs for operations increased overall from \$69,908,987 to \$71,880,688, or about 3.0%. This small increase was due to healthcare and miscellaneous operational general expenditures.

Table A-2c  
Comparative Statement of Activities

	<u>FY 2017</u>	<u>FY 2016</u>	<u>\$ Change</u>	<u>% Change</u>
<u>Change in Net Position</u>				
Governmental Activities				
Beginning Net Position	\$ 36,786,766	\$ 45,973,618	\$ (9,186,852)	-20.0%
Change in Net Position	<u>(13,872,332)</u>	<u>(9,186,852)</u>	<u>(4,685,480)</u>	51.0%
Ending Net Position	<u>22,914,434</u>	<u>36,786,766</u>	<u>(13,872,332)</u>	-37.7%
Business-type Activities				
Beginning Net Position	409,091,758	247,528,607	161,563,151	65.3%
Change in Net Position	<u>45,239,200</u>	<u>161,563,151</u>	<u>(116,323,951)</u>	-72.0%
Ending Net Position	<u>454,330,958</u>	<u>409,091,758</u>	<u>45,239,200</u>	11.1%
Ending Net Position	<u>\$ 477,245,392</u>	<u>\$ 445,878,524</u>	<u>\$ 31,366,868</u>	7.0%

**State of New Mexico Workforce Solutions Department**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2017**

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**Financial Highlights (continued)**

**Total Net Position**

The Department's total ending net position increased by \$31,366,868, a 7% increase over fiscal year 2016. Net position attributable to government activities decreased by \$13,872,332, or a 37.7% decrease over the prior fiscal year. Net position attributable to business-type activities increased by \$45,239,200, or an 11.1% increase over the prior fiscal year. The primary driver of the State Trust Fund balance is a decrease in unemployment claim activity.

**Financial Analysis at the Fund Level**

**Governmental Funds**

*General Fund* – Overall revenues and expenditures remained relatively consistent with prior year with a slight increase in federal funding. Fund balance increased by \$80,826 from the prior fiscal year.

*Penalty and Interest Fund* – The revenues increased by approximately \$548,000 in the current year compared to prior year.

*Public Works Apprenticeship Training* – Program overall revenues increased by approximately \$265,000 compared with prior year.

*Labor Enforcement Fund* – Program had an increase in revenue of approximately \$123,000 compared to prior year revenue.

**State of New Mexico Workforce Solutions Department  
Management's Discussion and Analysis  
Year Ended June 30, 2017**

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**Financial Highlights (continued)**

**Capital Assets**

Table A-3  
Capital Assets

	<u>June 30, 2016</u>	<u>FY17 Additions</u>	<u>FY17 Disposals</u>	<u>June 30, 2017</u>
Assets				
Office Improvements	\$ 3,085,958	\$ 171,276	\$ -	\$ 3,257,234
Vehicles	302,074	-	-	302,074
Office Equipment	2,081,301	-	-	2,081,301
Furniture and Fixtures	862,683	-	-	862,683
Computer Equipment	48,580,078	670,215	-	49,250,293
Total Acquired Value	<u>54,912,094</u>	<u>841,491</u>	<u>-</u>	<u>55,753,585</u>
Accumulated depreciation				
Office Improvements	(1,631,380)	(235,267)	-	(1,866,647)
Vehicles	(166,141)	(30,207)	-	(196,348)
Office Equipment	(2,013,969)	(9,003)	-	(2,022,972)
Furniture and Fixtures	(584,953)	(59,031)	-	(643,984)
Computer Equipment	(28,287,311)	(8,015,366)	-	(36,302,677)
Total Accumulated Depreciation	<u>(32,683,754)</u>	<u>(8,348,874)</u>	<u>-</u>	<u>(41,032,628)</u>
Net Total	<u>\$ 22,228,340</u>	<u>\$ (7,507,383)</u>	<u>\$ -</u>	<u>\$ 14,720,957</u>

During fiscal year 2017, the Department had office improvements for the Deming location.

**Debt**

The Department has no long-term debt.

**General Fund Budgetary Highlights**

The Department's overall General Fund Appropriations decreased by \$522,400 during fiscal year 2017. The New Mexico Legislature requested the decrease in order to help the projected fiscal year 2017 state budget deficit. The Department utilized all general fund appropriations and other state funding for fiscal year 2017.

In fiscal year 2017, the Department received a transfer in the amount of \$1,500,000 from the Worker's Compensation Administration Department for the Labor Relations Division and Unemployment Insurance Division. In order to help the State of New Mexico budget deficit \$1,000,000 of Fund balance was moved from the Penalty and Interest Special Revenue Fund.

For the fiscal year 2019 appropriation request, the Department decreased its operating budget by \$4.6 million due to lack of penalty and interest fund balance. For fiscal year 2018, the penalty and interest fund balance was \$300,000 less than expected. The fiscal year 2018 budget will be adjusted accordingly.

**Financial Highlights (continued)**

**Changes in Federal Funding**

Although the governmental funds experienced a \$3 million increase in federal awards expended, overall including the proprietary fund the Department's federal revenues continue to experience declines in funding from its federal grant awards. The Department experienced an overall decline in federal awards for Employment Services, and Unemployment Insurance, and Unemployment Insurance Administration Base from the United States Department of Labor, as well as most other grantors. The Workforce Innovation and Opportunity Act funds realized a decrease in the amount of funding available as well as in the amount that is allowed to be used by the Department to administer the program.

**Other Operating Highlights**

**Unemployment Insurance Compensation Fund**

According to the Department's current projections, the Unemployment Trust Fund, held with the U.S. Treasury, is projected to be solvent through 2018. Unemployment Compensation (UC) is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the Unemployment Compensation Law. States levy their own payroll taxes on employers to fund regular UC benefits from the Unemployment Trust Fund and, if applicable, the states' share of the Extended Benefit (EB) program.

**Temporary Assistance for Needy Families**

During fiscal year 2017, the Department started a new partnership with the State of New Mexico Human Services Department for the Temporary Assistance for Needy Families grant. This program had a favorable outcome for the fiscal year. 177 individuals were enrolled at one of twelve colleges around the State of New Mexico. Of the 177 enrolled, 87 have completed a certificate program and 39 have obtained employment. The remaining individuals are continuing their studies and working closely with their Job Development Career Coach stationed at the college campus.

**Apprenticeship**

Currently, the State of New Mexico has 35 registered apprenticeship programs which provide training in approximately 49 different occupations. Primarily, the registered apprenticeships are concentrated in the field of building and construction or utilities. As of June 30, 2017, there were approximately 1,396 registered apprentices in the State of New Mexico.

# **State of New Mexico Workforce Solutions Department Management's Discussion and Analysis Year Ended June 30, 2017**

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## **Economic Outlook**

New Mexico's seasonally adjusted unemployment rate was 6.3 percent in August 2017, unchanged from July 2017 and down from 6.8 percent a year ago. Total nonfarm payroll employment grew by 1.0 percent, between August 2017 and August 2016. Overall, the state added 8,600 jobs between August 2016 and August 2017. Total nonfarm employment gains recorded over the last six months have all exceeded anything previously reported since June 2015. The August 2017 increase came entirely from the private sector, which grew by 13,000 jobs, or 2.0 percent. The goods-producing industries reported their fifth consecutive gain after 23 months in the negative. The industries added 2,500 jobs, representing a gain of 2.8 percent. Seven industries added jobs and six posted losses.

## **Contacting the Agency's Financial Management**

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

David L. Robbins, Chief Financial Officer and  
Administrative Services Division Director  
New Mexico Department of Workforce Solutions  
Administrative Services Division  
P.O. Box 1928  
Albuquerque, New Mexico 87103

**State of New Mexico Workforce Solutions Department**  
**Statement of Net Position**  
**Year Ended June 30, 2017**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash Held with U.S. Treasury	\$ -	\$ 422,683,013	\$ 422,683,013
Investment in State General Fund Investment Pool	8,218,798	-	8,218,798
Petty Cash	100	-	100
Due from Other State Agencies	131,000	-	131,000
Due from Federal Government	133,050	107,881	240,931
Internal Balances	181,115	(181,115)	-
Accounts Receivable, Net of Allowance for Uncollectibles	3,733,212	47,839,692	51,572,904
Capital Assets, Net Total Assets	14,720,957	-	14,720,957
Total Assets	<u>\$ 27,118,232</u>	<u>\$ 470,449,471</u>	<u>\$ 497,567,703</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Investment in State General Fund Investment Pool Overdraft	\$ 141,027	\$ 89,545	\$ 230,572
Accounts Payable	2,047,907	-	2,047,907
Accrued Payroll and Benefits	986,434	-	986,434
Benefits Payable	-	4,550,850	4,550,850
Other Accrued Liabilities	21,499	-	21,499
Unearned Revenue	2,266	11,478,118	11,480,384
Compensated Absences, Due Within One Year	1,004,665	-	1,004,665
Total Liabilities	<u>4,203,798</u>	<u>16,118,513</u>	<u>20,322,311</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	14,720,957	-	14,720,957
Restricted for:			
Unemployment Insurance Trust	-	454,330,958	454,330,958
Special Revenue Funds	8,448,073	-	8,448,073
Unrestricted	(254,596)	-	(254,596)
Total Net Position	<u>22,914,434</u>	<u>454,330,958</u>	<u>477,245,392</u>
Total Liabilities and Net Position	<u>\$ 27,118,232</u>	<u>\$ 470,449,471</u>	<u>\$ 497,567,703</u>

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**State of New Mexico Workforce Solutions Department**  
**Statement of Activities**  
**Year Ended June 30, 2017**

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	Expenses	Program Revenues	
		Charges for Services	Operating Grants
<b>PRIMARY GOVERNMENT</b>			
<b>GOVERNMENTAL ACTIVITIES</b>			
Workforce Transition Services	\$ 9,223,877	\$ -	\$ 6,493,681
Labor Relations	4,035,328	464,464	4,148,927
Workforce Technology	23,446,130	-	11,472,264
Business Services	14,421,905	-	10,297,756
Program Support	20,191,111	710,552	14,234,576
Total Governmental Activities	<u>71,318,351</u>	<u>1,175,016</u>	<u>46,647,204</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
Unemployment Services	<u>178,334,072</u>	<u>210,222,582</u>	<u>4,322,130</u>
Total Business-Type Activities	<u>178,334,072</u>	<u>210,222,582</u>	<u>4,322,130</u>
Total Primary Government	<u>\$ 249,652,423</u>	<u>\$ 211,397,598</u>	<u>\$ 50,969,334</u>

**State of New Mexico Workforce Solutions Department**  
**Statement of Activities (Continued)**  
**Year Ended June 30, 2017**

	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
	\$ (2,730,196)	\$ -	\$ (2,730,196)
	578,063	-	578,063
	(11,973,866)	-	(11,973,866)
	(4,124,149)	-	(4,124,149)
	(5,245,983)	-	(5,245,983)
	<u>(23,496,131)</u>	<u>-</u>	<u>(23,496,131)</u>
	-	36,210,640	36,210,640
	<u>-</u>	<u>36,210,640</u>	<u>36,210,640</u>
	<u>\$ (23,496,131)</u>	<u>\$ 36,210,640</u>	<u>\$ 12,714,509</u>
General Revenues:			
Investment Earnings	\$ 9,899	\$ 9,028,560	\$ 9,038,459
Reversions	(1,000,000)	-	(1,000,000)
Transfers In - State General Fund Appropriations	8,976,600	-	8,976,600
Transfers In - Other	1,637,300	-	1,637,300
Total General Revenues and Transfers	<u>9,623,799</u>	<u>9,028,560</u>	<u>18,652,359</u>
<b>CHANGE IN NET POSITION</b>	(13,872,332)	45,239,200	31,366,868
Net Position - Beginning of Year	36,786,766	409,091,758	445,878,524
<b>NET POSITION - END OF YEAR</b>	<u>\$ 22,914,434</u>	<u>\$ 454,330,958</u>	<u>\$ 477,245,392</u>

**State of New Mexico Workforce Solutions Department**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

	General Fund (SHARE 32900)	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Investment in State General Fund Investment Pool	\$ -	\$ 8,218,898	\$ 8,218,898
Due from Enterprise Funds	144,548	36,567	181,115
Due from Other State Agencies	131,000	-	131,000
Due from Federal Government	133,050	-	133,050
Accounts Receivable, net of Allowance for Uncollectibles	3,540,604	192,608	3,733,212
Total Assets	<u>\$ 3,949,202</u>	<u>\$ 8,448,073</u>	<u>\$ 12,397,275</u>
<b>LIABILITIES</b>			
Investment in State General Fund Investment Pool Overdraft	\$ 141,027	\$ -	\$ 141,027
Accounts Payable	2,047,907	-	2,047,907
Accrued Payroll and Benefits	986,434	-	986,434
Unearned Revenue	2,266	-	2,266
Other Accrued Liabilities	21,499	-	21,499
Total Liabilities	<u>3,199,133</u>	<u>-</u>	<u>3,199,133</u>
<b>FUND BALANCES</b>			
Restricted (see Note 19)	-	8,448,073	8,448,073
Assigned	750,069	-	750,069
Total Fund Balances	<u>750,069</u>	<u>8,448,073</u>	<u>9,198,142</u>
Total Liabilities and Fund Balance	<u>\$ 3,949,202</u>	<u>\$ 8,448,073</u>	<u>\$ 12,397,275</u>

**State of New Mexico Workforce Solutions Department**  
**Reconciliation of the Balance Sheet – Governmental Funds**  
**to the Statement of Net Position**  
**Year Ended June 30, 2017**

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<b>Total Fund Balance - Governmental Funds</b> <b>(Governmental Fund Balance Sheet)</b>	\$ 9,198,142
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	55,753,585
Accumulated depreciation is	<u>(41,032,628)</u>
Net capital assets	<u>14,720,957</u>
Long-term and other liabilities at year end consist of:	
Compensated absences payable	<u>(1,004,665)</u>
<b>Net Position of Governmental Activities (Statement of Net Position)</b>	<u><u>\$ 22,914,434</u></u>

**State of New Mexico Workforce Solutions Department**  
**Statement of Revenues, Expenditures and Changes in Fund Balances –**  
**Governmental Funds**  
**Year Ended June 30, 2017**

	General Fund (SHARE 32900)	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Interest on Deposit/Investments	\$ -	\$ 9,899	\$ 9,899
Licenses and Permits	-	464,464	464,464
Federal Grant Revenue	45,321,113	-	45,321,113
Penalties and Interest	-	1,272,889	1,272,889
Public Works Apprenticeship and Training	-	1,326,091	1,326,091
Total Revenues	<u>45,321,113</u>	<u>3,073,343</u>	<u>48,394,456</u>
<b>EXPENDITURES</b>			
Current:			
Workforce Transition Services	9,145,489	-	9,145,489
Labor Relations	3,975,591	-	3,975,591
Workforce Technology	15,486,949	-	15,486,949
Business Services	14,374,408	-	14,374,408
Program Support	20,004,856	-	20,004,856
Capital Outlay	841,491	-	841,491
Total Expenditures	<u>63,828,784</u>	<u>-</u>	<u>63,828,784</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(18,507,671)	3,073,343	(15,434,328)
<b>OTHER FINANCING SOURCES (USES)</b>			
State General Fund Appropriation	8,976,600	-	8,976,600
Transfers In:			
Interfund	7,974,597	-	7,974,597
Other	1,637,300	-	1,637,300
Transfers Out:			
Interfund	-	(7,974,597)	(7,974,597)
Other	-	(1,000,000)	(1,000,000)
Total Other Financing Sources (Uses)	<u>18,588,497</u>	<u>(8,974,597)</u>	<u>9,613,900</u>
<b>NET CHANGES IN FUND BALANCES</b>	80,826	(5,901,254)	(5,820,428)
Fund Balances - Beginning of Year	669,243	14,349,327	15,018,570
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 750,069</u>	<u>\$ 8,448,073</u>	<u>\$ 9,198,142</u>

**State of New Mexico Workforce Solutions Department**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances – Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2017**

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**Net Changes in Fund Balances - Total Governmental Funds**

**(Statement of Revenues, Expenditures, and Changes in Fund Balances)** \$ (5,820,428)

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

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.

Capital Outlay	841,491
Depreciation Expense	(8,348,874)
Excess of Capital Outlay Over Depreciation Expense	(7,507,383)

Deferred Inflows of Resources - Prior Year Unavailable Revenue	(562,337)
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Change in Compensated Absence Balance Not Recorded in the Governmental Funds	17,816
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<b>Change in Net Position of Governmental Activities (Statement of Activities)</b>	<b>\$ (13,872,332)</b>
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**State of New Mexico Workforce Solutions Department  
Statement of Revenues and Expenditures – Major Governmental Funds –  
Budget and Actual (Budgetary Basis)  
Year Ended June 30, 2017**

	General Fund - Total			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Federal Funds	\$ 48,180,900	\$ 50,771,384	\$ 45,321,113	\$ 5,450,271
General Funds	9,499,000	8,976,600	8,976,600	-
Other State Funds	-	-	-	-
Inter-Agency Transfers	10,736,100	12,379,000	9,611,897	2,767,103
Total Revenues	68,416,000	72,126,984	63,909,610	8,217,374
<b>P-775 WORKFORCE TRANSITION SERVICES EXPENDITURES</b>				
Personal Services and Benefits	8,463,700	8,158,000	7,419,695	738,305
Contractual Services	333,600	361,600	351,253	10,347
Other Costs	1,515,100	1,487,100	1,374,540	112,560
Other Financing Uses	-	-	-	-
Total P-775 Expenditures	10,312,400	10,006,700	9,145,488	861,212
<b>P-776 LABOR RELATIONS EXPENDITURES</b>				
Personal Services and Benefits	1,960,800	2,027,300	1,823,817	203,483
Contractual Services	44,800	29,800	7,724	22,076
Other Costs	1,633,200	2,253,300	2,114,050	139,250
Other Financing Uses	-	-	-	-
Total P-776 Expenditures	3,638,800	4,310,400	3,945,591	364,809
<b>P-777 WORKFORCE TECHNOLOGY EXPENDITURES</b>				
Personal Services and Benefits	3,734,800	3,899,800	3,495,532	404,268
Contractual Services	8,026,200	9,976,684	9,757,078	219,606
Other Costs	2,771,600	3,241,600	2,904,554	337,046
Other Financing Uses	-	-	-	-
Total P-777 Expenditures	14,532,600	17,118,084	16,157,164	960,920
<b>P-778 BUSINESS SERVICES EXPENDITURES</b>				
Personal Services and Benefits	7,243,300	7,243,300	7,012,949	230,351
Contractual Services	3,877,300	3,814,800	2,898,028	916,772
Other Costs	5,110,800	5,241,500	3,350,088	1,891,412
Other Financing Uses	-	-	-	-
Total P-778 Expenditures	16,231,400	16,299,600	13,261,065	3,038,535
<b>P-779 PROGRAM SUPPORT EXPENDITURES</b>				
Personal Services and Benefits	7,470,800	7,476,800	6,230,809	1,245,991
Contractual Services	955,200	955,200	718,251	236,949
Other Costs	14,752,400	15,960,200	14,340,416	1,619,784
Other Financing Uses	-	-	-	-
Total P-779 Expenditures	23,178,400	24,392,200	21,289,476	3,102,724

**State of New Mexico Workforce Solutions Department**  
**Statement of Revenues and Expenditures – Major Governmental Funds –**  
**Budget and Actual (Budgetary Basis)**  
**Year Ended June 30, 2017**

	General Fund - Total (Continued)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
<b>ALL EXPENDITURES</b>				
Personal Services and Benefits	\$ 28,873,400	\$ 28,805,200	\$ 25,982,803	\$ 2,822,397
Contractual Services	13,237,100	15,138,084	13,732,334	1,405,750
Other Costs	25,783,100	28,183,700	24,113,647	4,070,053
Other Financing Uses	-	-	-	-
Total All Expenditures	<u>\$ 67,893,600</u>	<u>\$ 72,126,984</u>	<u>\$ 63,828,784</u>	<u>\$ 8,298,200</u>
<b>NET CHANGE IN FUND BALANCE</b>			80,826	
Fund Balances - Beginning of Year			669,243	
<b>FUND BALANCES - END OF YEAR</b>			<u>\$ 750,069</u>	



**State of New Mexico Workforce Solutions Department**  
**Statement of Net Position**  
**Proprietary Fund**  
**Year Ended June 30, 2017**

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	<u>Unemployment Insurance Trust Fund</u>
<b>ASSETS</b>	
Cash Held with U.S. Treasury	\$ 422,683,013
Due from Federal Government	107,881
Accounts Receivable, Net of Allowance for Uncollectibles	47,839,692
Total Assets	<u>\$ 470,630,586</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	
<b>CURRENT LIABILITIES</b>	
Investment in State General Fund Investment Pool Overdraft	\$ 89,545
Benefits Payable	4,550,850
Due to Governmental Funds	181,115
Unearned Revenue	11,478,118
Total Liabilities	<u>16,299,628</u>
<b>NET POSITION</b>	
Restricted for:	
Unemployment Insurance Trust	454,330,958
Total Net Position	<u>454,330,958</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 470,630,586</u>

**State of New Mexico Workforce Solutions Department**  
**Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund**  
**Year Ended June 30, 2017**

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	<u>Unemployment Insurance Trust Fund</u>
<b>OPERATING REVENUES</b>	
Interest on Investments	\$ 9,028,560
Employers Taxes and Reimbursements	205,377,539
Combined Wage Claims Reimbursements	<u>4,845,043</u>
Total Operating Revenues	<u>219,251,142</u>
<b>OPERATING EXPENSES</b>	
Unemployment Benefits Distributed to Beneficiaries	<u>178,334,072</u>
Total Operating Expenses	<u>178,334,072</u>
<b>OPERATING INCOME</b>	<u>40,917,070</u>
<b>NON-OPERATING REVENUES</b>	
Grants, Contracts and Federal Reimbursements	<u>4,322,130</u>
Total Non-Operating Revenues	<u>4,322,130</u>
<b>CHANGE IN NET POSITION</b>	45,239,200
Total Net Position - Beginning of Year	<u>409,091,758</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u><u>\$ 454,330,958</u></u>

**State of New Mexico Workforce Solutions Department**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended June 30, 2017**

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	<u>Unemployment Insurance Trust Fund</u>
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Cash Received from Employers and Combined Wage Claim Reimbursements	\$ 255,501,054
Cash Received from Interest and Principal in Investments (Trust Fund Earnings)	9,028,560
Cash Paid for Unemployment Benefits	<u>(180,468,798)</u>
Net Cash Provided by Operating Activities	<u>84,060,816</u>
<b>CASH FLOWS PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	
Cash Received from Federal Government	<u>4,340,493</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	
	88,401,309
Cash and Cash Equivalents - Beginning of Year	<u>334,192,159</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 422,593,468</u></u>
<b>RECONCILIATION OF NET OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Operating Income	\$ 40,917,070
Change in Receivables	46,070,748
Change in Payables/Unearned Revenue	<u>(2,927,002)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 84,060,816</u></u>

**State of New Mexico Workforce Solutions Department**  
**Statement of Fiduciary Net Position**  
**Year Ended June 30, 2017**

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	<u>Agency Fund</u>
<b>ASSETS</b>	
Investment in State General Fund Investment Pool	<u>\$ 40,852</u>
Total Assets	<u><u>\$ 40,852</u></u>
<b>LIABILITIES</b>	
Amounts Held for Others	\$ 36,652
Accounts Payable	<u>4,200</u>
Total Liabilities	<u><u>\$ 40,852</u></u>

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 1 – Nature of Organization

**Organization** – The State of New Mexico Department of Labor (the Department) was established by the New Mexico Laws of 1987, Chapter 342, to administer all laws and exercise all functions formerly administered and exercised by the Employment Security Department (ESD), the Workmen's Compensation Administration, the Labor Commissioner and the Office of Human Rights Commission. These same laws abolished the ESD, the Workmen's Compensation Administration and the Labor Commissioner. All appropriations, equipment, supplies, records, personnel and money of the ESD, the Workmen's Compensation Administration, the Labor Commissioner and the office and staff of the Human Rights Commission were transferred to the Department effective July 1, 1987.

The Human Rights Commission and the Labor and Industrial Commission are administratively attached to the Department in accordance with the New Mexico Laws of 1987, Chapter 342, Section 8.

Effective January 1, 1991, pursuant to the Laws of 1990, Ch. 2 Sec. 146, all appropriations, equipment, supplies, records, personnel, appointees, contracts and money of the Worker's Compensation Division of the Labor Department were transferred to the Worker's Compensation Administration. Until June 30, 1993, the Worker's Compensation Administration remained administratively attached in that payroll and voucher payments were processed through the Department of Labor. Effective July 1, 1993, all processing of payments and reporting requirements for the Worker's Compensation Administration were transferred to the Department of Finance and Administration.

The Department is operated under the legislative authority of numerous New Mexico and Federal statutes, including the Wagner-Peyser Act of 1933, the Federal Unemployment Tax Act, Titles III, IX and XII of the Social Security Act, Title IV of the Social Security Act as amended by the Balanced Budget Act of 1997, Public Law 97-300, Job Training Partnership Act, and the New Mexico "Unemployment Compensation Law", Chapter 51, NMSA, 1978 Compilation, Public Law 105-220, and Accountability in Government Act (Sections 6-3A-1 through 6-3A-8, NMSA 1978).

Effective January 22, 2004, Executive Order 2004-004 established the Office of Workforce Training and Development (OWTD) and vested responsibility in it for the receipt, administration and oversight of expenditure of funds from all grants pursuant to the federal Workforce Innovation and Opportunity Act of 1998. The Department was responsible for those grants up to the effective date of executive order 2004-004. However, the financial activity associated with the administration of those grants was recorded and tracked in the Department's internal accounting system through June 30, 2004, and were included in the Department's annual report for state fiscal year 2004. However, the separation of the operations of the OWTD from that of the Department was completed starting on July 1, 2005, when the OWTD established its own operating budget and chart of accounts on the Central Accounting System for vouchering, budgetary tracking and reporting purposes. The OWTD also acquired and implemented its own internal tracking system for recording and reporting financial activity associated with the administration of the WIOA program.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### **Note 1 – Nature of Organization (Continued)**

During the 47th Legislative Session, House Bill 1280 was passed and the bill created the Department of Workforce Solutions in order to establish a single, unified department to administer all laws and exercise all functions administered by the New Mexico Department of Labor and the Governor's Office of Workforce Training and Development. This consolidation was effective July 1, 2007 (FY 2008).

In fiscal year 2017, the Department was comprised of the following:

*Office of the Secretary* – The Secretary of the Department is responsible for all operations of the Department and administers and enforces the laws with which the Department is charged.

*Administrative Services Division* – This Division is responsible for finance, budget, internal audit, procurement, grants monitoring, and general services.

*Workforce Transition Services* – To administer an array of demand driven workforce development services to prepare New Mexicans to meet the needs of business. This program includes Work Services and Unemployment Insurance.

*Business Services* – To provide standardized business solution strategies and labor market information through the New Mexico public workforce system that is responsive to the needs of New Mexico businesses. This program includes business development and outreach along with labor market information.

*Labor Relations* – To provide employment rights information and other work-site based assistance to employers and employees. This program is comprised of Labor and Industrial and Human Rights.

*Workforce Technology* – To provide and maintain effective and innovative information technology services for the agency and its service providers that enable management and utilization of the Department's operating systems and information technology architecture.

The Department received revenue mainly from the following Federal, state and local government sources:

- Grants and contracts for administration of unemployment insurance, employment service and workforce training and development activities
- Reimbursements of benefits paid to federal claimants and for other special benefits applicable to other claimants
- Miscellaneous contracts and matching funds
- State General Fund appropriations
- Transfers from other state funds
- Employers of New Mexico
- Investment Income

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 1 – Nature of Organization (Continued)

The Department expended the money for the following purposes:

- Payments to claimants for unemployment insurance benefits
- Operating and administrative costs including capital expenditures
- Payments to employers for apprenticeship training
- Workforce Innovation and Opportunity Act activities, programs and administration

**Reporting entity** – 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 statement should be included with the financial statements of the State. The Department's financial statements contain no component units.

### Note 2 – Summary of Significant Accounting Policies

The financial statements for the Department have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. GASB Statement 34, Statement 37 and Statement 38 establish financial reporting requirements for state and local governments throughout the United States.

The Department is responsible for the fair presentation of the accompanying financial statements in conformity with generally accepted accounting principles. The Department has prepared required supplementary information in the titled Management's Discussion and Analysis (MD&A), which precedes the basic financial statements. The Department's significant accounting policies are described below.

**Financial reporting entity** – The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The reporting model's focus is on either the Department as a whole or major individual fund (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as governmental activities. In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis by column, and is reflected on a full accrual, economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which is otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function.

The net cost (by function) is normally covered by general revenues (intergovernmental revenues, interest income, etc.). The Department employs a cost allocation system based upon total payroll.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (Continued)

This government-wide focus is more on the sustainability of the Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major fund in the governmental category.

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources and (c) demonstrate how the Department actual experience conforms to the budget or fiscal plan.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

The Department's fiduciary fund (agency fund) is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

The Department has a revenue spending policy that provides guidance for programs with multiple revenue sources. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance which must be appropriated by the legislature.

**Basis of presentation – fund accounting** – The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. The various funds are summarized by type in the accompanying financial statements. The following fund types are used by the Department:

**Governmental Funds** – All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.



# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (Continued)

For fiscal year 2017, the General Fund (SHARE Fund 32900) is the only required major fund. The major governmental fund of the Department are as follows:

**General Fund** (SHARE Fund 32900) – The Department’s General Fund is the operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund combines activities for all of the programs of the Department. The Department’s General Fund is funded from appropriations from the State of New Mexico General Fund, special appropriations, Federal grants and other revenue.

For fiscal year 2017, the nonmajor governmental funds of the Department are as follows:

**Special Revenue Funds** – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Restricted or committed revenue sources are expected to continue to represent a substantial portion of the inflows reported in these funds.

Employment Security Department Fund (Penalty and Interest Fund, SHARE Fund 61300). This fund was created by Section 51-1-34, New Mexico Statutes Annotated 1978 Compilation, to account for the receipt and disbursement of penalties and interest imposed in the collection of unemployment insurance taxes. All money paid into this fund may be expended only pursuant to an appropriation by the Legislature or specific provision of law. The fund is non-reverting.

Public Works Apprenticeship and Training Fund (PWAT, SHARE Fund 61400). This fund was created by Section 13-4D-2, New Mexico Statutes Annotated 1978, effective May 20, 1992. Employer “contributions” are to be used to establish an apprenticeship program by the Bureau of Apprenticeship and Training of the U.S. Department of Labor and the NM Apprenticeship Council, per Section 13-4D-5A, NMSA 1978. The fund is non-reverting.

Labor Enforcement Fund (LEF, SHARE Fund 71100). This fund was created by Section 13-4-14.1, New Mexico Statutes Annotated 1978, effective May 19, 2004, to account for registration fees from contractors and subcontractors collected by the Labor and Industrial Division of the Department. All money in the fund is appropriated for the administration and enforcement of the Public Works Minimum Wage Act. The money in this fund does not revert to the General Fund at the end of a fiscal year. The fund was created by House Bill 1280 which merged the Office of Training and Development with the Department in FY 08.

**Proprietary Fund** – The proprietary fund is used to account for the transactions of the unemployment insurance fund. This fund is considered major.

Unemployment Insurance Trust Fund (SHARE Fund 20020 and 20060). This fund is used to account for the unemployment insurance services (UI) of the Department. As the unemployment insurance fund of the State of New Mexico, it is classified as an enterprise fund. This is a non-reverting fund.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (Continued)

**Fiduciary Fund (SHARE Fund 17800)** – The fiduciary fund is used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Department. Agency funds are custodial in nature and do not involve measurement of results of operations. The Wage Claim Fund is an agency fund which is a holding account for wage claim assignments collected by the Department's Labor Relations Division from employers, pending the final outcome of wage disputes filed by employees or employer(s). Upon resolution, amounts deposited into the Wage Claim Fund are disbursed to either the employee or employer as determined by the Labor Relations Division Director. Only one fiduciary fund existed during the fiscal year.

**Basis of Accounting** – The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include gross receipts taxes, grants and appropriations. On an accrual basis, revenue from gross receipts taxes is recognized in the fiscal year for which the taxes are collected. Revenue from grants and appropriations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, typically 45 days).

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. Interest earned is accrued currently by the appropriate funds. Contributions, gross receipts tax and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures, other than vacation, compensatory and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. There was no interest expense incurred during the year ended June 30, 2017.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (Continued)

The proprietary fund is accounted for 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. Interest on investments, employee taxes and reimbursements are considered operating revenues. All other services of revenue, such as grants, contracts and transfers, are considered non-operating revenues.

**Budgets and budgetary accounting** – The Department follows these procedures in establishing the budgetary data reflected in the financial statements for the agency:

Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, “For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration.” The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year’s budget. Encumbrances related to single year appropriations lapse at year end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control should be disclosed in the notes to the financial statements. Legal budgetary control for expenditures and encumbrances is by category of the appropriation unit. The Department’s unemployment insurance trust fund (SHARE Fund 20020 and 20060) does not have a legally adopted budget.

**Encumbrances** – The Department uses encumbrances for certain balances that may be carried forward based on the appropriation language from Legislation. Encumbered funds that do not revert at the end of the appropriation period are re-budgeted in the new fiscal year. If the applicable appropriation extends beyond the end of the fiscal year, then the Department is permitted to carry forward the encumbrance into the new fiscal year. For the fiscal year ended June 30, 2017, the Department did not have any encumbrances presented in the financial statements.

**Net position/fund balance** – Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted and unrestricted. The restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The entire restricted net position balance reported on the statement of net position is restricted by enabling legislation.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (Continued)

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent:

**Nonspendable** are amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**Committed** is that portion of fund balance that has been approved by the highest level of formal action of the State Legislature, such as an appropriation or legislation. The State Legislature is the highest level of decision-making authority that can, by passage of legislation, commit fund balance that is not already restricted. Once adopted, the limitation remains in place until similar action takes place, usually in the form of a new budget bill or other legislation. The Department does not have any committed fund balance this fiscal year.

**Assigned** fund balance is constrained by the Legislature's intent to be used for specific purposes by directive of the Legislative Finance Committee of the Legislature or in some cases by legislation. Legislative directives dictate that all fund balances remaining at the end of the fiscal year shall be reverted back to the State General Fund unless the fund is stipulated as non-reverting by the Legislature or by laws or regulations imposed by grantors. If the fund is non-reverting, the department head has the authority to assign a fund balance for specific use. This classification indicates the intent to use resources for a specific purpose, but is neither restricted nor committed.

**Unassigned** fund balance is the residual amount after all classifications have been considered. A positive unassigned fund balance will be reported in the General Fund only.

The Department has a revenue spending policy that provides guidance for programs with multiple revenue sources. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance which must be appropriated by the legislature.

**Cash and investments** – Cash includes amounts in the demand deposits.

Investments with the State Treasurer in the State General Fund Investment Pool are stated at quoted market prices. Investments with the U.S. Treasury represent the Department's portion of the U.S. Treasury Department Unemployment Trust Fund Investment Pool (U.S. Treasury Pool) which is reported at fair market value. The Department does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

For the purpose of the proprietary fund statement of cash flows, cash equivalents are defined as investments with the U.S. Treasury Pool and cash on deposit with banks or the State Treasurer.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (Continued)

**Receivables/payables** – During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheets of the fund financial statements. Internal activity is eliminated at the government-wide statement of activities. Additionally, the Penalty and Interest Special Revenue Fund had a change in estimate during fiscal year 2017 created an Allowance for Uncollectible. The amount is attributable to assessed penalty and interest on delinquent employer tax payments.

**Capital assets** – Capital assets consist of tangible personal property having a value equal to or greater than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at historical cost. Capital assets are depreciated over their estimated useful life using the straight-line mid-month convention.

Salvage value is not included in the depreciation calculation.

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:

Computer Equipment/Software	3-10 years
Office Equipment	5 years
Furniture and Fixtures	10 years
Vehicles	10 years
Office Improvements	20 years

**Pensions** – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This Statement improves accounting and financial reporting by state and local governments for pensions. 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.

In January 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Compliant with the requirements of Government Accounting Standards Board Statement No. 68 and No. 71, the State of New Mexico has implemented the standards for the fiscal year ending June 30, 2015.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### **Note 2 – Summary of Significant Accounting Policies (Continued)**

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

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

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

### **Note 3 – State General Fund Investment Pool**

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

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Department 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 claims to resources reconciliation process has been applied to fiscal year-end 2014 and the months from January 2015 through June 2015.

Agency claims on the SGFIP will be honored in their entirety. Any adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, the Department of Finance and Administration Financial Control Division 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 of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 4 – Investment in the State General Fund Investment Pool

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

At June 30, 2017, the Department had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool Overdraft - General Fund	\$ (141,027)
State General Fund Investment Pool - Non-Major Governmental Funds	8,218,898
State General Fund Investment Pool - Agency Fund	40,852
<b>Total State General Fund Investment Pool</b>	<b><u>\$ 8,118,723</u></b>

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the year ended June 30, 2017.

### Note 5 – Cash Deposit Accounts and Investments

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts, at Wells Fargo Bank (WF) of \$516,562. These deposits represent cash balances associated with agency vouchering activities. FDIC coverage of \$250,000 is available for these deposits; collateral for the balance is provided by collateral pledged to the New Mexico State Treasurer to secure state deposits in accordance with 6-10-17 NMSA 1978. The Department also has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$8,118,723 with the State Treasurer in the State General Fund Investment Pool. In addition, the Department has deposits held within the U.S. Treasury pool in the amount of \$422,683,013.

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. In accordance with Section 6-10-7 NMSA 1978, deposits of public monies are to be collateralized in an aggregate equal to 50% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage. Deposits are exposed to custodial risks if they are not covered by depository insurance.

Detail of pledged collateral specific to this agency is unavailable because the bank maintains pledged collateral for the state as a whole. However, the State Treasurer's Office collateral bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts (Schedule 6).

The New Mexico State Treasurer's Office is responsible to ensure that all accounts are collateralized at the required level for amounts in excess of FDIC coverage. The New Mexico State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved and the market value of purchased investments, which may differ from the cash deposited by the Department. Additional disclosures are the types of deposits and investments authorized by the New Mexico Constitution.

**State of New Mexico Workforce Solutions Department**  
**Notes to Financial Statements**

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**Note 5 – Cash Deposit Accounts and Investments (Continued)**

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, refer to the Schedule of Individual Deposit Accounts (Schedule 5).

The amounts reported as investments with the U.S. Treasury are in an investment pool which is a fair market value cash equivalent account. The deposits are guaranteed by the full faith and credit of the United States government.

**Note 6 – Capital Assets**

A summary of changes in capital assets follows:

	June 30, 2016	FY17 Additions	FY17 Disposals	June 30, 2017
<b>Assets:</b>				
Office Improvements	\$ 3,085,958	\$ 171,276	\$ -	\$ 3,257,234
Vehicles	302,074	-	-	302,074
Office Equipment	2,081,301	-	-	2,081,301
Furniture and Fixtures	862,683	-	-	862,683
Computer Equipment	48,580,078	670,215	-	49,250,293
<b>Total Cost of Capital Assets</b>	<b>54,912,094</b>	<b>841,491</b>	<b>-</b>	<b>55,753,585</b>
<b>Accumulated Depreciation:</b>				
Office Improvements	(1,631,380)	(235,267)	-	(1,866,647)
Vehicles	(166,141)	(30,207)	-	(196,348)
Office Equipment	(2,013,969)	(9,003)	-	(2,022,972)
Furniture and Fixtures	(584,953)	(59,031)	-	(643,984)
Computer Equipment	(28,287,311)	(8,015,366)	-	(36,302,677)
<b>Total Accumulated Depreciation</b>	<b>(32,683,754)</b>	<b>(8,348,874)</b>	<b>-</b>	<b>(41,032,628)</b>
<b>Net Book Value</b>	<b>\$ 22,228,340</b>	<b>\$ (7,507,383)</b>	<b>\$ -</b>	<b>\$ 14,720,957</b>

Land, buildings and automobiles used by the Department are not included in these financial statements due to the fact that the assets are included in the financial statements of the New Mexico General Services Department.

Depreciation expense was charged to functions as follows:

Workforce Transition Services	\$ 78,388
Labor Relations	59,737
Workforce Technology	7,959,181
Business Services	47,497
Program Support	204,071
	<b>\$ 8,348,874</b>



# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 7 – Unemployment Insurance Fund – Receivables

Receivable:		
Unemployment Insurance Taxes	\$	58,136,869
Benefit Overpayments		74,410,515
Combined Wage Claims		1,083,214
Gross Receivables		<u>133,630,598</u>
Less: Allowance for Uncollectibles:		
Unemployment Insurance Taxes		(11,380,391)
Benefit Overpayments		<u>(74,410,515)</u>
Net Total Receivables - Unemployment Insurance Trust		<u>(85,790,906)</u>
Total	\$	<u>47,839,692</u>

**Current Unemployment Insurance (UI) taxes** – This amount represents UI taxes due from reimbursable and regular employers for quarters before and for the quarter ending June 30, 2017, which were collected subsequently. This amount is an estimate based upon a review of cash receipts subsequent to the end of the fiscal year.

**Benefit overpayments** – This amount represents amounts due from claimants. These are derived from overpayment of benefits established as a result of an adjudicator’s decision reversing an earlier award of benefits. An allowance for uncollectible would usually be for an equal amount of accounts receivable. Although some past due accounts will be collected, no estimate has been made by the Department of the amount of collectible receivables.

**Combined wage claimants** – This amount represents amounts due from other states for benefit charges. It is reported in the financial statements net of the liability to the UI trust fund ledger.

### Note 8 – Operating Leases

The Department leases field office space and equipment under operating leases. Rental expenditures for land and buildings for the fiscal year ended June 30, 2017 were \$432,943. Rental expenditures for equipment for the fiscal year ended June 30, 2017 were \$261,650. The future minimum rental commitments as of June 30, 2017 were as follows:

Year Ending June 30,	Office Space	Equipment	Total
2018	\$ 434,441	\$ 413,311	\$ 847,752
2019	401,244	247,320	648,564
2020	342,869	151,212	494,081
2021	170,608	29,775	200,383
2022	173,388	27,798	201,186
2023 and Thereafter	597,010	-	597,010
Net Total	<u>\$ 2,119,560</u>	<u>\$ 869,416</u>	<u>\$ 2,988,976</u>

**State of New Mexico Workforce Solutions Department  
Notes to Financial Statements**

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**Note 9 – Compensated Absences**

The changes to compensated absences are as follows:

	Balance, June 30, 2016	Increase	(Decrease)	Balance, June 30, 2017	Due Within One Year
Sick and Annual Leave	\$ 1,022,481	\$ 918,691	\$ (936,507)	\$ 1,004,665	\$ 1,004,665
Net Total	<u>\$ 1,022,481</u>	<u>\$ 918,691</u>	<u>\$ (936,507)</u>	<u>\$ 1,004,665</u>	<u>\$ 1,004,665</u>

Compensated absences are liquidated with resources from the Department's General Fund (SHARE Fund 32900).

**Note 10 – Interfund Receivables and Payables**

Interfund receivables and payables reflect short-term (current) borrowings among the Department's funds in the normal course of business. The Department has the following Interfund receivables and payables between its funds at June 30, 2017.

Due to Other Funds			
Fund Name	Penalty & Interest (SHARE 61300)	General Fund (SHARE 32900)	Total
Unemployment Insurance Trust Fund	\$ 36,567	\$ 144,548	\$ 181,115
Total	<u>\$ 36,567</u>	<u>\$ 144,548</u>	<u>\$ 181,115</u>

**Note 11 – Due from and Due to Other Agencies**

Transactions that occur among state agencies under legislative mandate, exchange transactions and other situations are accounted for in the financial statements which make up the due from and due to other state agencies. The due from and due to other agencies balances at June 30, 2017 consist of the following:

Due From Other State Agencies			
DWS Fund	Agency	Other Agency's Fund	Amount
32900	New Mexico Human Services Department	97500	\$ 131,000
	Total		<u>\$ 131,000</u>

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 12 – Accumulated Unused/Unpaid Annual and Sick Leave

A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January.

Annual leave may not be used before it is accrued. When employees terminate, except for a reduction in force, they are compensated for accumulated unpaid leave up to a maximum of 240 hours at their current hourly rate. Employees separating due to a reduction in force will receive all accrued annual leave at their current hourly rate.

Qualified employees are entitled to accumulate sick leave at the rate of 3.69 hours per pay period. Sick leave may not be used before it is accrued. There is no limit to the amount of sick leave that an employee may accumulate.

Per New Mexico State Personnel Board Rules and Regulations, employees who have accumulated more than 600 hours of unused sick leave are entitled to be paid for unused sick leave in excess of 600 hours at a rate equal to 50% of their hourly rate of pay for up to 120 hours of sick leave. Payment for unused sick leave may be made only once per fiscal year on either the payday immediately following the first full pay period in January or the first full pay-period in July.

### Note 13 – Reversions

As of June 30, 2017, the Department made reversions totaling \$1,000,000 from the Penalty and Interest Fund to the State of New Mexico general fund to help offset the budget deficit. The Department also reverted \$33 from fiscal year 2015.

### Note 14 – Unearned Revenue

The Department's unearned revenue in the Unemployment Insurance Trust Fund as of June 30, 2017 consisted of the following:

Reed Act/UI Mod	\$	3,148,601
Employer Prepayments		8,329,517
Total	\$	<u>11,478,118</u>

**State of New Mexico Workforce Solutions Department**  
**Notes to Financial Statements**

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**Note 15 – Transfers**

Transfers occurring during fiscal year ended June 30, 2017 are as follows:

Inter-fund transfers consist of the following:

Fund	Governmental Funds	Operating Transfers In	Operating Transfers Out
32900	General Fund	\$ 7,974,597	\$ -
61300	Penalty and Interest	-	5,301,516
61400	Public Work Apprenticeship and Training	-	1,457,017
71100	Labor Enforcement Fund	-	1,216,064
Total Inter-Fund Transfers		<u>\$ 7,974,597</u>	<u>\$ 7,974,597</u>

The inter-fund transfers that occurred during fiscal year ended June 30, 2017 represent transfers from Special Revenue Funds for FY17 appropriations.

Inter-agency transfers consist of the following:

Agency	Fund	Governmental Funds	Operating Transfers In	Operating Transfers Out
34101	85300	Department of Finance and Administration	\$ 9,113,900	\$ 1,000,000
63200	98200	Worker's Compensation Administration	1,500,000	-
63000	97500	New Mexico Human Services Department	383,755	-
Total Inter-Agency Transfers			<u>\$ 10,997,655</u>	<u>\$ 1,000,000</u>

The inter-agency transfer from Worker's Compensation Administration is an appropriation. The amount transferred in from the New Mexico Human Services Department is reported on the Statement of Activities in Operating Grants. Transfers out to Department of Finance and Administration represent reversions of \$1,000,000 from the Penalty and Interest Fund to the general fund to help offset the State of New Mexico budget deficit.

**Note 16 – Pension Plan – Public Employees' Retirement Association**

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

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 16 – Pension Plan – Public Employees’ Retirement Association (Continued)

#### TIER I

Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member’s final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors’ annuities are also available.

#### TIER II

The retirement age and service credit requirements for normal retirement for PERA state members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements, general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member’s age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

**Funding policy** – The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2017, 2016 and 2015 were \$3,088,373, \$3,018,441 and \$2,959,625, respectively, which equal the amount of the required contributions for each fiscal year. For employees with annual salary less than \$20,000, their required annual plan contribution is 7.42%. For employees with annual salary greater than \$20,000, their required annual plan contribution is 8.92%. The employer required annual plan contribution is 16.99%.

### Note 17 – 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.

## State of New Mexico Workforce Solutions Department Notes to Financial Statements

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### **Note 17 – Post-Employment Benefits – State Retiree Health Care Plan (Continued)**

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](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. 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, 2017, 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, 2017, 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, 2014, 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.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### **Note 17 – Post-Employment Benefits – State Retiree Health Care Plan (Continued)**

The Department's contributions to the RHCA for the years ended June 30, 2017, 2016 and 2015 were \$363,193, \$355,327 and \$348,583, respectively, which equal the required contributions for each year. The employee required annual plan contribution is 1.0%. The employer required annual plan contribution is 2.0%.

### **Note 18 – Risk Management**

The Department is exposed to various risks of loss for which the Department is insured (auto, employee fidelity bond, general liability, civil rights, foreign jurisdiction, money and securities, property, worker's compensation) with the State of New Mexico's General Services Department/Risk Management Division. The Department is charged by State of New Mexico's General Services Department/Risk Management Division for coverage. For the past several fiscal years, there have been no significant changes in coverage or claims by the Department to the State of New Mexico's General Services Department/Risk Management Division.

### **Note 19 – Fund Balance Classifications**

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

**State of New Mexico Workforce Solutions Department  
Notes to Financial Statements**

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**Note 19 – Fund Balance Classifications (Continued)**

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

	Major Fund	Special Revenue Fund	Special Revenue Fund	Special Revenue Fund
	General Fund (SHARE 32900)	Penalty & Interest Fund (SHARE 61300)	Public Works Apprenticeship & Training Fund (SHARE 61400)	Labor Enforcement Fund (SHARE 71100)
Fund Balances:				
Restricted for:				
Special Revenue Funds,				
per Section 51-1-34 NMSA 1978	\$ -	\$ 5,941,931	\$ -	\$ -
per Section 13-4-14.1 NMSA 1978	-	-	-	917,131
Public Works Apprenticeship & Training per Section 13-4D-2	-	-	1,589,011	-
Assigned	750,069	-	-	-
Total Fund Balances	<u>\$ 750,069</u>	<u>\$ 5,941,931</u>	<u>\$ 1,589,011</u>	<u>\$ 917,131</u>

**Note 20 – Subsequent Accounting Pronouncements**

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

**Statement No. 75**

***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2017.

This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:



# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 20 – Subsequent Accounting Pronouncements (Continued)

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.
- This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

### **GASB Statement No. 80**

#### ***Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14***

Effective Date: The provisions in Statement 80 are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

### **GASB Statement No. 81**

#### ***Irrevocable Split-Interest Agreements***

Effective Date: The provisions in Statement 81 are effective for reporting periods beginning after December 15, 2016. Earlier application is encouraged.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Additionally, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

### **GASB Statement No. 83**

#### ***Certain Asset Retirement Obligations***

Effective Date: The provisions in Statement 83 are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 20 – Subsequent Accounting Pronouncements (Continued)

#### **GASB Statement No. 84**

##### ***Fiduciary Activities***

Effective Date: The provisions in Statement 84 are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

This 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.

This 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. 85**

##### ***Omnibus 2017***

Effective Date: The provisions in Statement 85 are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

This Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and “negative” goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

# State of New Mexico Workforce Solutions Department

## Notes to Financial Statements

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### Note 20 – Subsequent Accounting Pronouncements (Continued)

#### **GASB Statement No. 86**

##### ***Certain Debt Extinguishment Issues***

Effective Date: The provisions in Statement 86 are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

This Statement should improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

#### **GASB Statement No. 87**

##### ***Leases***

Effective Date: The provisions in Statement 87 are effective for reporting periods beginning after December 15, 2019.

This 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.

**FINANCIAL SECTION**

**SUPPLEMENTARY INFORMATION**

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**State of New Mexico Workforce Solutions Department**  
**Schedule 1 – Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Penalty and Interest (SHARE 61300)	Public Works Apprenticeship and Training (SHARE 61400)	Labor Enforcement Fund (SHARE 71100)	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Investment in State General Fund Investment Pool	\$ 5,712,756	\$ 1,589,011	\$ 917,131	\$ 8,218,898
Due from Other Funds	-	-	-	-
Due from Enterprise Funds	36,567	-	-	36,567
Due from Other State Agencies	-	-	-	-
Due from Federal Government	-	-	-	-
Accounts Receivable, net of Allowance for Uncollectibles	192,608	-	-	192,608
<b>Total Assets</b>	<b>\$ 5,941,931</b>	<b>\$ 1,589,011</b>	<b>\$ 917,131</b>	<b>\$ 8,448,073</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Payroll and Benefits	-	-	-	-
Due to Other Funds	-	-	-	-
Other Accrued Liabilities	-	-	-	-
Due to Other State Agencies	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>				
Restricted (see Note 20)	5,941,931	1,589,011	917,131	8,448,073
Assigned	-	-	-	-
<b>Total Fund Balances</b>	<b>5,941,931</b>	<b>1,589,011</b>	<b>917,131</b>	<b>8,448,073</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 5,941,931</b>	<b>\$ 1,589,011</b>	<b>\$ 917,131</b>	<b>\$ 8,448,073</b>

**State of New Mexico Workforce Solutions Department**  
**Schedule 2 – Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2017**

	Penalty and Interest (SHARE 61300)	Public Works Apprenticeship and Training (SHARE 61400)	Labor Enforcement Fund (SHARE 71100)	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Interest on Deposit/Investments	\$ -	\$ -	\$ 9,899	\$ 9,899
Licenses and Permits	-	-	464,464	464,464
Federal Grant Revenue	-	-	-	-
Penalties and Interest	1,272,889	-	-	1,272,889
Public Works Apprenticeship and Training	-	1,326,091	-	1,326,091
Total Revenues	<u>1,272,889</u>	<u>1,326,091</u>	<u>474,363</u>	<u>3,073,343</u>
<b>EXPENDITURES</b>				
Current				
Workforce Transition Services	-	-	-	-
Labor Relations	-	-	-	-
Workforce Technology	-	-	-	-
Business Services	-	-	-	-
Program Support	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,272,889	1,326,091	474,363	3,073,343
<b>OTHER FINANCING SOURCES (USES)</b>				
State General Fund Appropriation	-	-	-	-
Transfers In				
Interfund	-	-	-	-
Other	-	-	-	-
Transfers Out				
Interfund	(5,301,516)	(1,457,017)	(1,216,064)	(7,974,597)
Other	(1,000,000)	-	-	(1,000,000)
Total Other Financing Sources (Uses)	<u>(6,301,516)</u>	<u>(1,457,017)</u>	<u>(1,216,064)</u>	<u>(8,974,597)</u>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(5,028,627)</b>	<b>(130,926)</b>	<b>(741,701)</b>	<b>(5,901,254)</b>
Fund Balances - Beginning of Year	<u>10,970,558</u>	<u>1,719,937</u>	<u>1,658,832</u>	<u>14,349,327</u>
<b>FUND BALANCES - END OF YEAR</b>	<b><u>\$ 5,941,931</u></b>	<b><u>\$ 1,589,011</u></b>	<b><u>\$ 917,131</u></b>	<b><u>\$ 8,448,073</u></b>

**State of New Mexico Workforce Solutions Department**  
**Schedule 3 – Combining Statement of Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2017**

	Unemployment Insurance Trust Fund (SHARE 20020)	Unemployment Insurance Trust Fund (SHARE 20060)	Total Unemployment Insurance Trust Fund
<b>ASSETS</b>			
Cash Held with U.S. Treasury	\$ 422,683,013	\$ -	\$ 422,683,013
Due from Federal Government	-	107,881	107,881
Accounts Receivable, Net of Allowance for Uncollectibles	50,199,199	(2,359,507)	47,839,692
Total Assets	<u>\$ 472,882,212</u>	<u>\$ (2,251,626)</u>	<u>\$ 470,630,586</u>
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Investment in State General Fund Investment Pool Overdraft	1,750,593	(1,661,048)	89,545
Benefits Payable	579,480	3,971,370	4,550,850
Due to Governmental Funds	(155,034,453)	155,215,568	181,115
Unearned Revenue	11,478,118	-	11,478,118
Total Liabilities	<u>(141,226,262)</u>	<u>157,525,890</u>	<u>16,299,628</u>
<b>NET POSITION</b>			
Restricted for:			
Unemployment Insurance Trust	614,108,475	(159,777,517)	454,330,958
Total Net Position	<u>614,108,475</u>	<u>(159,777,517)</u>	<u>454,330,958</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 472,882,213</u>	<u>\$ (2,251,627)</u>	<u>\$ 470,630,586</u>

**State of New Mexico Workforce Solutions Department**  
**Schedule 4 – Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2017**

	Unemployment Insurance Trust Fund (SHARE 20020)	Unemployment Insurance Trust Fund (SHARE 20060)	Total Unemployment Insurance Trust Fund
<b>OPERATING REVENUES</b>			
Interest on Investments	\$ -	\$ 9,028,560	\$ 9,028,560
Employers Taxes and Reimbursements	205,377,539	-	205,377,539
Combined Wage Claims Reimbursements	-	4,845,043	4,845,043
Total Operating Revenues	<u>205,377,539</u>	<u>13,873,603</u>	<u>219,251,142</u>
<b>OPERATING EXPENSES</b>			
Unemployment Benefits Distributed to Beneficiaries	-	178,334,072	178,334,072
Total Operating Expenses	<u>-</u>	<u>178,334,072</u>	<u>178,334,072</u>
<b>OPERATING INCOME</b>	<u>205,377,539</u>	<u>(164,460,469)</u>	<u>40,917,070</u>
<b>NON-OPERATING REVENUES</b>			
Grants, Contracts and Federal Reimbursements	(126,244)	4,448,374	4,322,130
Total Non-Operating Revenues	<u>(126,244)</u>	<u>4,448,374</u>	<u>4,322,130</u>
<b>CHANGE IN NET POSITION</b>	205,251,295	(160,012,095)	45,239,200
Total Net Position - Beginning of Year	<u>-</u>	<u>409,091,758</u>	<u>409,091,758</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 205,251,295</u>	<u>\$ 249,079,663</u>	<u>\$ 454,330,958</u>



**State of New Mexico Workforce Solutions Department**  
**Schedule 5 – Schedule of Individual Deposit Accounts**  
**June 30, 2017**

Account Title	Depository	Balance per Bank	Adjustments/ Reconciling Items	Reconciled Balance per Books
<b>Governmental Funds with State Treasurer</b>				
<b>(with SHARE Fund Numbers)</b>				
General Fund - 32900	State Treasurer	\$ (141,027)	\$ -	\$ (141,027)
Penalty and Interest - 61300	State Treasurer	5,712,756	-	5,712,756
Public Works Apprenticeship & Training - 61400	State Treasurer	1,589,011	-	1,589,011
Labor Enforcement Fund - 71100	State Treasurer	917,131	-	917,131
Total Governmental Funds with State Treasurer		8,077,871	-	8,077,871
<b>Proprietary Funds Cash in Banks</b>				
Benefit Account - 20060	Wells Fargo	2,397	-	2,397
H Warrant Account - 20020	Wells Fargo	-	(361,977)	(361,977)
Clearing Account - 20020	Wells Fargo	433,427	-	433,427
V Warrant Account - 20060	Wells Fargo	-	(244,130)	(244,130)
Cash Security Deposit Account - 20020	Wells Fargo	80,738	-	80,738
Total Proprietary Cash in Banks		516,562	(606,107)	(89,545)
<b>Proprietary Funds Cash - Other</b>				
Unemployment Trust Fund - 20020	U.S. Dept. of Treasury	422,683,013	-	422,683,013
Total Proprietary Funds Cash - Other		422,683,013	-	422,683,013
Total Funds (Excluding Agency Fund)		431,277,446	(606,107)	430,671,339
<b>Trust and Agency Funds with State Treasurer</b>				
<b>(with SHARE Fund Numbers)</b>				
Wage Claim - 17800	State Treasurer	40,852	-	40,852
Total Trust & Agency Funds with State Treasurer		40,852	-	40,852
Department Total - All Funds		\$ 431,318,298	\$ (606,107)	\$ 430,712,191

**State of New Mexico Workforce Solutions Department**  
**Schedule 6 – Schedule of Pledged Collateral**  
**June 30, 2017**

	Wells Fargo	U.S. Department of the Treasury	State Treasurer Accounts	Total
Total Amount of Deposit	\$ 516,562	\$ 422,683,013	\$ 8,118,723	\$ 431,318,298
Less FDIC	(250,000)	-	-	(250,000)
Total Uninsured Public Money	266,562	422,683,013	8,118,723	431,068,298
50% Collateral Requirement	133,281	211,341,507	4,059,362	215,534,149
State Agency Collateral Listing	A	B	C	A&B&C
Total Pledged	-	-	-	-
Over (Under) Pledged	A	B	C	A&B&C

A: Collateral for the balance is provided by the collateral pledged to the New Mexico State Treasurer to secure state deposits in accordance with 6-10-17 NMSA 1978. Detail of pledged collateral to this agency is unavailable, as the bank commingles pledged collateral for all state funds it holds. However, the State Treasurer's Office of Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

B: The Department maintains a cash equivalent account, the Unemployment Trust Fund, with the United States Department of the Treasury. Deposits to this account include contributions received from employers and withdrawals from this account are used for the payment of state unemployment benefits. The deposits are guaranteed by the full faith and credit of the United States government.

C: This amount is held at the New Mexico State Treasurer and is detailed in the report of the Office of the State Treasurer, whose audit is covered by a separate report. Detail specific for the collateral is commingled by the Office of the State Treasurer, and they monitor the adequacy of the funds pledged for collateral to ensure they are fully covered as required by the Laws of the State of New Mexico and related statutes. For additional GASB 40 disclosure information related to the above investment pool, the reader should refer to the separate audit report for the State Treasurer's Office. The New Mexico State Treasurer's Office is not rated.

Custodian: Federal Home Loan Bank, Dallas  
Name Security in: New Mexico State Treasurer

The deposits are fully secured since they are in the name of the New Mexico State Treasurer and are held at a separate depository institution that is not affiliated with the depository institution.

**State of New Mexico Workforce Solutions Department**  
**Schedule 7 – Schedule of Changes in Fiduciary Assets and Liabilities**  
**June 30, 2017**

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	Balance, June 30, 2016	Additions	Deletions	Balance, June 30, 2017
<b>ASSETS</b>				
Investment in State General				
Fund Investment Pool	\$ 25,928	\$ 41,660	\$ (26,736)	\$ 40,852
Total Assets	<u>\$ 25,928</u>	<u>\$ 41,660</u>	<u>\$ (26,736)</u>	<u>\$ 40,852</u>
<b>LIABILITIES</b>				
Amounts Held for Others	\$ 21,844	\$ 28,234	\$ (13,426)	\$ 36,652
Accounts Payable	4,084	13,426	(13,310)	4,200
Total Liabilities	<u>\$ 25,928</u>	<u>\$ 41,660</u>	<u>\$ (26,736)</u>	<u>\$ 40,852</u>

**State of New Mexico Workforce Solutions Department**  
**Schedule 8 – Joint Powers Agreement**  
**Year Ended June 30, 2017**

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Joint Powers Agreement	Responsible Party	Dates of Agreement		Description
		Beginning	Ending	
Agreement #17-631-5001-00064	New Mexico Department of Workforce Solutions New Mexico Taxation and Revenue Department New Mexico Workers' Compensation Administration	3/27/2017	N/A	To establish conditions, safeguards, and enforcement procedures for the identification and registration of New Mexico employers.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Amount Passed Through To Subrecipients	Federal Participating Expenditures
U.S. Department of Labor:			
Labor Force Statistics	17.002	\$ -	\$ 786,794
Unemployment Insurance	17.225	-	190,668,191
Trade Adjustment Assistance Workers	17.245	-	2,435,270
Work Opportunity Tax Credit Program	17.271	-	179,425
Temporary Labor Certification for Foreign Workers	17.273	-	87,792
Workforce Investment Act Dislocated Workers National Reserve	17.281	-	17,518
Trade Adjustment Assistance Community College and Career Training Grant Program	17.282	-	511,937
Apprenticeship USA	17.285	-	52,600
Employment Service Cluster:			
Employment Services	17.207	-	6,356,387
Disabled Veteran's Outreach Program	17.801	-	769,582
Local Veteran's Employment Representative Program	17.804	-	430,978
Total Employer Service Cluster		-	7,556,947
Workforce Investment Opportunity Act Cluster:			
Workforce Investment Opportunity Act Adult Program	17.258	4,285,302	4,771,827
Workforce Investment Opportunity Act Youth Activities	17.259	4,250,793	4,300,363
Workforce Investment Opportunity Act Dislocated Workers	17.278	4,736,263	5,727,864
Total Workforce Investment Cluster		13,272,358	14,800,054
Total U.S. Department of Labor		13,272,358	217,096,528
U.S. Equal Employment Opportunity Commission:			
Employment Discrimination Title VII of the Civil Rights Act of 1964	30.001	-	162,558
Total U.S. Equal Employment Opportunity Commission		-	162,558
U.S. Department of Health and Human Services			
Temporary Assistance for Needy Families	93.558	-	512,489
Total U.S. Department of Health and Human Services		-	512,489
U.S. Corporation for National and Community Service:			
State Commissions	94.003	-	179,411
AmeriCorps	94.006	1,739,774	1,827,828
Total U.S. Corporation for National and Community Service		1,739,774	2,007,239
Total Federal Awards Expended		\$ 15,012,132	\$ 219,778,814

**State of New Mexico Workforce Solutions Department**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**June 30, 2017**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Amount Passed Through To Subrecipients	Federal Participating Expenditures
<b>Reconciliation to the Financial Statements</b>			
Governmental Funds - Federal Revenue			\$ 45,206,571
Proprietary Funds - Federal Revenue			4,322,130
Total Federal Revenue			<u>49,528,701</u>
Unemployment Benefit Distributions from State Trust Fund			170,250,113
Total			<u>\$ 219,778,814</u>
<b>Reconciliation of Unemployment Benefit Distributions to the Financial Statements</b>			
Unemployment Benefit Distributions from State Trust Fund			\$ 170,250,113
Unemployment Benefit Distributions from Federal Program Accounts			4,322,130
Unemployment Combined Wage Claim Reimbursements received in FY17			3,761,829
Total Unemployment Benefit Distributions			<u>\$ 178,334,072</u>
<b>Reconciliation of the Governmental Funds - Federal Revenue</b>			
Governmental Funds - Federal Revenue			\$ 45,321,113
U.S. Equal Employment Opportunity Commission Federal Revenue			(114,542)
Total Governmental Funds - Federal Revenue			<u>\$ 45,206,571</u>

**State of New Mexico Workforce Solutions Department**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

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**GENERAL**

The accompanying Supplemental Schedule of Expenditures of Federal Awards presents the activities of all federal awards of the Department.

**BASIS OF ACCOUNTING**

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Department's financial statements. The Department has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NON-CASH ASSISTANCE**

The Department did not receive any federal non-cash assistance during the year ended June 30, 2017.

**LOANS**

The Department does not have any loans outstanding with the Federal government as of June 30, 2017.

**UNEMPLOYMENT INSURANCE EXPENDITURES FROM STATE UNEMPLOYMENT COMPENSATION**

The unemployment compensations system is a unique federal-state partnership, founded upon federal law but implemented through state law. Expenditures reported for the Unemployment Insurance Program (CFDA No. 17.225) include unemployment benefit payments from the State Unemployment Compensation Fund totaling \$174,572,243.

**REED ACT APPROPRIATIONS**

The Department receives appropriations under the Reed Act. These monies are to be spent for activities related to the unemployment insurance program. During the year ended June 30, 2017, the Department did not have any expenditures related to the Reed Act.

**EMPLOYMENT SERVICE (ES) CLUSTER – US DEPARTMENT OF LABOR**

ES Cluster includes:

Employment Services	17.207
Disabled Veterans' Outreach	17.801
Local Veterans' Employment Representative	17.804

**WORKFORCE INNOVATION AND OPPORTUNITY ACT (WIOA) CLUSTER – US DEPARTMENT OF LABOR**

WIOA Cluster includes:

WIOA-Adult	17.258
WIOA-Youth	17.259
WIOA-Dislocated	17.278

**State of New Mexico Workforce Solutions Department**  
**Notes to Schedule of Expenditures of Federal Awards (Continued)**  
**June 30, 2017**

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**SUBRECIPIENTS**

The Department views the following boards as subrecipients of WIOA cluster programs. The pass-through Federal support to the boards is part of the expenditures of the WIOA cluster.

1. The Northern Area Local Workforce Development Board (NALWDB/53895) is one of four regional workforce boards established in compliance with the Workforce Innovation and Opportunity Act (WIOA) of 1999 and certified by the New Mexico Governor. WIOA funds are allocated in three subparts: Adult, Dislocated Worker and Youth. The board received the following Federal support through the Department in fiscal year 2017:

WIOA-Adult	\$	1,028,522
WIOA-Youth	\$	614,171
WIOA-Dislocated	\$	847,013

2. The Employment & Economic Information Center (EEIC/84362) is the administrative entity and fiscal agent for the Eastern Area Board of the county and municipal governments within the seven counties of Planning and Development District IV. The EEIC is an organization for local governments. It assists in planning for common needs and coordinating of the sound regional development. The board received the following Federal support through the Department in fiscal year 2017:

WIOA-Adult	\$	742,693
WIOA-Youth	\$	538,885
WIOA-Dislocated	\$	607,418

3. The Mid Regional Council of Governments is the administrative entity and fiscal agent of the New Mexico Workforce Connection (WCCNM/9289) in the central region of the state (Bernalillo, Tarrant, Sandoval and Valencia Counties). The WCCNM works to support industries help businesses become competitive and profitable, and grow workers who are skilled and productive. The board received the following Federal support through the Department in fiscal year 2017:

WIOA-Adult	\$	1,726,996
WIOA-Youth	\$	2,019,828
WIOA-Dislocated	\$	2,278,105

4. The Southwest Area Workforce Development Board (SAWDB/9293) is the southwest region's workforce agency that helps hundreds of employers connect with thousands of job seekers each year. The agency offers innovative solutions to assist businesses to succeed in today's highly competitive workforce, while providing the tools job seekers need to find or advance in their current careers. The board received the following Federal support through the Department in fiscal year 2016:

WIOA-Adult	\$	787,091
WIOA-Youth	\$	1,077,909
WIOA-Dislocated	\$	1,003,727



**State of New Mexico Workforce Solutions Department**  
**Notes to Schedule of Expenditures of Federal Awards (Continued)**  
**June 30, 2017**

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5. The subrecipients of AmeriCorps received the following Federal support through the Department in fiscal year 2017:

**Assistance Dogs of the West** (51655) Assistance Dogs of the West builds successful working partnerships between clients and dogs that empower people and open doors to new opportunities.

AmeriCorps Formula \$ 8,689

**Atrisco Heritage Foundation** (99183) The Atrisco Heritage Foundation was created and is operated exclusively for the purposes of promoting and preserving the ancestral and cultural heritage of the general community of Albuquerque, New Mexico, and the history of the Atrisco Land Grant.

AmeriCorps Formula \$ 123,254

**Capacity Builders** (104135) has dedicated its resources, determination and passion to working with the Dine` (a traditional term for the Navajo) and other Native American communities in the United States. Through training and support programs so they are better able to improve the lives of Native American communities in the United States. Through training and support programs so they are better able to improve the lives of Native American youth and families.

AmeriCorps Formula \$ 2,779

**Earth Care International** (12741) Earth Care is a leader in advocating for young people's voices and contributions in decision-making about our community's future.

AmeriCorps Formula \$ 196,575

**ECO Servants** (9356) To directly engage the community through service towards a more sustainable future.

AmeriCorps Formula \$ 288,664

**Families and Youth Inc.** (47544) The mission of Families and Youth Inc. is to promote a safer, healthier community by assisting children and families in strengthening their relationships, preserving the family unit, establishing community partnerships, and enhancing the availability of human resources.

AmeriCorps Formula \$ 269,358

**NACA Inspired Schools Network** (130911) The NACA Inspired Schools Network is building a movement of students, families, and educators to create excellent schools relevant to the communities they serve.

AmeriCorps Formula \$ 107,260

**State of New Mexico Workforce Solutions Department**  
**Notes to Schedule of Expenditures of Federal Awards (Continued)**  
**June 30, 2017**

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**Native American Community Academy** (41858) The mission of Native American Community Academy is to engage students, educators, families, and community in creating a school that will prepare our students to grow from adolescence to adulthood and begin strengthening communities by developing strong leaders who are academically prepared, secure in their identity and healthy.

AmeriCorps Formula \$ 8,720

**NM Highlands University** (54423) The vision of New Mexico Highlands University to provide an inspiring multicultural learning environment that promotes excellence, empowerment, transformation, and global understanding.

AmeriCorps Formula \$ 138,314

**Rocky Mountain Youth Corps** (50703) The Rocky Mountain Youth Corps provides training and community service opportunities for a diverse population of New Mexico-area.

AmeriCorps Formula \$ 564,222

**Teach for America** (57399) The mission of Teach for America is to enlist, develop, and mobilize as many as possible of our nation's most promising future leaders to grow and strengthen the movement for educational equity and excellence.

AmeriCorps Formula \$ 31,939

# **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***

Ms. Celina Bussey, Cabinet Secretary  
New Mexico Workforce Solutions Department  
Mr. Timothy Keller  
New Mexico State Auditor

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of New Mexico Workforce Solutions Department, a department of the State of New Mexico (the Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 27, 2017.

## **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material

misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-008 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-009 to be a significant deficiency.

### **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 certain matters 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 Findings Schedule as items 2017-010 and 2017-011. The Department's responses were not subject to the auditing procedures and, accordingly, we express no opinion on the responses.

### **Department's Response to Findings**

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

### **Purpose of this Report**

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

*Mess Adams LLP*

Albuquerque, New Mexico  
October 27, 2017

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

Ms. Celina Bussey, Cabinet Secretary  
New Mexico Workforce Solutions Department  
Mr. Timothy Keller  
New Mexico State Auditor

## **Report on Compliance for Each Major Federal Program**

We have audited New Mexico Workforce Solutions Department, a department of the State of New Mexico (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2017. The Department's major federal programs are identified in the summary of 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 opinions on compliance for major federal programs. 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 programs for the year ended June 30, 2017.

### ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005, 2017-006, and 2017-007. Our opinion on each major federal program is not modified with respect to these matters.

The Department's response to the noncompliance findings identified in our audit are 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.

### **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.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-003, 2017-004, 2017-005, 2017-006, and 2017-007 to be significant deficiencies.

The Department's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's 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  
October 27, 2017

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section I – Summary of Auditor’s Results**

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**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 Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
17.225	Unemployment Insurance Program	Qualified
17.245	Trade Adjustment Assistance Program	Qualified

Dollar threshold used to distinguish between type A and type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee?  Yes  No



**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section II – Financial Statement Findings**

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**2017-008 (Original Finding 2014-002) Unemployment Insurance Financial Reporting and Accounting (Material Weakness)**

**Condition:** During 2013, the Department implemented a new Unemployment Insurance (UI) Tax and Claims System (uFACTS), which was a significant upgrade to the legacy systems previously used by the Department for calculating employer taxes and processing unemployment claims. Since the Department recently implemented the uFACTS system and it was the first of its kind among other states, the Department continues to test the various transaction processing of the system and, as a result, has identified system deficiencies, which the Department continues to address. During the period under audit, the following are the most significant issues identified as it relates to the financial reporting and accounting of the UI fund:

- The Department lacks procedures to reconcile all activity and balances of the UI fund as reported in SHARE on a monthly basis. As a result, certain material audit and client identified adjustments were required as of June 30, 2017.
- The Department lacks the ability to generate the necessary reports from the uFACTS system to properly record taxes receivables at year end as well as estimate the collectability of those receivables. As a result, management of the Department and the auditors worked with the programmers to run various queries from the system to obtain the necessary information for the year-end closing entries.
- The Department lacks the ability to generate the necessary reports from the uFACTS system that are required to accurately estimate the collectability of benefit overpayments.

**Criteria:** Per Rule 2.20.5.8.C(7) NMAC, all subsidiary systems shall record transactions timely, completely, and accurately, and the agency shall reconcile the subsidiary systems' transactions to the corresponding SHARE general ledger accounts daily. Per 42 USC 503(a) (1), a system output that can provide accurate charge and collection data should be in place to ensure reliable reporting.

**Cause:** The uFACTS is the first system of its kind to be implemented and has been in use for a short period of time, in which the Department continues to work with the software developers to resolve the issues as they become aware of such issues. The Department has not yet developed or tested all of the appropriate reports required for the Department's monthly and annual financial reporting.

**Effect:** Misstatements to the financial statements, possible misappropriation of assets.

**Recommendation:** The Department should continue to test the system and make it a priority to resolve system deficiencies as identified by the Department. The Department should make it a high priority to develop and adequately test the necessary monthly and financial reports generated from the system and develop processes to reconcile all activity and balances within the UI fund on a monthly basis. In addition, we recommend that the Department develops and implements a more robust allowance methodology to estimate the collectability of benefit overpayments.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section II – Financial Statement Findings (Continued)**

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**2017-008 (Original Finding 2014-002) UI Financial Reporting and Accounting (Material Weakness)**  
**(Continued)**

**Management’s Response:** Management is in agreement with this finding. The Financial Accounting and Reporting Manager and the Unemployment Insurance Treasury Manager are responsible for ensuring timely reconciliations of all financial statement line items between the uFACTS system and SHARE.

The Financial Accounting and Reporting Manager was hired during October 2016 and the Unemployment Insurance Treasury Manager was hired during November 2016. Additionally, the Financial Reporting Enhancement project was completed for Unemployment Insurance Claim payments during October 2016 and Unemployment Insurance Tax payments during December 2016. After the projects were completed and the new Unemployment Insurance Treasury Manager was hired, the Department was able to reconcile daily and monthly all uFACTS transactional data. For the first half of fiscal year 2017, the Unemployment Insurance Manager and the Financial Accounting and Reporting Manager were required to create a significant amount of journal entries to true-up the differences between the “before” uFACTS project and the “after” uFACTS project and SHARE. During fiscal year 2018, Management has completed daily and monthly reconciliations timely.

The Financial Reporting and Enhancement project included the following reports that were implemented during fiscal year 2017:

- Claims Disbursement Report
- Claims Revenue Report
- Claims Accounts Receivable Report
- Tax Revenue and Disbursement Report

Based on feedback from this financial statement audit. Management will evaluate additional necessary reports to post year-end closing entries as well as accurately estimate the collectability of benefit overpayments.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section II – Financial Statement Findings (Continued)**

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**2017-009 (Original Finding 2016-006) Internal Control over Financial Close and Reporting (Significant Deficiency)**

**Condition:** During our audit, the following issues were noted as it relates to the Department's financial close and reporting process:

- The Department lacked procedures to ensure the activity and balances of all funds of the Department were reconciled on a monthly basis during the fiscal year. While we did note that there was significant improvement during the year there was still certain auditor-identified adjustments required.
- The Department's schedule for the accounts receivable in the general fund has an unsupported variance compared to the trial balance in the amount of approximately \$293,833. This is considered an uncorrected misstatement in the Department's financial statements.

**Criteria:** NMAC 2.20.5.8 requires agencies to ensure that all reporting of financial information be timely, complete, and accurate.

**Cause:** Turnover within the Department and lack of effective internal controls relating to the financial close and reporting process.

**Effect:** Possible misstatements of the financial statements and untimely financial reporting.

**Recommendation:** We recommend management evaluate all aspects of the financial close and reporting process and establish effective internal controls and procedures to ensure timely and accurate financial statements.

**Management's Response:** Management is in agreement with this finding. The Financial Accounting and Reporting Manager is responsible for ensuring that all reporting of financial information be timely, complete and accurate. The Financial Accounting and Reporting Manager was hired during October 2016 and implemented an action plan that for the reporting of financial information to be timely, complete and accurate. Procedures were implemented during fiscal year 2017 for the reporting of financial information. However, the Department had a backlog of reconciliations to be performed. The Financial Accounting and Reporting Unit worked diligently during fiscal year 2017 to be current with all reconciliations in order to provide financial statements in a timely manner to the auditors.

The \$293,833 uncorrected misstatement stemmed from the fiscal year 2016 audit. The Financial Accounting and Reporting Manager is still researching the discrepancy. The discrepancy will be resolved in fiscal year 2018.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs**

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**Finding 2017-001 – Reporting**  
**Material Weakness in Internal Controls over Compliance, Non-Compliance**

Federal Agency – Department of Labor

Federal Program –  
17.225 – Unemployment Insurance

Award Number/Award Year –  
UI-29858-17-55-A-35 – 2017  
UI-27993-16-55-A-35 – 2016

**Criteria** – Per the compliance supplement, the Department is required to submit the Trade Act Participant Report on a quarterly basis. Per the grant agreements, reports are required to be submitted 45 days after each quarter end.

**Condition/Context** – The required quarterly Trade Act Participant Reports were not filed during the year ended June 30, 2017.

**Cause** – Insufficient training and oversight of program personnel with respect to reporting requirements resulted in the lack of compliance with reporting requirements.

**Effect** – The Department is not in compliance with reporting requirements.

**Questioned Costs** – Unknown

**Recommendation** – The Department should establish a control system to ensure all reports are prepared and submitted in accordance with the federal requirements.

**Management Response** – Management is in agreement with this finding. The Department has consistently submitted the required Trade Act Participant Report (TAPR) every quarter. The Department identified an issue with missing Unemployment Insurance data elements for Trade Readjustment Allowance (TRA) participants. The Department has logged an Online Project Communications ticket with our Workforce Connection Online System vendor to improve the data import capabilities for TRA data from our Unemployment Insurance Application. The Department is diligently working with our vendor to resolve any deficiencies and improve the accuracy for the TAPR.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-002 – Payroll Charges to Federal Grants (Repeated and Modified)**  
**Material Weakness in Internal Controls over Compliance, Non-Compliance**

Federal Agency – Department of Labor

Federal Programs –

17.225 – Unemployment Insurance

17.245 – Trade Adjustment Assistance

Award Number/Award Year –

UI-29858-17-55-A-35 – 2017

UI-27993-16-55-A-35 – 2016

TA-26740-15-55-A-35 – 2015

TA-25304-14-55-A-35 – 2014

**Criteria** – Per Uniform Grant Guidance Section 200.302 Financial Management, “The financial management system of each non-Federal entity must provide for written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this part and the terms and conditions of the Federal Award. Per Section 200.430(8)(i) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed and records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated.

**Condition/Context** – During our testing over allowable costs, the following issues were noted:

- The Department lacked a time and effort certification for 4 of the 30 individuals tested for the Unemployment Insurance Program.
- The Department lacked a time and effort certification for 17 of the 30 individuals tested for the Trade Adjustment Assistance Program.
- The Department does not have written procedures in place for determining the allowability of cost as required by uniform guidance.

**Cause** – Insufficient training and oversight of program personnel with respect to grant requirements may have contributed to this finding.

**Effect** – The Department is not in compliance Uniform Grant Guidance.

**Questioned Costs** – Unknown

**Recommendation** – We recommend that management establish written procedures over all federal grants and provide training as necessary to ensure compliance with applicable requirements.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-002 – Payroll Charges to Federal Grants (Repeated and Modified) (Continued)**  
**Material Weakness in Internal Controls over Compliance, Non-Compliance**

**Management Response** – Management is in agreement with this finding. Of the four individuals who did not provide time and effort certifications for the Unemployment Insurance Division, two were interns who left the Department prior to the Department obtaining signatures. The remaining two individuals were transferred to Appeals, and in the transfer the Department did not continue to obtain time and effort certifications.

For the Trade Adjustment Assistance grant, of the 17 instances tested, four instances selected did not start conducting TAA business until after the Department's upgrade of the time reporting system and should not be reported as an exception. The other 13 instances originated in our local workforce connection offices. After the review by USDOL, two offices were found to be out of compliance. The Department conducted an expanded internal audit of the two offices in question to determine if the offices had any other occurrences in regards to the time and effort certifications. Some minor instances were found and corrected. We have specific standard operating procedures dealing with time and effort certification. Local office management has been retrained on the process.

During April 2017, the State of New Mexico upgraded the time reporting system. A certification is included requiring the individual submitting their time to validate the information reported is true and accurate. The system upgrade has taken the place of the time and effort certification forms.

Management is in the process of reviewing and approving its financial and administrative policies and will have the final policies no later than November 30, 2017.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-003 – Written Policies and Procedures**  
**Significant Deficiency in Internal Controls over Compliance, Non-Compliance**

*Federal Agency* – Department of Labor

*Federal Programs* –

CFDA 17.258, 17.278, & 17.259 – Workforce Innovation and Opportunity Act

CFDA 17.281 – Workforce Investment Act

CFDA 17.207 – Wagner-Peyser Act

CFDA 17.225 – Unemployment Insurance Program

**Criteria** – The United States Department of Labor (DOL) Employment and Training Administration conducted an on-site financial and administrative review to determine if the Department managed each programs financial operations in accordance with applicable program regulations, uniform administrative requirements and cost principles.

**Condition/Context** – The Department did not update its financial and administrative policies and procedures to reflect the regulatory requirement changes made when the Uniform Guidance (UG) was issued in December 2014. In addition, the Department did not update its Cost Objective for Expenditure Form to reference UG regulations to determine if costs are allowable, allocable, necessary, and reasonable. The form currently references 2 CFR 225, Appendix A, subsection C.I. instead of the UG regulations at 2 CFR 200.403-405.

2 CFR 200.400 provides that (a) the non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices; and (b) The non-Federal entity assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal Award.

**Cause** – Turnover within the Department may have contributed to this finding.

**Effect** – The Department failed to follow all program guidelines required by the DOL.

**Questioned Costs** – None

**Recommendation** – We recommend that the Department follow up on this finding and implement the required actions provided by the DOL to resolve the findings from the review.

**Management Response** – Management is in agreement with this finding. Management is in the process of reviewing and approving its financial and administrative policies. The Department will have the final policies ready to submit to USDOL Regional Office no later than November 30, 2017. The Cost Objective for Expenditure Form was update to reflect the UG regulations at 2 CFR 200.403 – 405 in October 2017.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-004 – Risk Assessment Tool and Monitoring Plan**  
**Significant Deficiency in Internal Controls over Compliance, Non-Compliance**

Federal Agency – Department of Labor

Federal Programs –

CFDA 17.258, 17.278, & 17.259 – Workforce Innovation and Opportunity Act

CFDA 17.207 – Wagner-Peyser Act

**Criteria** – The United States Department of Labor (DOL) Employment and Training Administration conducted an on-site financial and administrative review to determine if the Department is managed each programs financial operations in accordance with applicable program regulations, uniform administrative requirements and cost principles.

**Condition/Context** – The Department does not have a risk assessment tool and monitoring plan to monitor its subrecipients.

20 CFR 683.410(a) provides that each recipient and subrecipient of funds under title I of WIOA and under the Wagner-Peyser Act must conduct regular oversight and monitoring of its WIOA and Wagner-Peyser Act program(s) and those of its subrecipients and contractors as required under title I of WIOA and the Wagner-Peyser Act, as well as under 2 CFR part 200, including 2 CFR 200.327, 200.328, 200.330, 200.331, and Department exceptions at 2 CFR part 2900.

2 CFR 200.331 (b) provides that the pass-through entity evaluates each subrecipient's risk of non-compliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (e). 2 CFR 200.331 (e)(2) provides that depending upon the pass-through entity's assessment of risk posed by the subrecipient, performing on-site reviews of the subrecipient's program operations may be a useful monitoring tool.

**Cause** – Failure to update administrative policies and procedure in accordance with Uniform Grant Guidance may have contributed to this finding.

**Effect** – The Department failed to follow all program guidelines required by the DOL.

**Questioned Costs** – None

**Recommendation** – We recommend that the Department follow up on this finding and implement the required actions provided by the DOL to resolve the findings from the review.

**Management Response** – Management is in agreement with this finding. The Risk Assessment tool is scheduled for delivery on October 30, 2017. Fiscal and programmatic reviews for all activities were officially announced to the Local Workforce Boards and included a schedule of events. As of October 2017, the Department has prepared the 2017 Monitoring Plan.



**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-005 – Physical Inventory**  
**Significant Deficiency in Internal Controls over Compliance, Non-Compliance**

Federal Agency – Department of Labor

Federal Programs –

CFDA 17.258, 17.278, & 17.259 – Workforce Innovation and Opportunity Act

CFDA 17.281 – Workforce Investment Act

CFDA 17.207 – Wagner-Peyser Act

**Criteria** – The United States Department of Labor (DOL) Employment and Training Administration conducted an on-site financial and administrative review to determine if the Department is managed each programs financial operations in accordance with applicable program regulations, uniform administrative requirements and cost principles.

**Condition/Context** – The Department did not document the results of its physical inventory to show it was reconciled with its property records. The Department did conduct a physical inventory by electronically scanning the equipment tags. However, staff was not aware that the physical inventory must be documented to show it was reconciled with the Department's property records.

2 CFR 200.313 (d)(2) provides that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

**Cause** – Insufficient training and oversight of federal requirements may have contributed to this finding.

**Effect** – The Department failed to follow all program guidelines required by the DOL.

**Questioned Costs** – None

**Recommendation** – We recommend that the Department follow up on this finding and implement the required actions provided by the DOL to resolve the findings from the review.

**Management Response** – Management is in agreement with this finding. The Department will work to document the results of the physical inventory taken in April 2017 and prepare a compiled report by November 30, 2017 to demonstrate the reconciliation of the property records. This report will be submitted to the USDOL Regional Office for review.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-006 – One Stop Operator**  
**Significant Deficiency in Internal Controls over Compliance, Non-Compliance**

Federal Agency – Department of Labor

Federal Programs –  
CFDA 17.258, 17.278, & 17.259 – Workforce Innovation and Opportunity Act

**Criteria** – The United States Department of Labor (DOL) Employment and Training Administration conducted an on-site financial and administrative review to determine if the Department is managed each programs financial operations in accordance with applicable program regulations, uniform administrative requirements and cost principles.

**Condition/Context** – The Northern and Southwestern Workforce Development Boards (WDBs) did not procure one stop operators (OSOs) by the deadline date of July 1, 2017. The Northern and Southwestern WDBs attempted to procure OSOs in January 2017; however, OSO contracts were not awarded. The lack of properly procured OSOs in both WDBs was caused by the Department and the two WDBs not allowing sufficient time to complete the procurement process. By not having OSOs procured and operating as required, the Department and the WDBs put the local areas they are responsible for at risk of receiving less than adequate, or not receiving, WIOA services. Currently, the WDBs are using temporary OSOs to serve participants.

20 CFR 678.635 (a) provides that no later than July 1, 2017, one-stop operators selected under the competitive process described in this subpart must be in place and operating the one-stop center.

TEGL 15-16 (8)(B)(iii) provides that all procurement transactions must be conducted using full and open competition and written procedures must allow for sufficient time for all phases of the procurement process to be carried out in a manner that would unduly restrict competition.

**Cause** – The lack of updated policies and procedures with regards to One Stop Operators may have contributed to this finding.

**Effect** – The Department failed to follow all program guidelines required by the DOL.

**Questioned Costs** – None

**Recommendation** – We recommend that the Department follow up on this finding and implement the required actions provided by the DOL to resolve the findings from the review.

**Management Response** – Management is in agreement with this finding. The following is an update on the status of these activities:

- Southwestern Area Workforce Development Board: Completed procurement and successfully selected a One-Stop Operator. ResCare, Inc. A proposal was submitted and an award was approved by the Board on August 1, 2017. The contract has been fully negotiated and is pending final signature as of September 27, 2017.

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-006 – One Stop Operator (Continued)**

**Significant Deficiency in Internal Controls over Compliance, Non-Compliance**

- Northern Area Workforce Development Board: Completed procurement and successfully selected a One-Stop Operator on September 22, 2017. The contract has been fully negotiated.
  
- Due to competing timelines and deadlines, new policies and procedures have not yet been developed. Plans are being developed to include completing this project on or before January 31, 2018. The new guidance will include federal and state requirements, more importantly, an emphasis on procurement timeline, best practices for reviewer selection, proposal scoring, and finalization of awards. The WDBs were notified about proposed policy and guidance development, announcing specific requirements and expectations to complete procurement at a minimum of two months prior to contract deadline. Once the guidance is completed, the Department will provide a training webinar on the new policies and procedures, along with one-on-one technical assistance as requested.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

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**Finding 2017-007 – Program Income**  
**Significant Deficiency in Internal Controls over Compliance, Non-Compliance**

Federal Agency – Department of Labor

Federal Programs –  
CFDA 17.225 – Unemployment Insurance Program

**Criteria** – The United States Department of Labor (DOL) Employment and Training Administration conducted an on-site financial and administrative review to determine if the Department is managed each programs financial operations in accordance with applicable program regulations, uniform administrative requirements and cost principles.

**Condition/Context** – The Department did not report \$206 of program income earned by the unemployment insurance (UI) program resulting from charges for copies of department files and records. The Department's UI program does not generate a significant amount of program income. The Department's financial staff was not aware of the program income, therefore did not include it on the ET A 9130 report.

2 CFR 200.302 (b)(2) requires accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in 200.327 and 200.328.

2 CFR 200.305 (b)(S) requires the use of resources before requesting cash advance payments, to the extent available, the non-Federal entity must disburse funds available from program income: (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

**Cause** – Lack of updated policies and procedures and oversight of federal requirements may have contributed to this finding.

**Effect** – The Department failed to follow all program guidelines required by the DOL.

**Questioned Costs** – \$206

**Recommendation** – We recommend that the Department follow up on this finding and implement the required actions provided by the DOL to resolve the findings from the review.

**Management Response** – Management is in agreement with this finding. The Department is in the process of developing and implementing policies and procedures to ensure that program income is reported and disbursed as required. The Department will have policies developed and implemented no later than January 31, 2018. The Department will make an adjustment on the ETA 9130 that is due on November 15, 2017 to show the \$206 of program income earned.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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

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**2017-010 – Procurement (Other Matter)**

**Criteria:** The Department did not comply with the requirements set forth in the New Mexico State Procurement Code in Section 13-1-126.1 NMSA 1978.

**Condition/Context:** During June 2016, the Department entered into a contract with Geographic Solutions totaling \$847,996. Geographic Solutions had been approved as a sole source provider for this contract during April 2016.

In December 2016, the Department created a new requisition to increase the contract compensation to Geographic Solutions by \$367,141. The purchase order was created on January 26, 2017 and was submitted in SHARE under the original contract. The contract amendment was reviewed and circulated for approval signatures at the Department, New Mexico Department of Information Technology, and New Mexico Taxation and Revenue Department. The Department then reviewed SHARE and noted the contract amount had been updated and the contract status was approved.

On February 2, 2017, the Department was notified that the sole source procurement was not approved by the State Purchasing Division and it did not comply with 13-1-126.1 NMSA 1978. However, the CIO had already approved Geographic Solutions to commence the newly contracted work.

**Cause:** Insufficient training and oversight of the Department's procurement personnel may have contributed to this finding.

**Effect:** The Department did not comply with the New Mexico State Procurement Code.

**Recommendation:** We recommend that the Department provide training of procurement personnel and follow the guidelines set forth in the New Mexico State Procurement Code for all future procurements.

**Management's Response:** Management is in agreement with this finding. The Department will ensure all amendments to contracts Sole Source contracts will be posted in accordance with the guidelines set forth in the New Mexico State procurement code. In addition, final signatures on specific documents will be reviewed and examined in addition to the approval status in SHARE. Approvals to begin work will be directed formally by the procurement unit to program rather than rely solely on the SHARE status.

**State of New Mexico Workforce Solutions Department**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Other Findings as Required by Section 12-6-5 NMSA 1978 (Continued)**

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**2017-011 – General Fund Reversion (Other Matter)**

**Criteria:** The Department did not comply with the requirements set forth in Section 6-5-10 NMSA 1978, which states “all unreserved undesignated fund balances in reverting funds and accounts as reflected in the central financial reporting and account system as of June 30 shall revert by September 30 to the (State of New Mexico) general fund.”

**Condition/Context:** As of June 30, 2015, the Department did not revert funds totaling \$33 to the State of New Mexico general fund. These funds were reverted as of June 30, 2017.

**Cause:** Turnover in the Department’s financial and reporting personnel resulted in the missed reversion.

**Effect:** The Department did not comply with the requirements of the New Mexico State Code.

**Recommendation:** We recommend that the Department review adjusted general ledger balances on an annual basis and ensure all funds are reverted in accordance with the applicable requirements of the New Mexico State Code.

**Management’s Response:** Management is in agreement with this finding. The Department’s Financial Accounting and Reporting Manager will review the general ledger as part of the annual financial close process to ensure all funds are reverted to the general fund in accordance with New Mexico State Statute.

**State of New Mexico Workforce Solutions Department**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2017**

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**2016-005 (Original Finding 2014-002) UI Financial Reporting and Accounting (Material Weakness) – REPEATED AND UPDATED**

**Condition:** During 2013, the Department implemented a new UI Tax and Claims System (uFACTS), which was a significant upgrade to the legacy systems previously used by the Department for calculating employer taxes and processing unemployment claims. Due to the fact that the Department recently implemented the uFACTS system and that it was the first of its kind among other states, the Department continues to test the various transaction processing of the system and, as a result, has identified system deficiencies, which the Department continues to address. During the period under audit, the following are the most significant issues identified as it relates to the financial reporting and accounting of the UI fund, which were the contributing factors to the restatement in the amount of \$31,547,600 to the UI fund:

- The Department lacks procedures to reconcile all activity and balances of the UI fund as reported in SHARE on a monthly basis. As a result, an excessive amount of material audit and client identified adjustments were required as of June 30, 2016.
- The Department lacks the ability to generate the necessary reports from the uFACTS system that are required to post the year-end closing entries to the UI fund in a timely manner. As a result, management of the Department and the auditors worked with the programmers to run various queries from the system to obtain the necessary information for the year-end closing entries.

**2016-006 Internal Control over Financial Close and Reporting (Significant Deficiency) – REPEATED AND UPDATED**

**Condition:** During our audit, the following issues were noted as it relates to the Department's financial close and reporting process:

- The Department lacked procedures to ensure the activity and balances of all funds of the Department were reconciled on a monthly basis during the fiscal year. As a result, an excessive amount of client- and auditor-identified adjustments were required.
- The client-prepared schedule for the accounts receivable in the general fund has a variance compared to the trial balance in the amount of approximately \$296,000; this is considered an uncorrected misstatement in the Department's financial statements.
- The client prepared capital asset listing revealed the following issues:
  - The Department was unable to specifically identify the current year's asset disposals on the capital asset listing for proper removal.
  - The accumulated depreciation of some assets exceeds the actual cost of the assets.

**State of New Mexico Workforce Solutions Department**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2017**

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**2016-001 – (Original Finding 2008-003) Federal Grant Reporting (Significant Deficiency, Instance of Non-Compliance) – RESOLVED**

**Applicable Compliance Requirement:** Reporting

**Federal Program:** CFDA 17.225 Unemployment Insurance

**Federal Agency:** Department of Labor

**Federal Award Number/Year:** UI-26551-15-55-A-35 (2015), UI-27993-16-55-A-35 (2016)

**Condition:** During our single audit reporting test work, we noted 1 of 22 reports (1 ETA 581) tested, which lacked sufficient information to determine whether or not the report submitted to the federal agency was reporting accurate data. system, we noted that there is little interface between the Tax Office and Treasury and weak oversight, monitoring and reconciliation of tax accounts. Tax assessments are not tracked and robust reporting and analyses are not performed to determine the propriety of tax revenues, receivables, or refunds.

**2016-002 (Original Finding 2015-002) – Benefit Accuracy Measurement (BAM) (Significant Deficiency, Instance of Non-Compliance) – RESOLVED**

**Applicable Compliance Requirement:** Special Tests

**Federal Program:** CFDA 17.225 Unemployment Insurance

**Federal Agency:** Department of Labor

**Federal Award Number/Year:** UI-26551-15-55-A-35 (2015), UI-27993-16-55-A-35 (2016)

**CONDITION:** During our test work over the BAM sampling; we selected 40 cases for testing and noted that the Department was unable to locate 1 file for our testing. Upon further research by the Department, it was determined to be an invalid case number due to a sequencing error contained in the spreadsheet listing of all cases.



**State of New Mexico Workforce Solutions Department**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2017**

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**2016-003 (Original Finding 2012-001) – Payroll Charges to Federal Grants (Significant Deficiency, Instance of Non-Compliance) – REPEATED AND UPDATED**

**Applicable Compliance Requirement:** Allowable Costs/Cost Principles

**Federal Program:** CFDA 17.225 – Unemployment Insurance

**Federal Agency:** Department of Labor

**Federal Award Number/Year:** UI-26551-15-55-A-35 (2015), UI-27993-16-55-A-35 (2016)

**Condition:** During our testing over allowable costs, the following issues were noted:

- The Department lacked a time and effort certification on 1 out of 40 payroll transactions tested.
- The Department does not have written procedures in place for determining the allowability of costs as required by the new uniform guidance.

**2016-004 – Purchasing Card (Compliance and Other Matters) - RESOLVED**

**Condition:** During our testing of purchasing card (P-Card) purchases, we noted the following issues:

- Out of the 3 months of credit card statements tested, 8 card holder statements included a purchase requisition form that lacked appropriate authorization.
- 7 card holder statement packets did not include quotes for the purchased items as required.
- 1 card holder statement included purchases of uniforms, which is an unallowable P-Card purchase per the Department's P-Card Policy and Procedures.

**2016-007 Information Technology (Compliance and Other Matters) – RESOLVED**

**Condition:** During our IT related procedures for the Department, we noted the following observations that could be strengthened by the Department:

- User access requirements can change as a result of several factors, including transfers, terminations, promotions, reorganization, and department or Department growth. Audits of user accounts and their access level are not performed on a regular basis for the UIA and SHARE applications.
- We noted that the Department has a disaster recovery plan but it was last updated in 2010. Although the Department has taken various measures to address brief interruptions to systems processing (such as regular back-ups and redundancy and data center off-site), the formal plan is still needs to be updated to address the recovery and resumption of critical systems and data in the event of an interruption.
- We noted that the Department had one administrative assistant with access to the Department's data center.

# **State of New Mexico Workforce Solutions Department**

## **Exit Conference**

### **June 30, 2017**

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The State of New Mexico Workforce Solutions Department staff prepared the Management's Discussion and Analysis, financial statements, notes to the financial statements, supplementary information and schedules for the fiscal year ended June 30, 2017.

The contents of this report were discussed during an exit conference with the Department on October 27, 2017. The conference was held at the Department's offices in Albuquerque, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

#### **STATE OF NEW MEXICO WORKFORCE SOLUTIONS DEPARTMENT**

Celina Bussey, Cabinet Secretary

David Robbins, Administrative Services Division Director and Chief Financial Officer

David Mann, General Counsel

Sara Brownstein, Financial Accounting and Reporting Manager

#### **MOSS ADAMS LLP**

Kory Hoggan, Senior Manager

Michael McGinley, Manager

Lauren Kistin, Senior Auditor

Jim Lanzarotta, Partner