

**NEW MEXICO
DEPARTMENT OF
WORKFORCE SOLUTIONS
Financial Statements
for the Year Ended
June 30, 2008,
and Independent
Auditors' Report**

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS



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NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

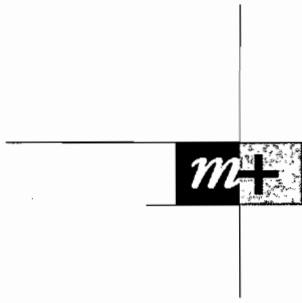


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NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Official Roster

Year Ended June 30, 2008

Name	Title
Betty Sparrow Doris	Secretary
Raymond H. Gonzales	Deputy Secretary
Lloyd M. Garley	Director, Administrative Services Division
Francie Cordova	Director, Labor Relations Division
Vince Baca	Director, Business Services Division
Terry Othick	Director, Workforce Technology Services Division
Lois Johnson	Director, Workforce Transition Services Division

INDEPENDENT AUDITORS' REPORT

Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the budgetary comparisons for the divisions of the General Fund and the major special revenue funds of the New Mexico Department of Workforce Solutions (Department) as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements and schedules are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Department at June 30, 2008, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparisons for the divisions of the General Fund for only that portion of the funds of the Department. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2008, or the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund as of June 30, 2008, and the respective changes in financial position and respective cash flows, where applicable, of those activities and funds and the budgetary comparisons for the General Fund thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each division of the General Fund of the Department as of June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2009, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Department's basic financial statements and the financial statements of each of the Department's divisions of the General Fund, and Budgetary Comparisons. The additional supplemental information, Schedule of Deposits and Investments, Schedule of Changes in Assets and Liabilities – Agency Fund, and Schedule of Expenditure of Federal Awards are presented for purposes of additional analysis as required by the New Mexico State Auditor and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, respectively, and are not a required part of the basic financial statements. Such additional information is the responsibility of the management of the

Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

Department, and has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meyners + Company, LLC

August 25, 2009

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Management's Discussion and Analysis
Year Ended June 30, 2008**

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 transmittal letter at the front of this report and 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 Assets (Exhibit 1) and the Statement of Activities (Exhibit 2) 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 Assets**

	<u>FY 2008</u>	<u>FY2007</u>	<u>Amount Change</u>	<u>Total % Change</u>
Assets:				
Current and other assets	\$ 637,772,117	637,174,213	597,904	0%
Capital and non-current assets	<u>451,185</u>	<u>485,471</u>	<u>(34,286)</u>	<u>-7%</u>
Total Assets	638,223,302	637,659,684	563,618	0%
Liabilities:				
Current liabilities	76,341,201	44,154,301	32,186,900	73%
Long-term obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>0%</u>
Total Liabilities	76,341,201	44,154,301	32,186,900	73%

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2008 - continued

Financial Highlights - continued

Table A-1 - continued
Comparative Statement of Total Net Assets

	<u>FY 2008</u>	<u>FY2007</u>	<u>Amount Change</u>	<u>Total % Change</u>
Net Assets:				
Invested in capital assets	\$ 451,185	485,471	(34,286)	-7%
Restricted:				
Unemployment insurance trust	555,888,755	587,937,656	(32,048,901)	-5%
Unrestricted	<u>5,542,161</u>	<u>5,082,256</u>	<u>459,905</u>	<u>9%</u>
Total Net Assets	\$ 561,882,101	593,505,383	(31,623,282)	-5%

Table A-2
Comparative Statement of Activities

	<u>FY 2008</u>	<u>FY2007</u>	<u>Amount Change</u>	<u>Total % Change</u>
Revenue:				
<u>Program Revenues by Major Sources</u>				
Governmental Activities:				
Employment Services:				
Charges for Services	\$ 3,457,279	1,734,685	1,722,594	99%
Operating Grants	<u>38,455,881</u>	<u>29,390,620</u>	<u>9,065,261</u>	<u>31%</u>
Total Gov. Activities Revenue	41,913,160	31,125,305	10,787,855	35%
Business-type Activities:				
Unemployment Activities:				
Charges for Services	80,934,991	111,552,009	(30,617,018)	-27%
Operating Grants	<u>10,704,232</u>	<u>8,475,237</u>	<u>2,228,995</u>	<u>26%</u>
Total Bus.-type Activities Revenue	<u>91,639,223</u>	<u>120,027,246</u>	<u>(28,388,023)</u>	<u>-24%</u>
Total Program Revenues by Major Sources	133,552,383	151,152,551	(17,600,168)	-12%

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2008 - continued

Financial Highlights - continued

Table A-2 - continued
Comparative Statement of Activities

	<u>FY 2008</u>	<u>FY2007</u>	<u>Amount Change</u>	<u>Total % Change</u>
Revenue - continued:				
<u>General Revenues by Major Sources</u>				
Governmental Activities:				
State Appropriations	\$ 8,051,600	3,604,100	4,447,500	123%
PWAT Appropriations	1,533,142	1,554,080	(20,938)	-1%
Investment Earnings	17,067	15,468	1,599	10%
Other Transfers in	2,808,448	847,900	1,960,548	231%
Bad Debt Expense (increase in allowance)	(367,299)	-	(367,299)	100%
Reversions to State General Fund	(95,239)	(187,926)	92,687	-49%
Total Gov. Activities Revenue	<u>11,947,719</u>	<u>5,833,622</u>	<u>6,114,097</u>	<u>105%</u>
Business-type Activities:				
Other Revenue	83,950	-	83,950	100%
Investment earnings	<u>28,368,735</u>	<u>27,306,428</u>	<u>1,062,307</u>	<u>4%</u>
Total Bus.-type Activities Revenue	<u>28,452,685</u>	<u>27,306,428</u>	<u>1,146,257</u>	<u>4%</u>
Total General Revenues by Major Sources	<u>39,825,906</u>	<u>33,140,050</u>	<u>6,685,856</u>	<u>20%</u>
Total Revenues by Major Sources	173,952,787	184,292,601	(10,339,814)	-6%
Expenses:				
<u>Program Expenses by Major Sources</u>				
Governmental Activities:				
General Government	29,550,956	10,762,716	18,788,240	175%
Employment Services	<u>23,884,304</u>	<u>24,219,555</u>	<u>(335,251)</u>	<u>-1%</u>
Total Gov. Activities Expenses	<u>53,435,260</u>	<u>34,982,271</u>	<u>18,452,989</u>	<u>53%</u>
Business-type Activities:				
Unemployment Services	<u>152,140,809</u>	<u>126,283,350</u>	<u>25,857,459</u>	<u>20%</u>
Total Bus.-type Activities Expenses	<u>152,140,809</u>	<u>126,283,350</u>	<u>25,857,459</u>	<u>20%</u>
Total Program Expenses by Major Sources	205,576,069	161,265,621	44,310,448	27%

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2008 - continued

Financial Highlights - continued

Table A-2 - continued
Comparative Statement of Activities

	<u>FY 2008</u>	<u>FY2007</u>	<u>Amount Change</u>	<u>Total % Change</u>
Change in Net Assets:				
Governmental Activities:				
Beginning Net Assets, restated	\$ 5,567,727	3,591,071	1,976,656	55%
Change in Net Assets	<u>425,619</u>	<u>1,976,656</u>	<u>(1,551,037)</u>	<u>-78%</u>
Ending Net Assets	<u>5,993,346</u>	<u>5,567,727</u>	425,619	8%
Business-type Activities:				
Beginning Net Assets	587,937,656	566,887,332	21,050,324	4%
Change in Net Assets	<u>(32,048,901)</u>	<u>21,050,324</u>	<u>(53,099,225)</u>	<u>-252%</u>
Ending Net Assets	<u>555,888,755</u>	<u>587,937,656</u>	<u>(32,048,901)</u>	<u>5%</u>
Ending Net Assets	\$ <u>561,882,101</u>	<u>593,505,383</u>	<u>(31,623,282)</u>	<u>-5%</u>

Statement of Net Assets

The total net assets of the Department decreased by \$31,623,282. Net assets attributable to government activities increased by \$425,619, for an 8% increase over the prior fiscal year. Net assets attributable to business-type activities decreased by \$32,048,091, for a 5% decrease over the prior year.

Change in total Net Assets:

FY08	\$	561,882,101
FY07		<u>593,505,383</u>
Net decrease	\$	<u>(31,623,282)</u>

The \$32,048,091 decrease in net assets from business-type activities is the result of an increase in investment earnings of \$28,452,685, less the difference between expenses, \$152,140,809, and revenue collected, \$91,639,223.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2008 - continued

Financial Highlights - continued

Statement of Activities

The cost of business-type activities related to unemployment services increased by \$25,578,581, or 20%. The cause of this was primarily an increase in the amount of state unemployment benefits paid to claimants in FY2008 compared to FY2007.

Change in the total cost of business-type activities related to unemployment services reflected in the Statement of Activities:

FY08	\$	151,861,931
FY07		<u>126,283,350</u>
Net increase	\$	<u>25,578,581</u>

The cost of the Department's governmental and business-type activities reflected in the Statement of Activities increased by \$45,132,418, or 28%, over the prior year.

Change in total cost reflected in the Statement of Activities:

FY08	\$	206,398,039
FY07		<u>161,265,621</u>
Net increase	\$	<u>45,132,418</u>

This reflects an increase in the overall cost of the operations of the Department's unemployment insurance benefits paid and the incorporation of OWTD.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Management's Discussion and Analysis
Year Ended June 30, 2008 - continued**

Financial Highlights - continued

General Fund

The Department received increased appropriation from the General Fund in FY2008 for operations and to offset declining federal revenues.

General Fund Appropriations

		FY2008	FY2007
Unemployment insurance	\$	1,127,300	659,800
Operations		3,299,300	1,802,000
Compliance		1,232,800	1,042,300
Program support		1,482,200	100,000
Office of Workforce Training and Development Operations		<u>910,000</u>	<u> -</u>
Total	\$	<u>8,051,600</u>	<u>3,604,100</u>

In FY2008, the Department also incorporated the OWTD funding of \$910,000 for At Risk Youth and SB 611. Program Support received \$800,000 to fund operations until trust fund revenues materialize. The Department received increased funding to offset declining federal revenues and fund state programs.

In the FY2008 statement of activities, the Workers Compensation Fund amount of \$691,500 is reflected in the Other Transfers In category. This is equivalent to the FY2007 amount transferred to the Department.

General Fund Budgetary Highlights

The Department's overall General Fund Appropriations increased by \$4,447,500 in FY2008 from FY2007. This increase was appropriated by the legislature to offset the Department's declining federal revenues. This was appropriated for personal salaries and benefits. The purpose of the funding included the following: provide workforce development and labor market services to meet the needs of job seekers and employers; monitor and evaluate compliance with labor law, including non-payment of wages, unlawful discrimination, child labor, apprenticeships, and wage rates for public works projects; and provide payment of unemployment insurance benefits to qualified individuals who lost their jobs at no fault of their own and collect unemployment taxes from employers.

In FY2008, like FY2007, the Department received a transfer from the Workers Compensation Fund totaling \$691,500 for its Compliance Program/Labor Relations Division. This amount is reflected in Other Transfers In for FY2008.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Management's Discussion and Analysis
Year Ended June 30, 2008 - continued**

Financial Highlights - continued

Capital Assets

Capital Asset Additions: Investment in computer equipment increased by \$144,523 for computer equipment for the Unemployment Insurance Program. The Department has no infrastructure assets.

Capital Asset Additions

	<u>FY 2008</u>	<u>FY2007</u>	<u>Amount Change</u>	<u>Total % Change</u>
Office improvements	\$ -	-	-	0%
Office equipment	-	80,204	(80,204)	-100%
Furniture	-	-	-	0%
Computer equipment	144,523	-	144,523	100%
Accumulated depreciation	<u>(178,809)</u>	<u>(314,437)</u>	<u>(135,628)</u>	<u>-43%</u>
	\$ (34,286)	(234,233)	(199,947)	-85%

Debt

The Department has no long-term debt except for compensated absences.

Department Highlights

Declines in Federal Funding

The Department's federal revenues increased in FY2008 due to incorporation of OWTD and the Workforce Investment Act funding. However, this grant and other Department 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 administration from the United States Department of Labor. The declines in these awards in fiscal year 2008 as compared to fiscal year 2007 were as follows:

1. Unemployment Insurance Administration federal program revenues declined from \$9,002.9K to \$8,788.1K.
2. Employment Services (Operations Program) federal program revenues declined from \$8,855.6K to \$7,645.4K.
3. Program Support federal program revenues increased from \$7,888.0K to \$7,919.2K.
4. Labor Relations Division (Compliance Program) federal program revenues decreased from \$303.5K to \$261.0K.

Department Highlights - continued

Declines in Federal Funding - continued

5. Office of Workforce Training and Development was incorporated into the Department revenues in 2008 and represents an increase of federal funding by \$26,274.7K, and is primarily pass-through dollars to the local area workforce development boards.

Reed Act Funding

The Department continued to supplant funding from contracts and federal grants with appropriations from the March 14, 2002 distribution of Reed Act funds it received from the federal government in its operating budget. Distributions of Reed Act funds are infrequent in occurrence, but are made periodically by the federal government based on certain national economic indicators. These funds may be used for the payment of unemployment compensation benefits, the administration of the State's unemployment compensation law, or for the operation of public employment service offices. In fiscal year 2008, the Department expended \$1,018,689. These funds were budgeted throughout the Department for various operational needs.

Contracts with Local Workforce Investment Act Boards

Contract with the Workforce Connection of Central New Mexico

The Department completed the second year of a two-year contract with the Workforce Connection of Central New Mexico (WCCNM) in FY2007 to assist out-of-work adults and individuals losing their jobs to lay-offs or plant closings in finding training in new fields in demand by employers so that they may become employable again. This contract was not renewed for FY2008.

Contract with the Southwest Area Workforce Development Board

The Department also contracted with the Southwest Area Workforce Development Board (SAWDB) to assist out-of-work adults and individuals losing their jobs to layoffs and plant closings in finding training in new fields in demand by employers so that they may become employable again. These services are also funded through the Workforce Investment Act grant, which the SAWDB receives to provide job training opportunities to eligible individuals in the southwest quadrant of the State. The Department also contracted with the SAWDB to provide these services in FY2008.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2008 - continued

Other Operating Highlights

Consolidation of the Office of Workforce Training and Development and New Mexico Department of Workforce Solutions

During the 47th legislative session, House Bill 1280 was passed and signed by Governor Richardson. The bill created the Department of Workforce Solutions in order to establish a single, unified department to administer all laws and exercise all functions formally administered by the New Mexico Department of Labor and the Governor's Office of Workforce Training and Development into this new department. This consolidation was effective July 1, 2007 (FY2008). All personnel, revenues, assets and liabilities were transferred to the Department and are reflected in the financial statements.

Reorganization of the Department

With the merger of OWTD and DOL, the Department of Workforce Solutions was reorganized into five major divisions: Administrative Services, Workforce Transition Services, Labor Relations, Workforce Technology and Business Services. The OWTD organization and funding was split among these various divisions.

State Unemployment Trust Fund Created

House Bill 247 was passed during the 47th Legislative First Session of 2007, which, in addition to other provisions relating to unemployment compensation in the State of New Mexico, created the State Unemployment Trust Fund. Distributions to this fund will be from the unemployment insurance taxes collected from employers in the State. These distributions will be invested by the State Investment Officer in investments similar to the types that land grant permanent funds are invested in. The earnings from these investments are to remain in the State Unemployment Trust Fund. These earnings may be appropriated to the Department by the New Mexico Legislature for the administration of unemployment insurance or employment security programs. Distributions to the State Unemployment Trust Fund commenced with the filing of the third quarter reports for calendar year 2007 due on September 30, 2007.

Debit Card

The Department received a federal grant to issue unemployment benefit payments electronically to debit card accounts established in the names of eligible claimants that they can subsequently access or spend through the use of a debit card. Claimants will be able to access funds through automated teller machines (ATMs) or purchase commodities directly from vendors through the debit card. The issuance of debit cards and electronic payment of benefits is expected to reduce costs associated with the issuance of paper warrants (checks) and reduce the opportunity for interception of paper warrants for fraudulent purposes. The implementation of debit card payments occurred in the fourth quarter of calendar year 2008 (FY2009).

Other Operating Highlights – continued

Direct Deposit

In the subsequent years, the Department will receive federal funding to implement a program to issue unemployment benefit payments via direct deposit into claimants' bank account. The full implementation of direct deposit occurred in April 2009 (FY2009).

Economic Outlook

New Mexico's economy is generally faring better than the national economy as a whole. The state's seasonally adjusted unemployment rate was 6.5 percent in May 2009, up from 5.8 percent in April and up even more than the 4.0 percent recorded a year ago. The national unemployment rate increased to 9.4 percent. The rate of over-the-year job growth for New Mexico, comparing May 2009 with May 2008, was negative 2.4 percent, representing an over-the year loss of 20,500 jobs. Even with strongly negative job growth, New Mexico outperformed many other states, ranking eleventh highest in May. Every state except North Dakota reported declining year-over-year employment. Still, recent performance is worse than we have experienced in decades. Previously, the state's job growth had not been negative since June 1991, almost 18 years ago. At that time, job growth turned negative for just one month. The last period of sustained job losses in the state occurred from October 1986 through February 1987. The state has not experienced the current level of sustained hardship since 1954, when jobs declined by 3.6 percent at the worst point. This followed a decade where job growth averaged more than 6 percent.

During these turbulent times, no single indicator fully summarizes New Mexico's workforce conditions. Job growth is at a 55-year low, while the unemployment rate is only at a 12-year high. As measured by the Current Employment Statistics (CES) survey, New Mexico's total non-farm employment peaked at 855,300 in December 2007, coinciding with what is considered the official start of the current national recession. This turning point marked the end of a nearly 3-year employment expansion totaling about 41,800 jobs. Job growth had slowed during 2007, with the economy adding about 11,500 jobs compared to the 23,500 added in 2006. In 2008, it stalled again, adding only 3,200 jobs and experiencing declines in most industry sectors.

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:

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

FINANCIAL STATEMENTS

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 1

Statement of Net Assets

AS OF JUNE 30, 2008

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS:			
Cash and cash equivalents	\$ -	7,775,965	7,775,965
Cash held with U.S. Treasury	-	553,315,419	553,315,419
Investment in State Treasurer Investment Pool	35,664,944	-	35,664,944
Due from other state agencies	1,065,319	-	1,065,319
Due from federal government	5,486,785	2,501,047	7,987,832
Due from governmental funds	-	246,456	246,456
Due from agency fund	142,553	-	142,553
Due from enterprise fund	4,262,959	-	4,262,959
Accounts receivable, net of allowance for uncollectibles	-	27,310,670	27,310,670
Other receivables	-	-	-
Capital assets, net	<u>451,185</u>	<u>-</u>	<u>451,185</u>
TOTAL ASSETS	\$ <u>47,073,745</u>	<u>591,149,557</u>	<u>638,223,302</u>
LIABILITIES:			
Due to State Treasurer's Office (overdraft)	\$ 32,865,893	-	32,865,893
Cash (overdraft)	-	5,966,160	5,966,160
Accounts payable	1,553,568	-	1,553,568
Accrued payroll and benefits	1,177,973	-	1,177,973
Benefit payables	-	823,745	823,745
Due to other state agencies	2,772,983	7,393,631	10,166,614
Due to State General Fund	1,118,437	-	1,118,437
Due to governmental funds	-	4,262,959	4,262,959
Due to enterprise fund	246,456	-	246,456
Deferred revenue	109,138	16,814,307	16,923,445
Compensated absences, due within one year	<u>1,235,951</u>	<u>-</u>	<u>1,235,951</u>
TOTAL LIABILITIES	41,080,399	35,260,802	76,341,201
NET ASSETS:			
Invested in capital assets	451,185	-	451,185
Restricted for:			
Unemployment insurance trust	-	555,888,755	555,888,755
Unrestricted	<u>5,542,161</u>	<u>-</u>	<u>5,542,161</u>
TOTAL NET ASSETS	<u>5,993,346</u>	<u>555,888,755</u>	<u>561,882,101</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>47,073,745</u>	<u>591,149,557</u>	<u>638,223,302</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 2

Statement of Activities

YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Charges for Services	Operating Grants	Net (Expenses) Revenue and Changes in Net Assets		
				Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES:						
General government	\$ 29,550,956	-	-	(29,550,956)	-	(29,550,956)
Employment services	23,884,304	3,457,279	38,455,881	18,028,856	-	18,028,856
TOTAL GOVERNMENTAL ACTIVITIES	53,435,260	3,457,279	38,455,881	(11,522,100)	-	(11,522,100)
BUSINESS-TYPE ACTIVITIES:						
Unemployment services	152,140,809	80,934,991	10,704,232	-	(60,501,586)	(60,501,586)
TOTAL BUSINESS-TYPE ACTIVITIES	152,140,809	80,934,991	10,704,232	-	(60,501,586)	(60,501,586)
TOTAL ACTIVITIES	205,576,069	84,392,270	49,160,113	(11,522,100)	(60,501,586)	(72,023,686)
GENERAL REVENUES/(EXPENSES):						
				1,533,142	83,950	1,617,092
				17,067	28,368,735	28,385,802
				8,051,600	-	8,051,600
				1,781,748	-	1,781,748
				1,026,700	-	1,026,700
				-	-	-
				(367,299)	-	(367,299)
				(95,239)	-	(95,239)
TOTAL GENERAL REVENUES AND TRANSFERS				11,947,719	28,452,685	40,400,404
CHANGE IN NET ASSETS				425,619	(32,048,901)	(31,623,282)
BEGINNING NET ASSETS				5,567,727	587,937,656	593,505,383
NET ASSETS, ENDING				\$ 5,993,346	555,888,755	561,882,101

Exhibit 3

AS OF JUNE 30, 2008

	33300 & 24100	20420	61300
	General Fund	WIA Operating Fund	Penalty and Interest
ASSETS:			
Investment in State Treasurer Investment Pool	\$ 705,798	2,101,581	3,678,138
Due from other funds	111,367	387	432,636
Due from agency funds	129,595	-	10,607
Due from enterprise funds	-	-	735,157
Due from other state agencies	-	94,424	-
Due from federal government	238,930	175,231	-
TOTAL ASSETS	\$ 1,185,690	2,371,623	4,856,538
LIABILITIES:			
Due to State Treasurer's Office (overdraft)	\$ -	-	-
Accounts payable	92,845	510,210	-
Accrued payroll and benefits	176,127	75,570	-
Due to other funds	405,855	345,934	616,941
Due to enterprise funds	-	-	-
Deferred revenue	103,730	-	-
Due to State General Fund	970,348	52,969	-
Due to other state agencies	-	1,444,954	-
TOTAL LIABILITIES	1,748,905	2,429,637	616,941
FUND BALANCES:			
Reserved for advances	-	-	-
Reserved for Public Works Apprenticeship & Training	-	-	-
Unreserved-undesignated	(563,215)	(58,014)	4,239,597
TOTAL FUND BALANCES	(563,215)	(58,014)	4,239,597
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,185,690	2,371,623	4,856,538

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Balance Sheet - Governmental Funds

Special Revenue Funds					
61400 Public Works Apprenticeship and Training	71100 Labor Enforcement Fund	20410 Local WIA Board Fund	20430 Family Opportunity Fund	24000, 24400, 33000-33200 Other Grants and Contracts	Total Governmental
1,025,736	178,394	-	351,551	27,623,746	35,664,944
-	63,587	345,934	-	2,894,366	3,848,277
-	2,351	-	-	-	142,553
-	-	-	-	3,527,802	4,262,959
-	2,580	46,862	34,350	887,103	1,065,319
-	-	<u>3,009,962</u>	-	<u>2,062,662</u>	<u>5,486,785</u>
<u>1,025,736</u>	<u>246,912</u>	<u>3,402,758</u>	<u>385,901</u>	<u>36,995,679</u>	<u>50,470,837</u>
-	-	3,006,470	-	29,859,423	32,865,893
-	-	349,426	71,722	529,365	1,553,568
-	-	-	-	926,276	1,177,973
-	-	-	-	2,479,547	3,848,277
-	-	-	-	246,456	246,456
-	-	-	-	5,408	109,138
-	-	-	-	95,120	1,118,437
-	-	-	-	<u>1,328,029</u>	<u>2,772,983</u>
-	-	3,355,896	71,722	35,469,624	43,692,725
-	-	-	-	-	-
1,025,736	-	-	-	-	1,025,736
-	<u>246,912</u>	<u>46,862</u>	<u>314,179</u>	<u>1,526,055</u>	<u>5,752,376</u>
<u>1,025,736</u>	<u>246,912</u>	<u>46,862</u>	<u>314,179</u>	<u>1,526,055</u>	<u>6,778,112</u>
<u>1,025,736</u>	<u>246,912</u>	<u>3,402,758</u>	<u>385,901</u>	<u>36,995,679</u>	<u>50,470,837</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Reconciliation of the Balance Sheet to the
Statement of Net Assets - Governmental Funds**

Exhibit 4

YEAR ENDED JUNE 30, 2008

**Total Fund Balance - Governmental Funds
(Governmental Fund Balance Sheet)**

\$ 6,778,112

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

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

The cost of capital assets is	4,191,551
Accumulated depreciation is	<u>(3,740,366)</u>

Total capital assets	451,185
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Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

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

Compensated absences payable	<u>(1,235,951)</u>
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Total long-term and other liabilities	<u>(1,235,951)</u>
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Net assets of governmental activities (Statement of Net Assets)	\$ <u><u>5,993,346</u></u>
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Exhibit 5

AS OF JUNE 30, 2008

	33300 & 24100	20420	61300
	General Fund	WIA Operating Fund	Penalty and Interest
REVENUES:			
Interest on deposit/investments	\$ -	-	-
Licenses and permits	-	-	-
Grants and contracts	238,898	3,206,084	-
Penalties and interest	-	-	3,231,080
Public Works Apprenticeship and Training	-	-	-
TOTAL REVENUES	<u>238,898</u>	<u>3,206,084</u>	<u>3,231,080</u>
EXPENDITURES:			
General government - current:			
Personal services and benefits	2,039,783	1,904,779	-
Contractual services	80,985	484,914	-
Other costs	890,202	2,098,422	-
Employment services	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	<u>3,010,970</u>	<u>4,488,115</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,772,072)	(1,282,031)	3,231,080
OTHER FINANCING SOURCES (USES):			
Bad debt expense (increase in allowance)	(367,299)	-	-
Other Revenue	-	-	101,321
State General Fund appropriation	1,232,800	910,000	-
State other fund appropriation - contractual services	-	-	-
Reversions to State General Fund, FY2008	(42,270)	(52,969)	-
Transfers in:			
Interfund	798,277	-	-
Other	756,300	366,986	-
Transfers out:			
Interfund	-	-	(1,291,200)
Other	-	-	-
NET OTHER FINANCING SOURCES (USES):	<u>2,377,808</u>	<u>1,224,017</u>	<u>(1,189,879)</u>
NET CHANGE IN FUND BALANCES	(394,264)	(58,014)	2,041,201
BEGINNING FUND BALANCES	<u>(168,951)</u>	<u>-</u>	<u>2,198,396</u>
ENDING FUND BALANCES	<u>\$ (563,215)</u>	<u>(58,014)</u>	<u>4,239,597</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds**

Special Revenue Funds					
61400 Public Works Apprenticeship and Training	71100 Labor Enforcement Fund	20410 Local WIA Board Fund	20430 Family Opportunity Fund	24000, 24400, 33000-33200 Other Grants and Contracts	Total Governmental
-	17,067	-	-	-	17,067
-	226,199	-	-	-	226,199
-	-	12,855,043	-	22,155,856	38,455,881
-	-	-	-	-	3,231,080
-	-	-	-	-	-
-	243,266	12,855,043	-	22,155,856	41,930,227
-	-	-	14,758	-	3,959,320
-	-	-	1,038,983	2,948,840	4,553,722
-	-	12,855,043	-	5,194,247	21,037,914
-	-	-	-	23,549,429	23,549,429
-	-	-	-	144,523	144,523
-	-	12,855,043	1,053,741	31,837,039	53,244,908
-	243,266	-	(1,053,741)	(9,681,183)	(11,314,681)
-	-	-	-	-	(367,299)
927,750	-	-	-	504,071	1,533,142
-	-	-	-	5,908,800	8,051,600
-	-	-	-	-	-
-	-	-	-	-	(95,239)
-	-	-	-	1,381,000	2,179,277
-	-	46,842	1,367,920	270,400	2,808,448
(544,377)	(343,700)	-	-	-	(2,179,277)
-	-	-	-	-	-
383,373	(343,700)	46,842	1,367,920	8,064,271	11,930,652
383,373	(100,434)	46,842	314,179	(1,616,912)	615,971
642,363	347,346	20	-	3,142,967	6,162,141
<u>1,025,736</u>	<u>246,912</u>	<u>46,862</u>	<u>314,179</u>	<u>1,526,055</u>	<u>6,778,112</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities - Governmental Funds

Exhibit 6

YEAR ENDED JUNE 30, 2008

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ 615,971

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. In the current period, these amounts were:

Capital outlay	144,523
Depreciation expense	(178,809)

Deferred revenue from prior year funds recorded as revenue in the current year

Change in compensated absence balance not recorded in governmental funds	<u>(156,066)</u>
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Change in net assets of governmental activities (Statement of Activities)	\$ <u>425,619</u>
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NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -
Budget and Actual (Modified Accrual Basis)**

Exhibit 7

YEAR ENDED JUNE 30, 2008

	GENERAL FUND - 33300 - COMPLIANCE			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
State General Fund	\$ 1,232,800	1,232,800	1,232,800	-
Other transfers	-	-	-	-
Federal Funds	261,000	261,000	238,898	(22,102)
Other program revenues	-	-	-	-
Other financing sources	1,681,000	1,681,000	1,554,577	(126,423)
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>3,174,800</u>	<u>3,174,800</u>	<u>3,026,275</u>	<u>(148,525)</u>
EXPENDITURES - current:				
Personal services and benefits	\$ 2,129,300	2,129,300	2,039,783	89,517
Contractual services	109,600	109,600	80,985	28,615
Other costs	935,900	935,900	890,202	45,698
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ <u>3,174,800</u>	<u>3,174,800</u>	<u>3,010,970</u>	<u>163,830</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ 15,305	
REVERSIONS TO STATE GENERAL FUND			\$ (42,270)	
BAD DEBT EXPENSE (INCREASE IN ALLOWANCE)			\$ (367,299)	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

33000 - PROGRAM SUPPORT

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ 658,300	658,300	1,482,200	823,900
Other transfers	-	-	-	-
Federal funds	7,919,200	9,585,866	6,300,528	(3,285,338)
Other program revenues	-	-	-	-
Other financing sources	1,637,200	1,637,200	1,381,000	(256,200)
Miscellaneous revenue	-	-	208,758	208,758
TOTAL REVENUES	\$ <u>10,214,700</u>	<u>11,881,366</u>	<u>9,372,486</u>	<u>(2,508,880)</u>
EXPENDITURES - current:				
Personal services and benefits	\$ 7,107,200	7,338,200	6,701,717	636,483
Contractual services	1,687,400	3,078,533	2,353,862	724,671
Other costs	1,420,100	1,464,633	1,206,978	257,655
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ <u>10,214,700</u>	<u>11,881,366</u>	<u>10,262,557</u>	<u>1,618,809</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ (890,071)	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

33200 - OPERATIONS				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ 3,483,000	3,483,000	3,299,300	(183,700)
Other transfers	-	-	-	-
Federal Funds	7,645,400	6,997,400	7,656,426	659,026
Other program revenues	-	-	-	-
Other financing sources	2,110,100	2,110,100	187,300	(1,922,800)
Miscellaneous revenue	-	-	225,746	225,746
TOTAL REVENUES	\$ <u>13,238,500</u>	<u>12,590,500</u>	<u>11,368,772</u>	<u>(1,221,728)</u>
EXPENDITURES - current:				
Personal services and benefits	\$ 10,111,000	9,463,000	9,169,119	293,881
Contractual services	252,800	357,800	259,289	98,511
Other costs	2,874,700	2,769,700	2,240,124	529,576
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ <u>13,238,500</u>	<u>12,590,500</u>	<u>11,668,532</u>	<u>921,968</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ (299,760)	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

33100 - UNEMPLOYMENT INSURANCE

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ 1,127,300	1,127,300	1,127,300	-
Other transfers	-	-	-	-
Federal Funds	8,788,100	9,306,319	8,198,902	(1,107,417)
Other program revenues	-	-	-	-
Other financing sources	62,800	62,800	62,800	-
Miscellaneous revenue	-	-	89,867	-
TOTAL REVENUES	\$ <u>9,978,200</u>	<u>10,496,419</u>	<u>9,478,869</u>	<u>(1,107,417)</u>
EXPENDITURES - current:				
Personal services and benefits	\$ 8,414,200	8,164,200	7,678,593	485,607
Contractual services	326,000	344,338	335,689	8,649
Other costs	1,238,000	1,987,881	1,891,668	109,093
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ <u>9,978,200</u>	<u>10,496,419</u>	<u>9,905,950</u>	<u>603,349</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ (427,081)	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

61300 - PENALTY AND INTEREST				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ -	-	-	-
Other transfers	-	-	-	-
Federal Funds	-	-	-	-
Other program revenues	1,303,200	1,303,200	3,231,080	1,927,880
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	101,321	101,321
TOTAL REVENUES	\$ <u>1,303,200</u>	<u>1,303,200</u>	<u>3,332,401</u>	<u>2,029,201</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>1,303,200</u>	<u>1,303,200</u>	<u>1,291,200</u>	<u>12,000</u>
TOTAL EXPENDITURES	\$ <u>1,303,200</u>	<u>1,303,200</u>	<u>1,291,200</u>	<u>12,000</u>
ELIMINATION OF UNCOLLECTIBLE ADVANCE FROM OTHER FUND			\$ -	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ 2,041,201	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

20410 - LOCAL WIA BOARD FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ -	-	-	-
Other transfers	-	-	46,842	-
Federal Funds	21,539,300	17,591,056	12,855,043	4,736,014
Other program revenues	-	-	-	-
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>21,539,300</u>	<u>17,591,056</u>	<u>12,901,885</u>	<u>4,736,014</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	21,539,300	17,591,056	12,855,043	4,736,013
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ <u>21,539,300</u>	<u>17,591,056</u>	<u>12,855,043</u>	<u>4,736,013</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ 46,842	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

20420 - WIA OPERATING FUND				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ 800,000	910,000	910,000	-
Other transfers	-	-	366,986	-
Federal Funds	4,735,400	4,490,758	3,206,084	1,284,674
Other program revenues	-	-	-	-
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>5,535,400</u>	<u>5,400,758</u>	<u>4,483,070</u>	<u>1,284,674</u>
EXPENDITURES - current:				
Personal services and benefits	\$ 2,648,500	2,105,858	1,904,779	201,079
Contractual services	259,100	639,100	484,914	154,186
Other costs	2,620,800	2,648,800	2,098,422	550,378
Other financing uses	<u>7,000</u>	<u>7,000</u>	-	<u>7,000</u>
TOTAL EXPENDITURES	\$ <u>5,535,400</u>	<u>5,400,758</u>	<u>4,488,115</u>	<u>912,643</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ (5,045)	
REVERSIONS TO STATE GENERAL FUND			\$ (52,969)	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

20430 - FAMILY OPPORTUNITY FUND

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Final Budget
			(Budgetary Basis)	Positive (Negative)
REVENUES:				
State General Fund	\$ -	-	-	-
Other transfers	-	-	1,367,920	-
Federal Funds	-	1,333,570	-	1,333,570
Other program revenues	-	-	-	-
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>-</u>	<u>1,333,570</u>	<u>1,367,920</u>	<u>1,333,570</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	57,087	14,758	42,329
Contractual services	-	1,276,483	1,038,983	237,500
Other costs	-	-	-	-
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ <u>-</u>	<u>1,333,570</u>	<u>1,053,741</u>	<u>279,829</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ 314,179	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

61400 - PUBLIC WORKS APPRENTICESHIP AND TRAINING

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ -	-	-	-
Other transfers	-	-	-	-
Federal Funds	-	-	-	-
Other program revenues	653,000	653,000	927,750	274,750
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>653,000</u>	<u>653,000</u>	<u>927,750</u>	<u>274,750</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>653,000</u>	<u>653,000</u>	<u>544,377</u>	<u>108,623</u>
TOTAL EXPENDITURES	\$ <u>653,000</u>	<u>653,000</u>	<u>544,377</u>	<u>108,623</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ 383,373	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues and Expenditures -
Major Governmental Funds -**

Exhibit 7 - continued

Budget and Actual (Modified Accrual Basis) - continued

YEAR ENDED JUNE 30, 2008

71100 - LABOR ENFORCEMENT FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES:				
State General Fund	\$ -	-	-	-
Other transfers	-	-	-	-
Federal Funds	-	-	-	-
Other program revenues	343,700	343,700	243,266	(100,434)
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>343,700</u>	<u>343,700</u>	<u>243,266</u>	<u>(100,434)</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>343,700</u>	<u>343,700</u>	<u>343,700</u>	-
TOTAL EXPENDITURES	\$ <u>343,700</u>	<u>343,700</u>	<u>343,700</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ (100,434)	
REVERSIONS TO STATE GENERAL FUND			\$ -	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 8

Statement of Net Assets - Proprietary Fund

AS OF JUNE 30, 2008

	20020	20060	
	Unemployment Insurance Trust Enterprise Fund	State Unemployment Insurance Trust Enterprise Fund	Total
CURRENT ASSETS:			
Cash on deposit	\$ 7,423,249	352,716	7,775,965
Cash held with U.S. Treasury	553,315,419	-	553,315,419
Due from governmental funds	246,456		246,456
* Due from enterprise funds	79	184,357	184,436
Due from federal government	2,501,047	-	2,501,047
Accounts receivable, net of allowance for uncollectibles	<u>20,338,761</u>	<u>6,971,909</u>	<u>27,310,670</u>
TOTAL CURRENT ASSETS	\$ <u>583,825,011</u>	<u>7,508,982</u>	<u>591,333,993</u>
CURRENT LIABILITIES:			
Due to State Treasurer's Office (overdraft)	\$ -	-	-
Cash (overdraft)	5,966,160	-	5,966,160
Benefits payable	823,745	-	823,745
Due to governmental funds	4,262,841	118	4,262,959
* Due to enterprise funds	184,357	79	184,436
Due to other agencies	62,165	7,331,466	7,393,631
Deferred revenue	<u>16,814,307</u>	<u>-</u>	<u>16,814,307</u>
TOTAL CURRENT LIABILITIES	28,113,575	7,331,663	35,445,238
NET ASSETS:			
Restricted for unemployment benefits	555,711,436	177,319	555,888,755
Unreserved	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	<u>555,711,436</u>	<u>177,319</u>	<u>555,888,755</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>583,825,011</u>	<u>7,508,982</u>	<u>591,333,993</u>

* Note due from enterprise fund and due to enterprise fund are eliminated out in the Statement of Net Assets on page 16.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Statement of Revenues, Expenses and Changes
in Net Assets - Proprietary Fund**

Exhibit 9

AS OF JUNE 30, 2007

	20020	20060	
	Unemployment Insurance Trust Enterprise Fund	State Unemployment Insurance Trust Enterprise Fund	Total
OPERATING REVENUES:			
Interest on investments	\$ 28,191,416	177,319	28,368,735
Employers taxes and reimbursements	80,934,991	39,386,957	120,321,948
Penalty and interest	<u>83,950</u>	-	<u>83,950</u>
TOTAL OPERATING REVENUES	109,210,357	39,564,276	148,774,633
OPERATING EXPENSES:			
Unemployment benefits distributed to beneficiaries	<u>152,140,809</u>	-	<u>152,140,809</u>
TOTAL OPERATING EXPENSES	<u>152,140,809</u>	-	<u>152,140,809</u>
NET OPERATING GAIN/CHANGE IN NET ASSETS	(42,930,452)	39,564,276	(3,366,176)
NON-OPERATING REVENUES:			
Grants, contracts and federal reimbursements	5,696,250	-	5,696,250
Other miscellaneous revenue	<u>5,007,982</u>	-	<u>5,007,982</u>
TOTAL NON-OPERATING REVENUES	<u>10,704,232</u>	-	<u>10,704,232</u>
NON-OPERATING EXPENSES:			
Non-operating transfer out	-	(32,055,491)	(32,055,491)
Other financing uses	-	<u>(7,331,466)</u>	<u>(7,331,466)</u>
TOTAL NON-OPERATING EXPENSES	-	<u>(39,386,957)</u>	<u>(39,386,957)</u>
NET LOSS/CHANGE IN NET ASSETS	(32,226,220)	177,319	(32,048,901)
BEGINNING NET ASSETS	<u>587,937,656</u>	-	<u>587,937,656</u>
NET ASSETS, END OF YEAR	\$ <u>555,711,436</u>	<u>177,319</u>	<u>555,888,755</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 10

Statement of Cash Flows - Proprietary Fund

AS OF JUNE 30, 2008

	20020	20060	
	Unemployment Insurance Trust Enterprise Fund	State Unemployment Insurance Trust Enterprise Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from employers	\$ 99,394,814	32,230,691	131,625,505
Cash received from interest in investments (trust fund earnings)	28,275,366	7,508,982	35,784,348
Cash transferred to NM State Investment Council	-	(39,386,957)	
Cash paid for unemployment benefits	<u>(151,930,612)</u>	<u>-</u>	<u>(191,317,569)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>(24,260,432)</u>	<u>352,716</u>	<u>(23,907,716)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(24,260,432)	352,716	(23,907,716)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>584,999,100</u>	<u>-</u>	<u>584,999,100</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>560,738,668</u>	<u>352,716</u>	<u>561,091,384</u>
RECONCILIATION OF NET OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:			
Changes in net assets	\$ (32,226,220)	177,319	(32,048,901)
Changes in receivables	7,755,591	(7,156,266)	599,325
Increase in cash overdraft	(588,984)	-	(588,984)
Increase in payables	18,474,655	7,331,663	25,806,318
Decrease in deferred revenue	<u>(17,675,474)</u>	<u>-</u>	<u>(17,675,474)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ <u>(24,260,432)</u>	<u>352,716</u>	<u>(23,907,716)</u>
RECONCILIATION OF CASH:			
Cash on deposit			\$ 7,775,965
Cash held with U.S. Treasury			<u>553,315,419</u>
TOTAL CASH			\$ <u>561,091,384</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 11

Statement of Fiduciary Fund Assets and Liabilities - Agency Fund

AS OF JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS:	
Cash on deposit	\$ 243,941
TOTAL ASSETS	\$ <u>243,941</u>
LIABILITIES:	
Due to other funds	\$ 142,553
Amounts held for others	101,025
Accounts payable	<u>363</u>
TOTAL LIABILITIES	\$ <u>243,941</u>

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 Investment 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

NATURE OF ORGANIZATION - continued

Organization - continued

tracking system for recording and reporting financial activity associated with the administration of the WIA program.

During the 47th Legislative Session, House Bill 1280 was passed and signed by Governor Richardson. 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 (FY2008).

In FY2008, 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 sources:

- Federal, state and local governments:

NATURE OF ORGANIZATION - continued

Organization - continued

- 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

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 Investment 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. However, the State of New Mexico does not currently issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The Department's financial statements contain no component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units, except the Statement of Revenues and Expenditures - Budget and Actual (Modified Accrual Basis), which is prepared on a cash basis but also includes encumbrances and accrued payroll. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the GASB unanimously approved GASB No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This statement provides for the most significant change in financial reporting in over 20 years.

The Department has implemented the provisions of GASB No. 34. As a part of this statement, there is a reporting requirement regarding the local government's infrastructure (road, bridges, etc.) The Department does not own any infrastructure assets and, therefore, is unaffected by this requirement.

• Financial Reporting Entity

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The new 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 Assets, 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 are 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 Department includes only one function (general government). Inter-fund balances have been eliminated in the government-wide financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Financial Reporting Entity - continued**

The net cost (by function) is normally covered by general revenues (intergovernmental revenues, interest income, etc). Historically, the previous model did not summarize or present net cost by function or activity. The Department does not currently employ indirect cost allocation systems.

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 funds) 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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Department first uses restricted resources, then unrestricted resources.

• 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Basis of Presentation - Fund Accounting - continued****Governmental Funds - continued**

(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. However, they are reported as liabilities in the general long-term debt account group.

General Fund (Funds 33300 and 24100) - The General Fund is used to account for resources associated with state government activities, which are not required legally or by sound financial management to be accounted for in another fund. The General Fund shown in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds reflects activities associated with Labor and Industrial Division and Human Rights Division. This fund is reverting and is considered a major fund.

Fund 24100 is not a budgeted fund, thus has no budgetary comparison, and the fund does not have account balances.

General Fund Deficit. The Department incurred a deficit in the General Fund in fiscal year 2006. The deficit continued to be present in FY2008. The Department will meet with the Department of Finance and Administration to address and resolve this issue.

General Fund Reversions. The reversions to the State General Fund are calculated by subtracting the total current expenditures from the total current revenues.

WIA Operating Fund (Fund 20420) – The WIA Operating Fund is the general operating fund of OWTD, including administration and program related expenditures to implement the grant provisions. The At Risk Youth portion of the WIA Operating Fund is supported by a New Mexico State General Fund appropriation. The remaining portion of the WIA Operating Fund is supported by federal grants. Excess revenues not related to federal grants revert to the New Mexico State General Fund at year-end. This fund is used to account for all financial resources except those required to be accounted for in another fund. This fund incurred a deficit fund balance in FY2008. The Department will meet with the Department of Finance and Administration to address and resolve this issue.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- Basis of Presentation - Fund Accounting - continued

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. These funds are considered major funds.

Employment Security Department Fund (Penalty and Interest Fund, 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, 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, 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.

Local WIA Board Fund (Fund 20410). This special revenue fund is used to account for federal flow-through funds from the United States Department of Labor to local area workforce development boards in accordance with the provisions of the Workforce Investment Act of 1998..

Family Opportunity Fund (Fund 20430). This special revenue fund is used to account for the appropriations from the State General Fund in accordance with the provisions of the Family Opportunity Act. The fund is non-reverting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Basis of Presentation - Fund Accounting - continued****Special Revenue Funds - continued**

Other Grants and Contracts (Funds 33000-33200, 24000, 24400). These funds are used to account for various other restricted grants, including federal grant awards, and contracts that the Department receives and is required to keep in separate self-balancing ledgers. Funds 24000 and 24400 are not budgeted funds and thus have no budgetary comparisons; the funds do not have account balances.

Proprietary Funds - The proprietary fund is used to account for the transactions of the unemployment insurance fund, as required by GASB Statement No. 34.

Unemployment Trust Enterprise Fund (Fund 20020). 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 required by GASB Statement No. 34 to be classified as an enterprise fund.

State Unemployment Trust Fund (Fund 20060). Distributions to this fund will be from the unemployment insurance taxes collected from employers in the State. These distributions will be invested by the State Investment Officer in investments similar to the types that land grant permanent funds are invested in. The earnings from these investments are to remain in the State Unemployment Trust Fund. These earnings may be appropriated to the Department by the New Mexico Legislature for the administration of unemployment insurance or employment security programs.

Fiduciary Funds (Fund 17800) - Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Department. The Wage Claim Fund is a holding account for wage claim assignments collected by the Department's Labor and Industrial Division (L&ID) 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 L&ID 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Basis of Accounting - continued**

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 60 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, 2008.

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. The proprietary fund follows accounting principles promulgated by GASB as well as those promulgated by the Financial Accounting Standards Board prior to November 30, 1989, unless they conflict with GASB pronouncements. 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **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.

The Department's enterprise funds do not require budgets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Budgets and Budgetary Accounting - continued**

8. Appropriations of General Fund dollars lapse at the end of the fiscal year, and amounts that are unexpended revert back to the State General Fund. Appropriation of federal grants carryforward into the next appropriation cycle as allowed by the grant provisions.
9. Appropriations from special revenue funds increase or decrease budget availability and are completed through a budget adjustment request (BAR) to DFA based on collections and fund balances.

• 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. Fund balance is designated as either reserved or unreserved in these financial statements in accordance with this criterion. For the fiscal year ended 2008, the Department did not have any encumbrances presented in the financial statements.

• Cash and Investments

Cash includes amounts in the demand deposits.

Investments with the State Treasurer 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").

For the purpose of the proprietary fund statement of cash flows, cash equivalents are defined as investments with the U.S. Treasury pool.

• Short-term Interfund 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.

• 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Capital Assets - continued**

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

Computer equipment	3
Information technology	5
Office equipment	5
Furniture and fixtures	10
Office renovations	20

The Department capitalizes computer software, whether purchased or developed internally, in accordance with guidelines provided by the GSD Rule NMAC Chapter 20, Part 1, Sections 2.20.1.9C(5) and 2.20.1.10C and FASB 86 accounting principles.

• **Fund Balances and Net Assets**

Net assets on the Statement of Net Assets including the following:

Invested in Capital Assets - the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition and improvement of these capital assets. Currently, the Department has no outstanding capital-related debt.

Restricted - the component of net assets that reports the difference between assets and liabilities of the Department that consists of assets with constraints placed on their use by legislation or federal law. A portion of the net assets of governmental activities are restricted for Reed Act appropriations. These funds can only be used for the payment of benefits and administration of UI.

Unrestricted - the difference between the assets and liabilities that is not reported in Net Assets Invested in Capital Assets or Restricted Net Assets.

In the fund level financial statements, fund balance reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

• **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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Use of Estimates - continued**

the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH DEPOSIT ACCOUNTS AND INVESTMENTS

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts on page 63, in the Bank of America (BA) of \$807,284. These deposits represent cash balances associated with agency vouchering activities. FDIC coverage of \$100,000 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 \$137,027,207 with the State Treasurer.

Detail of pledged collateral specific to this agency is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the State Treasurer's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts. Refer to the Schedule of Pledged Collateral on page 64.

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, refer to the Schedule of Individual Deposit Accounts on page 63.

The amounts reported as investments with the U.S. Treasury are invested in an investment pool which is not subject to categorization. The differences between the bank balance and SHARE balance are the result of timing differences with posting and processing cash transactions.

3. CAPITAL ASSETS

A summary of changes in capital assets follows:

<u>Governmental Type Activities</u>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2008</u>
Office improvements	\$ 336,989	-	(1,305)	335,684
Office equipment	2,658,039	-	(108,570)	2,549,469
Furniture	390,434	-	(51,558)	338,876
Computer equipment	<u>2,395,618</u>	<u>144,523</u>	<u>(1,572,619)</u>	<u>967,522</u>
Total	5,781,080	144,523	(1,734,052)	4,191,551

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

3. CAPITAL ASSETS - continued

<u>Governmental Type Activities</u>	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2008</u>
Accumulated depreciation:				
Office improvements	\$ (315,109)	(4,351)	1,305	(318,155)
Office equipment	(2,235,434)	(145,653)	108,570	(2,272,517)
Furniture	(395,187)	(1,979)	51,558	(345,608)
Computer equipment	<u>(2,349,879)</u>	<u>(26,826)</u>	<u>1,572,619</u>	<u>(804,086)</u>
Total accumulated depreciation	<u>(5,295,609)</u>	<u>(178,809)</u>	<u>1,734,052</u>	<u>(3,740,366)</u>
Net Total	\$ <u>485,471</u>	<u>(34,286)</u>	<u>-</u>	<u>451,185</u>

Land, buildings and automobiles used by the Department are not included in these financial statements because the assets are included in the financial statements of the General Services Department.

Depreciation expense was allocated \$164,509 to the Employment Services function and \$14,300 to the General Government function in the government-wide statement of activities.

4. UNEMPLOYMENT COMPENSATION FUND – BENEFITS PAYABLE

A liability has been recorded for benefits claimed prior to but paid subsequent to June 30, 2008, consisting of the following:

Unemployment benefits	\$ 823,745
Withholding benefits (due to Human Services Dept.) (Note 9)	<u>62,165</u>
	\$ <u>885,910</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

5. **RECEIVABLES**

Receivables at June 30, 2008, consist of the following:

	Enterprise Funds
Receivable:	
Current UI taxes	\$ 25,846,974
Benefit overpayments	5,790,449
Combined wage credits (CWC)	<u>1,463,696</u>
Gross receivables	33,101,119
<i>Less allowance for uncollectibles:</i>	
Benefit overpayments	<u>(5,790,449)</u>
Total allowances	<u>(5,790,449)</u>
Net total receivables – fund level	<u>27,310,670</u>
Total net receivables	\$ <u>27,310,670</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, 2008, which were collected subsequently. This amount is an estimate based upon a review of cash receipts subsequent to the end of the fiscal year.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

5. RECEIVABLES - continued

• **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 uncollectibles has been established 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 Credits**

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.

6. 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, 2008 were \$644,469. Rental expenditures for equipment for the fiscal year ended June 30, 2008 were \$2,335,266. The future minimum rental commitments as of June 30, 2008 were as follows:

<u>Year Ended June 30,</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2009	\$ 291,398	2,100,859	2,392,256
2010	286,920	2,193,732	2,480,652
2011	294,984	2,107,382	2,402,365
2012	302,181	2,061,709	2,363,890
2013 – 2030	<u>3,214,524</u>	<u>1,007,600</u>	<u>4,222,124</u>
Total	\$ <u>4,390,007</u>	<u>9,471,281</u>	<u>13,861,288</u>

7. COMPENSATED ABSENCES

The changes to compensated absences are as follows:

<u>Liabilities</u>	<u>Balance June 30, 2007</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2008</u>
Sick and annual leave	\$ <u>1,079,885</u>	<u>1,256,273</u>	<u>(1,100,207)</u>	<u>1,235,951</u>
	\$ <u>1,079,885</u>	<u>1,256,273</u>	<u>(1,100,207)</u>	<u>1,235,951</u>

Approximately \$1,235,951 of the compensated absences is considered due within one year.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

7. COMPENSATED ABSENCES - continued

Compensated absences are liquidated with resources from the General Fund and Other Grants and Contract Fund.

8. 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, 2008.

	Due From			Due To					Total
	Agency Fund	General Fund	Penalty & Interest Fund	UI Trust Fund	State UI Trust Fund	WIA Operating Fund	Other Grants & Contracts		
General Fund	\$ 129,595	-	-	-	-	-	111,367	240,962	
Penalty & Interest Fund	10,607	360,630	-	735,157	-	-	72,006	1,178,400	
UI Trust Fund	-	-	-	-	79	-	246,456	246,535	
State UI Trust Fund	-	-	-	184,357	-	-	-	184,357	
Other Grants & Contracts	-	45,225	616,941	3,527,684	118	-	2,232,200	6,422,168	
WIA Local Board	-	-	-	-	-	345,934	-	345,934	
WIA Operating Fund	-	-	-	-	-	-	387	387	
Labor Enforcement Fund	<u>2,351</u>	-	-	-	-	-	<u>63,587</u>	<u>65,938</u>	
Total	\$ <u>142,553</u>	<u>405,855</u>	<u>616,941</u>	<u>4,447,198</u>	<u>197</u>	<u>345,934</u>	<u>2,726,003</u>	<u>8,684,681</u>	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

9. 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, 2008 consist of the following:

• **Due From Other State Agencies**

DWS SHARE Fund No.	Agency	Other Agency's Fund No.	Amount
20410	Office of Workforce Training and Development	98100	\$ 46,862
20420	Office of Workforce Training and Development	98100	55,606
20420	Department of Information & Technology	20330	38,818
20430	Office of Workforce Training and Development	98100	34,350
33000	Office of Workforce Training and Development	98400	431,832
33000	Department of Finance Authority	85300	300,000
33200	Department of Information & Technology	20330	155,271
71100	State Treasurer's Office	74100	<u>2,580</u>
Total All Funds			\$ <u>1,065,319</u>

• **Due To Other State Agencies**

DWS SHARE Fund No.	Agency	Other Agency's Fund No.	Amount
20020	Human Services Department – Child Support Withholding (630)	05200	\$ (62,165)
20060	State Investment Council (337)	17300	<u>(7,331,466)</u>
	Total		\$ <u>(7,393,631)</u>
20420	Office of Workforce Training and Development (635)	98100	\$ (584,810)
20420	Office of Workforce Training and Development (635)	98400	(860,144)
33000	State Treasurer's Office (394)	74100	<u>(1,328,029)</u>
	Total		\$ <u>(2,772,983)</u>

10. ACCUMULATED UNUSED/UNPAID ANNUAL AND SICK LEAVE

The Department changed, in a prior year, its method of accumulating annual and sick leave from a day method to an hourly method based on length of civil services. Personnel employed prior to April 14, 1990, accrue annual leave at a different rate than personnel employed on or after April 14, 1990. 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. Employee 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 fifty percent (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.

11. SURETY BOND

Since September 1, 1987 through the present, surety bond coverage for the Department has been provided through the State of New Mexico's self-insured statewide policy, which is administered by the Risk Management Division of the General Services Department. The surety bond covers all officers and employees of the State of New Mexico for faithful performance, theft and embezzlement of money. The amount of coverage is \$1,050,000 per occurrence.

12. 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

12. PENSION PLAN – PUBLIC EMPLOYEES’ RETIREMENT ASSOCIATION - continued

• **Funding Policy**

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2008, 2007 and 2006 were \$3,162,071, \$2,890,067 and \$4,457,537, respectively, which equal the amount of the required contributions for each fiscal year.

13. REVERSIONS

Reversions due to the State General Fund at June 30, 2008 are as follows:

<u>Fiscal Year</u>		<u>General Fund</u>	<u>WIA Operating Fund</u>	<u>Special Revenue Other Grants and Contracts</u>	<u>Total Reversions Due to State General Fund</u>
2000	\$	-	-	84,962	84,962
2001		2,322	-	-	2,322
2003		-	-	10,158	10,158
2004		-	-	-	-
2005		625,068	-	-	625,068
2006		112,762	-	-	112,762
2007		187,926	-	-	187,926
2008		<u>42,270</u>	<u>52,969</u>	-	<u>95,239</u>
Total	\$	<u>970,348</u>	<u>52,969</u>	<u>95,120</u>	<u>1,118,437</u>

Amounts reflected under Special Revenue Other Grants and Contracts represent unexpended appropriations for the At-Risk Youth program in the fiscal years noted. The reversions were calculated by subtracting expenditures from revenues in the fiscal year noted.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

14. TRANSFERS

Interfund transfers as of June 30, 2008 are as follows:

<u>Fund</u>	<u>Special Revenue Funds</u>		<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
33000	Program Support	\$	1,381,000	-
61300	Penalty & Interest		-	1,291,200
61400	PWAT		-	544,377
71100	Labor Enforcement		-	<u>343,700</u>
	Subtotal		1,381,000	2,179,277
	<u>General Fund</u>			
33300	Compliance		<u>798,277</u>	-
	Subtotal		<u>798,277</u>	-
	Total Interfund Transfers	\$	<u>2,179,277</u>	<u>2,179,277</u>

In accordance with the General Appropriations Act in the Laws of 2004, receipts from the Penalty and Interest fund were transferred into the Program Support fund to fund the indirect costs allocated to the Department's Labor and Industrial and Human Rights Divisions. Similarly, receipts from the Public Works Apprenticeship Training (PWAT) fund were transferred to the Department's Compliance fund for disbursement to private entities providing apprenticeship training in certain trades.

Inter-agency transfers consist of the following:

<u>Agency</u>	<u>Fund</u>	<u>Special Revenue Funds</u>		<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
63200	98200	Worker's Compensation Administration	\$	691,500	-
34100	62000	DFA – Compensation Package		335,200	-
63500	98100	OWTD Funds – WIA Operating Fund		366,986	-
63500	98400	OWTD Funds – Local WIA Board Fund		46,842	-
63500	51800	OWTD Funds – Family Opportunity Fund		<u>1,367,920</u>	-
	Subtotal			2,808,448	-

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

14. TRANSFERS – continued

<u>Agency</u>	<u>Fund</u>	<u>Enterprise Funds</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
		NM State Investment Council – SUTF	\$ _____ -	<u>32,055,491</u>
		Subtotal	_____ -	<u>32,055,491</u>
		Total Inter-Agency Transfers	\$ <u>2,808,448</u>	<u>32,055,491</u>

In accordance with the General Appropriations Act in the Laws of 2004, receipts from the Workers' Compensation fund were transferred to the Department's Compliance fund to provide funds to the Department's Labor and Industrial and Human Rights Divisions for expenditure in the conduct of their administrative functions. The Department also recorded an additional \$335,200 for compensation increases for employees. The Department also transferred \$32,055,491 from the State Unemployment Trust Fund to the State Investment Council.

15. RELATED PARTIES

Effective January 22, 2004, Executive Order Number 2004-004 created the Office of Workforce Training and Development (OWTD) and transferred to it responsibility for receipt and administration of the Workforce Investment Act grant, which had resided with the Department prior to that action. That executive order also designated the OWTD as the fiscal agent for the State Workforce Development Board. In fiscal year 2004, that designation had been shared between the Department and the OWTD. In fiscal year 2005, the OWTD established itself as a stand-alone state agency with its own operating budget and accounting system infrastructure.

16. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

• **Plan Description**

The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

16. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN - continued**• Plan Description - 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 case the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

• Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

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

The Department's contributions to the RHCA for the years ended June 30, 2008, 2007 and 2006 were \$245,432, \$224,424 and \$239,196, respectively, which equal the required contributions for each year.

17. CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

The Department is a party to various claims and other legal matters which arise during the normal course of operations. The Department, however, does not believe that the results of all claims and other legal matters, individually or in the aggregate, would have a materially adverse effect on its operations or financial position.

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.

SUPPLEMENTAL SCHEDULES

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Individual Deposit Accounts

AS OF JUNE 30, 2008

Account Title	Depository	Balance per Bank	Adjustments/ Reconciling Items	Reconciled Balance per Books
Governmental Funds with State Treasurer (with SHARE fund numbers):				
General Fund - 33300	State Treasurer	961,557	(255,759)	705,798
Labor Enforcement Fund - 71100	State Treasurer	157,492	20,902	178,394
PWAT - 61400	State Treasurer	630,176	395,560	1,025,736
Penalty and Interest - 61300	State Treasurer	1,964,997	1,713,141	3,678,138
Workforce Investment Act Lcl Bds - 20410	State Treasurer	(3,006,470)	-	(3,006,470)
Workforce Investment Act Ops - 20420	State Treasurer	2,111,018	(9,437)	2,101,581
Family Opportunity Fund - 20430	State Treasurer	351,551	-	351,551
Program Support Fund - 33000	State Treasurer	127,391,151	(132,513,033)	(5,121,882)
Unemployment Comp Admin Fund - 33100	State Treasurer	(2,520,897)	1,497,090	(1,023,807)
Labor Market & Research Fund - 33200	State Treasurer	<u>(13,309,572)</u>	<u>17,219,584</u>	<u>3,910,012</u>
Total Governmental with State Treasurer		114,731,003	(111,931,952)	2,799,051
Proprietary Funds Cash in Banks				
Clearing Account - 20020	Bank of America	1,085,439	6,265,795	7,351,234
State Unemployment Trust Fund - 20060	Bank of America	352,666	50	352,716
Benefit Account - 20020	Bank of America	(701,036)	(5,265,124)	(5,966,160)
Cash Security Deposit Account - 20020	Bank of America	<u>70,215</u>	<u>1,800</u>	<u>72,015</u>
Total Proprietary in Banks		807,284	1,002,521	1,809,805
Proprietary Funds with State Treasurer (with SHARE fund numbers):				
NMDL E Warrant Series - 24000	State Treasurer	21,382,465	(21,382,465)	-
NMDL G Warrant Series - 24100	State Treasurer	2,427,903	(2,427,903)	-
NMDL H Warrant Series - 24200	State Treasurer	(1,276,051)	1,276,051	-
NMDL I Warrant Series - 24300	State Treasurer	1,883,852	(1,883,852)	-
NMDL J Warrant Series - 24400	State Treasurer	7,502	(7,502)	-
NMDL V Warrant Series - 24500	State Treasurer	<u>(2,372,051)</u>	<u>2,372,051</u>	<u>-</u>
Total Proprietary with State Treasurer		22,053,620	(22,053,620)	-
Proprietary Funds Cash - Other				
Unemployment Trust Fund - 20020	U.S. Dept. of the Treasury	<u>553,315,419</u>	<u>-</u>	<u>553,315,419</u>
Total Proprietary Other		<u>553,315,419</u>	<u>-</u>	<u>553,315,419</u>
Total Proprietary Funds		576,176,323	(21,051,099)	555,125,224
Trust and Agency Funds with State Treasurer (with SHARE fund numbers):				
Wage Claim - 17800	State Treasurer	<u>242,584</u>	<u>1,357</u>	<u>243,941</u>
Total Trust and Agency with State Treasurer		<u>242,584</u>	<u>1,357</u>	<u>243,941</u>
Department Total - all funds		<u>691,149,910</u>	<u>(132,981,694)</u>	<u>558,168,216</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Pledged Collateral

AS OF JUNE 30, 2008

	Bank of America	U.S. Department of the Treasury	Accounts at State Treasurer	Total
Total amount of deposit	\$ 807,284	553,315,419	137,027,207	691,149,910
Less FDIC	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Total uninsured public money	707,284	553,315,419	137,027,207	691,049,910
50% collateral requirement	353,642	276,657,710	68,513,604	345,524,956
State Agency Collateral Listing:	A	B	C	A & B & C
Total pledged	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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 because 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 Office of the 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.

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Schedule of Changes in Assets and Liabilities -
Agency Fund**

Schedule 4

AS OF JUNE 30, 2008

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS:				
Cash on deposit	<u>241,280</u>	<u>38,454</u>	<u>35,793</u>	<u>243,941</u>
TOTAL ASSETS	\$ <u>241,280</u>	<u>38,454</u>	<u>35,793</u>	<u>243,941</u>
LIABILITIES:				
Due to other funds	\$ 142,553	-	-	142,553
Amounts held for others	98,727	39,521	37,223	101,025
Accounts Payable	<u>-</u>	<u>37,290</u>	<u>36,927</u>	<u>363</u>
TOTAL LIABILITIES	\$ <u>241,280</u>	<u>76,811</u>	<u>74,150</u>	<u>243,941</u>

SINGLE AUDIT

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule 5

Supplemental Schedule of Expenditures of Federal Awards

AS OF JUNE 30, 2008

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
U.S. Department of Labor:		
Labor Force Statistics	17.002	\$ 861,744
Employment Services	17.207	6,309,041
Unemployment Insurance	17.225	174,738,302
Trade Adjustment Assistance Workers	17.245	168,752
Work Incentives Grant	17.266	595,510
Work Opportunity Tax Credit Program	17.271	187,110
Temporary Labor Certification for Foreign Workers	17.273	34,722
Disabled Veteran's Outreach Program	17.801	326,004
Local Veteran's Employment Representative Program	17.804	693,279
Homeless Veterans Reintegration Project	17.805	10,000
Workforce Investment Act:		
WIA - Adult	17.258	6,785,539
WIA - Youth	17.259	5,101,783
WIA - Dislocated	17.260	<u>5,241,039</u>
Total U.S. Department of Labor		201,052,825
U.S. Department of Health and Human Services:		
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	<u>118,786</u>
Total U.S. Department of Health and Human Services		<u>118,786</u>
Total Federal Awards Expended		\$ <u>201,171,611</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to the Supplemental Schedule of Expenditures of Federal Awards

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 general purpose financial statements.

UNEMPLOYMENT INSURANCE EXPENDITURES FROM STATE UNEMPLOYMENT COMPENSATION

The unemployment compensation 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 \$152,140,809.

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. Included in the total expenditures for the unemployment insurance program (CFDA No. 17.225) is \$1,018,689 related to Reed Act expenditures.

RECONCILIATION

Total federal revenue associated with federal expenditures is part of other grants and contracts revenue and proprietary fund employer taxes and reimbursements.

WIA CLUSTER – U.S. DEPARTMENT OF LABOR

WIA Cluster includes:

WIA – Adult	17.258
WIA – Youth	17.259
WIA – Dislocated	17.260

No pass-through agencies were used for the Federal Award Programs.

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

Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the budgetary comparisons of the General Fund and major special revenue funds of the State of New Mexico Department of Workforce Solutions (Department) as of and for the year ended June 30, 2008 and have issued our report thereon dated August 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A **control deficiency** 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 misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the



Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 00-13, 02-02, 03-05, 04-05, 05-04, 06-01, 07-01, 07-03, 07-05, 07-07, 07-10, 07-10, 07-11 and 08-01 through 08-07.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-01, 08-01 and 08-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings and questioned costs as items 07-01, 07-07 and 08-01.

We noted certain matters that are required to be reported under Government Auditing Standards, January 2007 reversion paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 07-09.

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

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

Meyers + Company, LLC

August 25, 2009

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

Compliance

We have audited the compliance of the State of New Mexico Department of Workforce Solutions (Department), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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



Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

Compliance - continued

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 00-13, 02-02, 03-05, 04-05, 05-04, 06-01, 07-05, 08-02 and 08-03.

Internal Control over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 00-13, 02-02, 03-05, 04-05, 05-04, 06-01, 07-01, 07-05, 08-02 and 08-03 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 07-01 to be a material weakness.

Mr. Ken Ortiz, Cabinet Secretary
New Mexico Department of Workforce Solutions and
Mr. Hector Balderas
New Mexico State Auditor

Internal Control over Compliance - continued

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

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

Meyners + Company, LLC

August 25, 2009

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs

YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Department of Workforce Solutions (Department).
2. Nineteen significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, of which three are considered to be material weaknesses.
3. There was one instance of non-compliance material to the financial statement disclosure during the audit of the Department.
4. Ten significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133. Of these deficiencies, one was considered to be a material weakness.
5. There was one audit finding that the auditor is required to report under 510(a) of Circular A-133.
6. The auditors' report on compliance for the major federal award programs for the Department expresses an unqualified opinion.
7. The programs tested as the major programs included:

17.225	U.S. Department of Labor - UI Administration
17.207	Employment Services
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative
WIA Cluster:	
17.258	WIA Adult
17.259	WIA Youth
17.260	WIA Dislocated
8. The threshold for distinguishing Types A and B programs was \$3,000,000.
9. The Department was determined not to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

00-13 EMPLOYER'S QUARTERLY EXCESS WAGES

Condition: The Tax Unit is not consistently identifying inaccurate excess wages reported on the employer's quarterly wage and contribution reports (ES-903A).

Criteria: (Section 6-5-2, NMSA 1978) The Department should ensure that the amounts of excess wages reported by employers on the ES-903A are accurate.

Cause: The Department does not currently utilize an automated system to help identify inaccurate excess wages.

Effect: The Department will collect incorrect unemployment taxes if the excess wages on the ES-903A are not accurate.

Auditors' Recommendation: The Department should continue its efforts to develop and implement an automated system that identifies incorrect excess wages.

Management's Response: Currently, the Tax Unit does not have an automated system to identify inaccurate reporting of excess wages on the employer's quarterly and contribution report (ES-903 A&B). This will be addressed and implemented during the upcoming Tax Re-engineering project scheduled to begin on January 4, 2010, with a projected completion date of 2012. In the interim, the Tax Section has implemented manual procedures that identify accounts with inaccurate reporting of excess wage amounts.

- In the first quarter, the Tax Section will audit and verify excess wages when they open mail during "Task Force".
- When processing first quarter reports, the Accounts Unit will audit and verify excess wages when they enter the first quarter reports onto the system.
- The Accounts Unit will improve the manual process of examining inaccurate reporting of excess wages during the balancing of Schedule B (wage detail) to Schedule A of the employer's quarterly report (ES-903 A&B).
- The Accounts Unit will verify excess wage amounts during the validation of warrants issued to employers as they are reviewing the employer's account.
- Tax representatives routinely identify and correct inaccurate reporting of excess wages when conducting payroll audits.

It is the Department's contention that these manual processes will enhance identifying accounts with inaccurate reporting of excess wages until the automated method becomes available.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

02-02 UNEMPLOYMENT INSURANCE RECONCILIATIONS

Condition: A reconciliation is not performed between SHARE and the Unemployment Insurance Claims System (UICS) for unemployment insurance payments.

Criteria: (Page IV-3-1 of ET Handbook 401) To ensure that the unemployment insurance payments are accurately reflected in the general ledger, a reconciliation between the amounts paid within the UICS should be made to the FARS on a routine basis.

Cause: It appears the Department has not established a formal process because of the additional time and resources it would take to reconcile the two systems.

Effect: The amounts recorded in the general ledger could be misstated and may not be detected, which could result in misstated amounts being presented on the Department's financial statements.

Auditors' Recommendation: Establish a formal reconciliation process between the UICS and the FARS to ensure that unemployment insurance payments are accurately reflected in the general ledger. Consider assigning an employee independent of the unemployment insurance payment process to be responsible for routinely reconciling the balances in the two systems.

Management's Response: The corrective action plan to resolve this finding will continue to be as follows:

1. Identify all payment and payment adjustment related data elements in the new UICS and assess their reporting status in the general ledger.
2. Analyze reports from the UICS that reflect payment and payment adjustment activity.
3. Determine if new reports are needed to capture data elements not available on existing reports.
4. Analyze the functionality of the new UICS to identify all payment and payment adjustment processes and assess their responsiveness to Unemployment Insurance Program reporting requirements.
5. Develop additional system functionality to address reporting requirements not currently addressed in the new UICS system.
6. Establish a formal process to periodically reconcile this payment activity between the UICS and the Department's general ledger system.
7. Establish a formal procedure that will initiate a journal entry into the SHARE system's general ledger module. This entry should occur at the same time an upload out of the UICS system for all UI payments is created and sent to the Department of Finance (DFA) for approval. This process will ensure that the general ledger and the UICS system will match on a daily basis. The entry will be rejected by DFA if not accurate. In case of DFA rejection, the UI Treasury unit will correct and resubmit for approval by DFA.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

02-02 UNEMPLOYMENT INSURANCE RECONCILIATIONS - continued

Management's Response - continued:

The timeline for completing these actions will take place by the end of fiscal year 2010.

03-05 UNEMPLOYMENT INSURANCE QUARTERLY REPORTS

Condition: No supervisory reviews were performed on required financial and special reports prior to the submission of the reports to U.S. Department of Labor Employment and Training Administration.

Criteria: (42 USC 503(a)(1)) Internal controls should be in place to ensure the accuracy, completeness and timeliness of the required reports.

Cause: Although the responsibilities to review various reports have been assigned to the Unemployment Insurance Bureau Chief and the Actuarial Research Supervisor who assumed their positions during FY2005, the process has not been implemented yet. In addition, the Cost Accounting Unit has not established a review process for the reports prepared by their staff.

Effect: The Department cannot ensure the accuracy, completeness and timeliness of the required quarterly reports.

Auditors' Recommendation: The Department should implement a new review process as soon as possible. Reviewers of reports should possess sufficient knowledge of the applicable reporting requirements and preparation and compare reports to the supporting records. The supervisory review should be documented with initials and dates.

Management's Response: The UI Bureau has implemented a process to ensure the timeliness, accuracy and completeness of reports submitted to USDOL. This procedure has corrected the deficiency that resulted in inaccurate and untimely reports. A task force of knowledgeable staff is auditing each individual ETA report for compliance with ETA reporting requirements. Progress has been made in filing timely reports. A log tracks the review process of all reports on an ongoing basis. This procedure has been accepted by USDOL and is in effect at this time.

04-05 CONTRIBUTION OPERATIONS REPORT (ETA 581)

Condition: "Total Number Wage Items Received" in Line 101 and various numbers for the receivables in Lines 401, 402, 403 and 404 of the Contribution Operations Report (ETA 581) did not agree with the Receivable Summary from the Tax Application Cooperative Systems (TACS), the prescribed source of these data. Some of the reported amounts are estimated amounts.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

04-05 CONTRIBUTION OPERATIONS REPORT (ETA 581) - continued

Criteria: Contribution Operations Report should be prepared in accordance with the UI Reports Handbook No. 401, "ETA 581 Contribution Operations", which provides item by item instructions. In addition, a report should agree with the supporting records.

Cause: Although the Actuarial Research Bureau of the Department has informed the Information Technology Services (ITS) of the problem with the TACS that is not capturing the accurate and complete data, the problem has not been resolved.

Effect: Contribution Operations Report is not accurate and complete.

Auditors' Recommendation: The Department should review the report preparation process and establish a formal process while the problem with the TACS is being corrected to ensure that the Contribution Operations Report is accurate and complete and prepared in accordance with Handbook No. 401.

Management's Response: Since the 3rd quarter of 2007, the Actuarial Research Unit has not used the Tax Application Cooperative Systems (TACS) Receivable Summary to prepare the Contribution Operations Report (ETA 581). As part of the process, the Actuarial Research staff attended an ETA 581 Webinar hosted by USDOL and also communicated extensively with USDOL at the Regional and National level to bring the ETA 581 into compliance with the Handbook No. 401 requirements. As part of the changed preparation procedure, separate reports are requested each quarter for IT or Tax to obtain the information required to report in compliance with Handbook No. 401.

This process is continuing. However, the UI Tax Section has started the process of a Request for Proposal for a UI Tax System Modernization Project. Proposal due date is October 13, 2009, with work scheduled to begin on the system in January 2010. The UI Tax System Modernization will address the ETA 581.

05-04 DELINQUENT EMPLOYER CONTRIBUTION REPORT

Condition: Data in the Tax Application Cooperative System (TACS) is real-time data and constantly fluctuates due to the continuous processing of transactions. Consequently, reports including but not limited to delinquent employer contributions and related P&I receivables generated for the same time period at different times provide dissimilar results. These reports are generated by TACS and are not consistent and cannot be utilized to support receivable balances in the general ledger to create a rollforward or aging report, or to use for management's valuation of estimates. In addition, generated reports cannot be retained in the system for future references and are not saved in a format facilitating the subsequent analysis.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-04 DELINQUENT EMPLOYER CONTRIBUTION REPORT - continued

Criteria: (42 USC 503(a)(1)) To ensure that these receivable balances are accurately reflected in the general ledger, there should exist a system output that can provide accurate charge and collection data.

Cause: There are no procedures in place to ensure the proper cut-off of the data at the end of the periods and to retain the generated reports in the format facilitating the subsequent analysis.

Effect: For years the Department has fully reserved the delinquent employer contribution and P&I receivables. However, this valuation is not supported due to lack of accurate data on charges, collections and aging, etc.

Auditors' Recommendation: Until the implementation of the new successive TACS with capabilities to perform the above-mentioned tasks, the Department should create and adapt the procedures to ensure the proper cut-off date and time for the data at the end of a period (month/quarter/fiscal year) and to retain the generated report in a format (e.g., MS Excel, MS Access, Text, etc.) facilitating the subsequent analysis and creation of aging reports.

Management's Response: The new Unemployment Insurance Tax system will include this capability and functionality. This new system is expected to be in production for FY 2013. In the meantime, to address the finding, the Department will create and implement the following procedures:

1. The UI Tax Section will give report parameters to Workforce Technology Division and establish a mandatory cut-off date and time for the data and reports (delinquent employer contributions and receivables) to be generated by a Workforce Technology staff member at the end of each quarter and fiscal year.
2. The Workforce Technology Division will create additional or custom reports to meet requirements identified by the UI Tax Section and FMB.
3. FMB will utilize reports to support receivable balances, create aging reports and estimate expected collections of outstanding receivables from claimants and employers and record into the general ledger quarterly.
4. The Workforce Technology Division will maintain electronic copies of reports and provide them to the Financial Management Bureau UI Treasury Unit.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

06-01 FINANCIAL STATEMENT REPORTING PACKET SUBMISSION TO THE FEDERAL CLEARINGHOUSE - Updated

Condition: The Department did not submit the financial statement reporting packet and the data collection form to the Federal Clearinghouse and federal agencies within nine months after the fiscal year end, as required.

Criteria: OMB Circular A-133 requires submission of the financial statement reporting packet and the data collection form to the Federal Clearinghouse and federal agencies within nine months after the fiscal year end.

Cause: The Department did not complete the audit process and finalize financial statements until August 31, 2009.

Effect: The Department is in violation of OMB A-133 requirements.

Auditors' Recommendation: The Department should file the required documentation as soon as the final financial statements are available.

Management's Response: The Department agrees with this finding and will file the documentation as required by OMB A-133 and the federal agency.

07-01 RELIABILITY OF FINANCIAL RECORDING, ACCOUNTING AND REPORTING (Material Weakness)

Condition: The Department has experienced issues associated with the recording, accounting and reporting of financial transactions. The following items are a combination of procedures and areas the Department did not timely prepare and perform:

- Receipts held in suspense were not analyzed and accounted for.
- Approval and review of journal entries, both internal and external.
- Internal control system over reporting was unable to detect inaccurate financially generated reports.
- Accounts receivable reconciliations, including federal and employer receivables, were not prepared.
- Cash reconciliations were not prepared on a monthly basis for all cash accounts.

Timely and accurate financial reporting is critical to the management of the Department. As a result of the lack of procedures, at June 30, 2008 management could not rely on the financial information produced out of the accounting system.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**07-01 RELIABILITY OF FINANCIAL RECORDING, ACCOUNTING AND REPORTING (Material Weakness) - continued**

Criteria: As a state agency, the Department must follow the existing Manual of Model Accounting Practices' (MAPs) procedures for the items above. MAPs (FIN 2.1) states that state agencies shall log all monies received specifying the amount, date and source of the revenue. Additionally, journal entries must be authorized by either the Accounting Section or by DFA, as described in MAPs (FIN3.7 - 3.11), authorized by Section 6-5-2, NMSA 1978. Finally, MAPs (Vol. 1, Chapter 8, Section 3.2) requires monthly reconciliations of all accounts. Individual accounts should be reconciled on a monthly basis and any discrepancies or inconsistencies should be investigated as soon as they are discovered.

Cause: Lack of effective procedures and understanding of MAPs has created these conditions. The issues are intensified by a combination of factors, including insufficient staff resources, as well as increased workload due to the implementation of SHARE without obtaining additional staff or resources to handle the additional workload. In addition, the Department did not receive adequate training associated with the SHARE software program.

Effect: The information produced by the system cannot be relied on for the purpose of making financial decisions. Constant problems in receiving and reporting timely and current financial information throughout the year can significantly impact management's ability to effectively guide the Department and the divisions within the Department. The Department must know its cash balance and its future cash balance in the form of accounts receivable in order to prepare reliable external reports such as required federal reports.

Auditors' Recommendation: We recommend the Department follow MAPs internal control procedures to ensure polices and procedures as described by the New Mexico Department of Financial Administration are being followed.

Management's Response: FMB will develop a detailed work plan that documents key monthly requirements and owners for journal entries and review, accounts receivable reconciliations, federal grants reconciliations and receipts held in suspense. FMB will implement SHARE project improvements in the next year to eliminate manual work-arounds and leverage the SHARE system capabilities. Staff training on SHARE, Excel and reconciliations will also be completed to address and resolve this finding. FMB will work to complete monthly reconciliations on the above by September 2009.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-03 CASH RECEIPTS SUPPORTING DOCUMENTATION - Updated

Condition: During cash receipt testwork, we noted that management was unable to provide supporting documentation for two out of 40 items tested. The exceptions were for \$1,249 and \$13.

Criteria: In accordance with the Manual of Model Accounting Practices (MAPS), FIN 2.1 states that each state agency is required to maintain supporting documentation for cash receipts.

Cause: Failure or lack of internal controls over cash receipts.

Effect: Account balances may contain misstatements and may be difficult to reconcile due to missing supporting documentation.

Auditors' Recommendation: We recommend that management establish effective controls necessary to ensure the maintenance of supporting documentation.

Management's Response: Management will develop and implement a policy in the UI Treasury unit that will address the following: identify all types of cash receipts; determine recording requirements for each cash receipt type; determine supporting documentation and retention requirements; establish filing and storage requirements and location; and establish document control procedures. This policy is expected to be completed by the end of August 2009.

07-05 FEDERAL GRANT REPORTS - Updated

Condition: During A-133 single audit testwork, we noted that management was unable to provide required financial reports SF 272.

Criteria: Per OMB Circular A-133, *Compliance Requirements Reporting - Financial Reporting*, the Department is required to maintain reports specified by the Federal agency.

Cause: Failure or lack of internal controls over reporting requirements established by the Federal government for state agencies receiving federal funds.

Effect: The Department is in violation of federal requirements.

Auditors' Recommendation: We recommend that management establish effective controls necessary to ensure the maintenance of reports mandated by the federal government for state agencies receiving federal funds. Additionally, we recommend that the Department designate an individual to be responsible for meeting these requirements.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-05 FEDERAL GRANT REPORTS – Updated - continued

Management’s Response: Management considers this finding resolved. The Accounts Receivable unit, which is responsible for cash draws and reporting the SF 272s, files these reports electronically. They print a hard copy and file them in a binder labeled “272 reports”. Each binder contains SF 272s and supporting documentation by state fiscal year. The federal report 269s and 9130s are filed electronically. Hard copies are made and the financial management bureau Accounts Receivable analyst and administrative Services Division director/CFO keep separate binders with this information. These binders are sorted by quarter and by Federal fiscal year.

07-07 DISPOSITION OF PROPERTY - Updated

Condition: A written notice to the State Auditor was not sent at least 30 days before the disposition of property. This disposition included computers, for which a sanitization certification was not provided.

Criteria: State Auditor Rule 2.2.2.10, Subsection V states that at least 30 days prior to any disposition of property on the agency inventory list described in Subsection Y of 2.2.2.10 NMAC, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action must be sent to the State Auditor. In the event a computer is included in the planned disposition, the agency shall “sanitize” all licensed software and any electronic media pertaining to the agency. Hard drive erasure certification is still required even if the asset originally cost less than \$5,000 and was not included in the capital asset inventory.

Cause: Lack of effective internal controls associated with the disposition of property.

Effect: Not in compliance with the State Auditor Rule 2.2.2.10 requirements pertaining to the disposition of property. Information stored on missing equipment may compromise the Department.

Auditors’ Recommendation: We recommend that internal controls associated with the disposition of property be established and followed. This includes strict adherence to the State Auditor Rule.

Management’s Response: The Department has implemented procedures to properly dispose of information technology equipment. An updated Policy will be implemented, including the State Auditor’s requirements for disposition of property, and will be monitored by appropriate personnel.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-09 REVERSIONS TO THE STATE GENERAL FUND - Updated

Condition: The Department's fiscal year 2008 reversions due to the State General Fund amounted to \$95,239. The total amount due to the State General Fund in non paid reversions accumulated for the past fiscal years is \$1,118,437.

Criteria: Section 6-5-10, NMSA 1978, requires "all reserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30, be reverted by September 30 to the general fund. The division may adjust the reversion within forty-five days of release of the audit report for that fiscal year." The 2007 New Mexico State Auditor Rule 2.2.2.12(A)(6)(b) requires a finding should an agency not be in compliance with this requirement.

Cause: The Department does not have effective procedures in place to ensure timely reversion of these funds to the State General Fund.

Effect: The Department is not in compliance with 6-5-10, NMSA 1978.

Auditors' Recommendation: We recommend that the Department implement controls to ensure all required reversions are reverted in a timely manner, but no later than September 30 following the fiscal year end.

Management's Response: Management will develop procedures for compiling and computing the reversion amount in conformance with DFA reporting and payment requirements and due dates.

07-10 RECONCILIATION OF AGENCY FUND – Updated

Condition: The Department is not reconciling the Labor and Industrial Wage Claim Fund. The fund has approximately \$101,000 of amounts held for claimants; however, the Department is uncertain of the claimants for which the funds are being held.

Criteria: As a state agency, the Department must follow the existing MAPs procedures for monthly reconciliations between internal documentation and SHARE (general ledger), as described in MAPs (FIN11.1 – 11.9), authorized by Section 6-5-2, NMSA 1978.

Cause: No formal policies or procedures are in place that will walk the accountants through the reconciliation requirements. The Department has not incorporated MAPs into its policies and procedures.

Effect: The Department is unable to identify the claimants for which the funds are held.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-10 RECONCILIATION OF AGENCY FUND – Updated - continued

Auditors' Recommendation: We recommend the Department create, implement and monitor a reconciliation process of the Agency Fund.

Management's Response: DWS will assign staff from the agency's Labor Relations Division and Financial Management Bureau to complete the following corrective actions:

- Identify deposits of funds from claimants into the Wage Claim Fund.
- Identify payments to claimants from the Wage Claim Fund.
- Reconcile the deposits and payments and identify claimants where deposits are remaining in the fund.
- Develop policy and procedures to track subsequent deposits and disbursements from the fund on a periodic basis (i.e., quarterly).

07-11 LATE FILING OF AUDIT REPORT

Condition: The audit report for the year ended June 30, 2008 was not submitted by the deadline of December 15, 2008 to the New Mexico State Auditor's Office. The report was submitted on September 8, 2009.

Criteria: SAO 2.2.2.9(A)(f) requires that State agencies file their annual financial audit with the State Auditor's Office by December 15 each year.

Cause: The Department's records were not ready for the timely completion of the audit. Critical schedules were not provided to the auditors until mid July. Additionally, significant entries to correct the books were not provided to the auditors until late in the audit.

Effect: The users of the financial statements such as legislators, creditors, bondholders, state and federal grantors, etc., do not have timely audit reports and financial statements for their review. Late audit reports could have an effect on state and federal funding.

Auditors' Recommendation: Based on the size and complexity of the audit, the auditors require at least 60 days to complete the audit. Trial balances and critical supporting schedules should be provided to the auditors no later than mid-October in order to meet the December 15th deadline.

Management's Response: The Department expects to be current and submit the FY09 audit by the December 15, 2009 deadline.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-01 FINANCIAL STATEMENT PREPARATION (SAS-112) (Material Weakness)

Condition: Due to the timing of the June 30, 2007 audit and the amount of time needed to prepare reconciling schedules, we are not confident in the controls in place to perform accounting transactions. For the fiscal year 2008, no reconciliation process was in place, and management did not have relevant and reliable financial information to help in their decision making.

Criteria: Per SAS-112, the auditor must determine whether the client has sufficient accounting competence and knowledge to detect or prevent a misstatement or mistake over financial reporting. The Department should possess the ability to perform accounting transactions such as recording cash/investment activity, maintaining a fixed asset listing and preparing financial statements and supporting schedules.

A system of internal control over financial reporting does not stop at the general ledger; rather, it includes controls over the preparation of the financial statements and supporting schedules.

Cause: The constant work the Department's financial division took on in order to prepare the necessary information and reconciliations to get the 2007 audit out left no time available to perform the necessary accounting processes for fiscal year 2008. Also, due to turnover, internal controls surrounding the financial reporting process have not been as effective.

Effect: The lack of controls over accounting transactions and preparing financial statements was significant in the June 30, 2008 audit of the Department not being completed in a timeframe consistent with the New Mexico State Auditor's Rule. Many reconciliations and preparation of schedules required for the 2008 audit were prepared in the last quarter of fiscal year 2009.

Auditors' Recommendation: We recommend the Department develop and implement internal controls over the financial reporting process.

Management's Response: The Administrative Services Division (ASD) has undertaken and will complete the following actions to correct this situation:

1. The Financial Management Bureau (FMB) was reorganized to flatten the reporting hierarchy and streamline its operations. ASD will continue to develop skills, capabilities and processes through consultants, contractors and qualified full time employees in order to return to full compliance in recording, reconciling and reporting financial transactions timely.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-01 FINANCIAL STATEMENT PREPARATION (SAS-112) (Material Weakness) - continued

Management's Response - continued:

2. ASD has hired key personnel over the past twelve months in the following fiscal units: Unemployment Insurance Treasury, Workforce Investment Act Fiscal, Budget and Financial Accounting and Reporting. ASD is continuing to fill those vacancies critical to its operations.
3. To put controls in place, ASD is developing and implementing written policies and procedures to assist staff with ensuring that financial process are performed with regularity. ASD has developed the following four new Division Internal Policies: (1) Federal Cash Drawdown Policy; (2) Unemployment Insurance Tax Deposit Policies and Procedures; (3) Reporting Accruals and Unliquidated Obligations on Federal Quarterly Reports; and (4) Financial Status Report Certification Personal Identification Number Policy.
4. ASD will continue to develop policies and procedures on an on-going and as-needed basis.
5. FMB will develop a detailed work plan that documents key monthly requirements and owners for journal entries and review, cash account reconciliations, accounts receivable reconciliations, federal grants reconciliations, and receipts held in suspense. FMB will implement SHARE project improvements in the next year that will eliminate manual work-arounds and leverage the SHARE system capabilities. Staff training on SHARE, Excel and reconciliations will also be completed to address and resolve this finding.

08-02 QUARTERLY FINANCIAL STATUS REPORTS

Condition: During A-133 single audit testwork, we noted that management did not file report ETA 9130 for two of the four quarters of fiscal year 2008. Additionally, the report that was filed for the second quarter of fiscal year 2008 was filed using estimated financial data rather than actual financial data.

Criteria: Per CDFA 17.225 Compliance Supplement, OMB Circular A-133 requires the Department to file a quarterly financial status report for each grant it receives (form ETA 9130) and that each report contain actual cumulative financial data.

Cause: Failure or lack of internal controls over reporting requirements established by the Federal government for state agencies receiving federal funds.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-02 QUARTERLY FINANCIAL STATUS REPORTS - continued

Effect: The Department is in violation of OMB A-133 federal requirements.

Auditors' Recommendation: We recommend that management establish effective controls necessary to ensure the maintenance of reports mandated by the federal government for state agencies receiving federal funds. Additionally, we recommend that the Department designate an individual to be responsible for meeting these requirements.

Management's Response: As of the report date, management considers this finding resolved. The financial management bureau has completed federal reports (including the ETA 9130) with actual financial data for the past four quarters (September 2008, December 2008, March 2009 and June 2009), and controls and procedures are in place.

08-03 LATE QUARTERLY FINANCIAL STATUS REPORTS

Condition: During A-133 single audit testwork, we noted that report ETA 9130 was filed late for three of the four quarters of fiscal year 2008.

Criteria: Per WIA cluster Compliance Supplement, OMB Circular A-133 requires the Department to file a quarterly financial status report for each grant it receives (form ETA 9130) within 45 days of the end of each quarter.

Cause: Failure or lack of internal controls over reporting requirements established by the Federal government for state agencies receiving federal funds.

Effect: The Department is in violation of OMB A-133 federal requirements.

Auditors' Recommendation: We recommend that management establish effective controls necessary to ensure the maintenance of reports mandated by the federal government for state agencies receiving federal funds. Additionally, we recommend that the Department designate an individual to be responsible for meeting these requirements.

Management's Response: As of the report date, management considers this finding resolved. The financial management bureau has completed federal reports (including the ETA 9130) with actual financial data and submitted to the U.S. Department of Labor by the established deadlines for the past four quarters (September 2008, December 2008, March 2009 and June 2009), and controls and procedures are in place.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-04 CAPITAL ASSET PHYSICAL INVENTORY (Material Weakness)

Condition: The Department did not perform a year end physical inventory count and were unable to certify or support the information from its capital asset management software.

Criteria: State Auditor Rule 2.2.2.10, Subsection Y, states that each agency shall conduct an annual physical inventory count of all equipment listed on the agency's capital asset listing as of year end. The agency must then certify the correctness of the physical inventory listing after the inventory count and the certification must be provided to the agency's auditors.

Cause: Lack of effective internal controls associated with capital assets, including tracking and safeguarding of capital assets.

Effect: The Department is not in compliance with the State Auditor Rule 2.2.2.10 requirements pertaining to the correctness of property listed on the financial statements.

Auditors' Recommendation: We recommend that management establish effective controls necessary to ensure that a physical inventory of all equipment is performed. Additionally, we recommend that a reconciliation between the physical inventory results and the physical inventory listing be performed to identify any necessary adjustments.

Management's Response: For fiscal year 2008, a physical inventory was started in the March 2008 timeframe but was not completed. A physical inventory was conducted and completed for FY 2009 in June and July 2009. The Department did communicate the State Auditor Rule 2.2.2.10 requirements to appropriate personnel and those requirements are included in the Department's policy. The Department is in the process of updating this policy and will have a revised policy by August 2009. The new policy will outline manager, employee and operating unit responsibilities. It will address fixed asset database physical inventory and all property database inventory processes, receipt of property procedures, identification procedures, issuance/return of property procedures, transfer of property procedures, disposition of property procedures and annual reporting of fixed assets.

08-05 CAPITAL ASSET TRANSFERS/DISPOSALS RECORDED AT TIME OF PHYSICAL INVENTORY

Condition: During our capital asset testwork, we became aware that the Department does not appear to be recording capital asset transfers and disposals as they occur, but rather at the time the end of year capital asset inventory is performed. Additionally, the Department is choosing to consider items that cannot be located at the end of year capital asset inventory as disposed.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-05 CAPITAL ASSET TRANSFERS/DISPOSALS RECORDED AT TIME OF PHYSICAL INVENTORY - continued

Criteria: In accordance with MAPs FIN 6, an agency shall record in the accounting records the transfer, sale, disposition or write-off of capital assets when they occur. Additionally, FIN6 states that, rather than considering missing items at year-end as disposed, when any capital asset is found to be missing and cannot be accounted for, the state agency shall determine the cause(s) and augment internal controls, as necessary, to minimize any future occurrences.

Cause: Lack of effective internal controls associated with capital assets, including tracking and safeguarding of capital assets.

Effect: Possible misstatement of capital assets due to the fact that the Department is not recording capital asset transfers and disposals in accordance with MAPs.

Auditors' Recommendation: We recommend that management establish effective controls necessary to ensure that capital asset transfers and disposals are recorded as they occur, not when the year-end capital asset inventory is performed. Additionally, we recommend that internal controls associated with the custody of property be established and followed to minimize further occurrences of missing capital assets. This includes strict adherence to MAPs FIN 6 pertaining to the proper accounting treatment for transferred or disposed capital assets.

Management's Response: The Department is in the process of updating this policy and will have a revised policy by August 2009. The new policy will outline manager, employee and operating unit responsibilities. It will address fixed asset database physical inventory and all property database inventory processes, receipt of property procedures, identification procedures, issuance/return of property procedures, transfer of property procedures, disposition of property procedures and annual reporting of fixed assets.

The revised policy will address the following:

- Relevance to required annual physical inventory.
- Incorporate stronger language as to the adherence to this policy by all individuals responsible for property management and consequences for non-compliance.
- Initiate quarterly property activity reports to the ASD Director.
- Recording of asset transfers and disposals as they occur.

In addition, the Department will institute training on physical inventory, disposals and property transfers. This periodic training for key individuals involved in the inventory within each operating unit will be conducted on a periodic basis.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-06 LACK OF DISASTER RECOVERY PLAN AND FORMAL BACKUP PROCEDURES

Condition: During our assessment of the information technology control environment, it was determined that the Department does not have a finalized Disaster Recovery Plan and does not have any formal backup procedures.

Criteria: The Department should have a finalized Disaster Recovery Plan that has been tested, as well as formal standardized backup procedures.

Cause: Management oversight.

Effect: Possible loss of financial information, as well as fiduciary breach and risk of corruption and/or loss of confidential claimant data.

Auditors' Recommendation: We recommend that management place high priority in completing and standardizing a formal Disaster Recovery Plan and formal backup procedure, including off-site storage of the procedures and the Disaster Recovery Plan.

Management's Response: NMDWS Workforce Technology Division (WTD) has a finalized Disaster Recovery (DR) plan. WTD has been working with a Disaster Recover (DR) committee from the Department of IT (DoIT) and participating in the Governor's initiative that all state agencies have a DR plan that has been tested and approved by DoIT. The WTD DR plan is yet to be tested due to recent changes in technical strategy and direction related to increasing the DWS' mainframe capacity. Additionally, delays on testing the DR Plan ensued due to the decision on whether the production systems will remain here at NMDWS or be moved to DoIT. This decision is still pending, and a resolution is expected in FY2010. Once that decision has been made, then WTD can proceed in testing the disaster recovery procedures if production systems are to remain at NMDWS.

It must be noted that WTD does have a full functioning backup process. With this process, all the software and data is backed up and kept offsite as defined in this document. Backed up data is designed such that, if needed, it can be used to bring the system up within 24 hours after a disaster.

Process used for backup and data retainage:

WTD safeguards data stored on WTD's production servers and IBM Mainframe by backing up the data and retaining the tapes at an off-site facility. The backups ensure that the agency can be back into business in a short period of time. Backups have a copy of the data at the time of the last backup and changes made after the backup could potentially be lost.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-06 LACK OF DISASTER RECOVERY PLAN AND FORMAL BACKUP PROCEDURES - continued

Management's Response - continued:

WTD follows the following data retention procedures:

- System Pack backup performed every three days and seven copies kept at all times.
- Production DB2 Databases are backed up nightly and two copies kept at all times.
- Image copy of the production database is performed nightly. The image copy contains an image of the database from before the nightly batch runs and an image copy of the database after nightly batch processing, with 90 copies kept as virtual tapes at all times.
- System backups are performed three times a week.
- General data is retained for three days and two copies are kept at all times.

Incremental backups of everything but DB2 are performed nightly.

08-07 SYSTEM ACCESS FOR TERMINATED EMPLOYEES

Condition: During our assessment of the information technology control environment, it was determined that user IDs to access information systems, including SHARE, were not disabled or deleted when an employee was terminated. Additionally, it was noted that some users had multiple user IDs.

Criteria: A user ID should be deactivated and deleted when an employee is terminated from the Department.

Cause: Lack of effective controls associated with information systems, including no formal procedures in place to deactivate and remove terminated user IDs.

Effect: Invalid transactions could be recorded, resulting in misstatement of financial data. Additionally, confidential information on the Department's information systems could be lost or corrupted.

Auditors' Recommendation: We recommend that management establish implement formal procedures to ensure that all user IDs are deactivated immediately upon termination of employees. Additionally, the IT Department should work with managers and supervisors to establish a periodic review of all user IDs to identify employees whose job responsibilities have changed or have been terminated. Once these employees are identified, appropriate changes to user IDs should be made to ensure that necessary accessibility and privileges remain.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-07 SYSTEM ACCESS FOR TERMINATED EMPLOYEES - continued

Management's Response: The Department has a written policy that addresses termination or change of access for employees. The Department will update and modify this policy by the end of September 2009. The revised policy will include: improved termination form; training for managers, HR, IT, and UI; review of IT administrators on a quarterly basis; identify different types of user IDs (i.e., SHARE ID, user logon ID and UI employee ID and requirements; revised exit conference procedures and requirements to ensure timely deletion of access to computer systems and buildings.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

The following findings related to **all Federal Award programs** and are described in detail in Section B of the Schedule of Findings and Questioned Costs.

- 06-01 Financial Statement Reporting Packet Submission to the Federal Clearinghouse - Updated
- 07-01 Reliability of Financial Recording, Accounting and Reporting (Material Weakness)
- 07-05 Federal Grant Reports

The following findings related to the Unemployment Insurance Administration program (UI) (CFDA No. 17.225) and are described in detail in Section B of the Schedule of Findings and Questioned Costs.

- 00-13 Employer's Quarterly Excess Wages – Questioned Costs - none
- 02-02 Unemployment Insurance Reconciliations – Questioned Costs - none
- 03-05 Unemployment Insurance Quarterly Reports – Questioned Costs - none
- 04-05 Contribution Operations Report (ETA 581) – Questioned Costs - none
- 05-04 Delinquent Employer Contribution Report – Questioned Costs – none
- 08-02 Quarterly Financial Status Reports – Questioned Costs - none

The following finding related to the Workforce Investment Act Cluster (WIA) (CFDA No. 17.258, 17.259, 17.260) and is described in detail in Section B of the Schedule of Findings and Questioned Costs.

- 08-03 Late Quarterly Financial Status Reports – Questioned Costs - none

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Summary Schedule of Prior Year Audit Findings

- 00-13 Employer's Quarterly Excess Wages – Repeated
- 02-02 Unemployment Insurance Reconciliations – Repeated
- 03-05 Unemployment Insurance Quarterly Reports – Repeated
- 04-05 Contribution Operations Report (ETA 581) – Repeated
- 05-04 Delinquent Employer Contribution Report – Repeated
- 06-01 Financial Statement Reporting Packet Submission to the Federal Clearinghouse – Repeated/Updated
- 07-01 Reliability of Financial Recording, Accounting and Reporting (Material Weakness) – Repeated
- 07-02 Expenditure Recording Cutoff – Resolved
- 07-03 Cash Receipts Supporting Documentation – Repeated/Updated
- 07-04 Personnel Files – Resolved
- 07-05 Federal Grant Reports – Repeated/Updated
- 07-06 Over-Expended Appropriation Unit – Resolved
- 07-07 Disposition of Property – Repeated/Updated
- 07-08 Physical Inventory Count – Resolved
- 07-09 Reversions to the State General Fund – Repeated/Updated
- 07-10 Reconciliation of Agency Fund – Repeated
- 07-11 Late Filing of Audit Report – Repeated/Updated

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exit Conference

An exit conference was held with the Department on August 31, 2009. The conference was held at the Department's offices in Albuquerque, New Mexico. In attendance were:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Ken Ortiz, Cabinet Secretary
Teresa Gomez, Deputy Secretary
Lloyd Garley, ASD Director, CFO
Jason Lewis, Chief of Staff
Susan Aragon, Financial Management Bureau Financial Specialist
Edwin Jaramillo, Financial Accounting Reporting Manager
Richard Montes, Financial Management Bureau General Manager
John Schwartz, Accounts Receivable Manager
J. Howard Deme, General Services Staff Manager
Cynthia Brindley, Budget Manager
Sylvia Abeyta, Internal Auditor
Francie Cordova, Labor Relations Director
Rebecca Jackson, ARRA Program Manager

MEYNER + COMPANY, LLC

Georgie Ortiz, CPA, CGFM, Assurance Principal
Javier Machuca, CPA, CGFM, Assurance Senior Manager
Matt Bone, Assurance Senior
Anthony J. Chavez, Assurance Staff

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the Independent Auditor. However, they are the responsibility of management, as addressed in the Independent Auditors' Report.