

NEW MEXICO
DEPARTMENT OF
WORKFORCE SOLUTIONS
Financial Statements
for the Year Ended
June 30, 2009,
and Independent
Auditors' Report

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS



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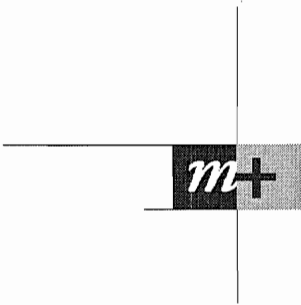


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NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Official Roster

Year Ended June 30, 2009

Name	Title
Betty Sparrow Doris	Secretary
Teresa C. Gomez	Deputy Secretary
Ken Ortiz	Deputy Secretary
Lloyd M. Garley	Director, Administrative Services Division
Francie Cordova	Director, Labor Relations Division
Terry Othick	Director, Workforce Technology 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, 2009, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the financial statements of the fiduciary fund and the State Unemployment Insurance Trust Fund Budgetary Comparison as of and for the year ended June 30, 2009. 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, 2009, 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, 2009, or the changes



Mr. Ken Ortiz, Cabinet Secretary
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Mr. Hector Balderas
New Mexico State Auditor

in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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, 2009, 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, 2009, 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 March 25, 2010, 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedules listed as supplementary information in the table of contents (Schedules 1 through 4) are

Mr. Ken Ortiz, Cabinet Secretary
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presented for purposes of additional analysis and are not a required part of the basic financial statements. Such additional information is the responsibility of the management of the 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.

Mejner + Company, LLC
March 25, 2010

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Management's Discussion and Analysis
Year Ended June 30, 2009**

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 2009</u>	<u>FY2008</u>	<u>Amount Change</u>	<u>Total % Change</u>
Assets:				
Current and other assets	\$ 452,831,489	637,772,117	(184,940,628)	-29%
Capital and non-current assets	<u>478,969</u>	<u>451,185</u>	<u>27,784</u>	<u>6%</u>
Total Assets	453,310,458	638,223,302	(184,912,844)	-29%
Liabilities:				
Current liabilities	51,648,697	76,341,201	(24,692,504)	-32%
Long-term obligations	<u>-</u>	<u>-</u>	<u>-</u>	<u>0%</u>
Total Liabilities	51,648,697	76,341,201	(24,692,504)	-32%

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2009 - continued

Financial Highlights - continued

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

	<u>FY 2009</u>	<u>FY2008</u>	<u>Amount Change</u>	<u>Total % Change</u>
Net Assets:				
Invested in capital assets	\$ 478,969	451,185	27,784	6%
Restricted:				
Unemployment insurance trust	388,957,929	555,888,755	(166,930,826)	-30%
Unrestricted	<u>12,224,863</u>	<u>5,542,161</u>	<u>6,682,702</u>	<u>121%</u>
Total Net Assets	\$ <u>401,661,761</u>	<u>561,882,101</u>	<u>(160,220,340)</u>	<u>-29%</u>

Table A-2
Comparative Statement of Activities

	<u>FY 2009</u>	<u>FY2008</u>	<u>Amount Change</u>	<u>Total % Change</u>
Revenue:				
<u>Program Revenues by Major Sources</u>				
Governmental Activities:				
Employment Services:				
Charges for Services	\$ 5,447,050	4,990,421	456,629	9%
Operating Grants	<u>42,930,771</u>	<u>38,455,881</u>	<u>4,474,890</u>	<u>12%</u>
Total Gov. Activities Revenue	48,377,821	43,446,302	4,931,519	11%
Business-type Activities:				
Unemployment Activities:				
Charges for Services	142,508,241	120,321,948	22,186,293	18%
Operating Grants	<u>90,768,740</u>	<u>10,704,232</u>	<u>80,064,508</u>	<u>748%</u>
Total Bus.-type Activities Revenue	<u>233,276,981</u>	<u>131,026,180</u>	<u>102,250,801</u>	<u>78%</u>
Total Program Revenues by Major Sources	281,654,802	174,472,482	107,182,320	61%

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2009 - continued

Financial Highlights - continued

Table A-2 - continued
Comparative Statement of Activities

	<u>FY 2009</u>	<u>FY2008</u>	<u>Amount Change</u>	<u>Total % Change</u>
Revenue - continued:				
<u>General Revenues by Major Sources</u>				
Governmental Activities:				
State Appropriations	\$ 8,175,700	8,051,600	124,100	2%
Investment Earnings	1,955	17,067	(15,112)	-89%
Other Transfers in	1,250,819	2,808,448	(1,557,629)	-55%
Bad Debt Expense				
(increase in allowance)	-	(367,299)	367,299	100%
Reversions to State General Fund	<u>(519,532)</u>	<u>(95,239)</u>	<u>(424,493)</u>	<u>446%</u>
Total Gov. Activities Revenue	8,908,942	10,414,577	(1,505,635)	-14%
Business-type Activities:				
Other Revenue	-	83,950	(83,950)	-100%
Other Transfers Out	(43,961,037)	(39,386,957)	(4,574,080)	12%
Investment earnings	<u>23,166,075</u>	<u>28,368,735</u>	<u>(5,202,660)</u>	<u>-18%</u>
Total Bus.-type Activities Revenue	<u>(20,794,962)</u>	<u>(10,934,272)</u>	<u>(9,860,690)</u>	<u>90%</u>
Total General Revenues by Major Sources	<u>(11,886,020)</u>	<u>(519,695)</u>	<u>(11,366,325)</u>	<u>2187%</u>
Total Revenues by Major Sources	269,768,782	173,952,787	95,815,995	55%
Expenses:				
<u>Program Expenses by Major Sources</u>				
Governmental Activities:				
Governmental	<u>55,502,999</u>	<u>53,435,260</u>	<u>2,067,739</u>	<u>4%</u>
Total Gov. Activities Expenses	55,502,999	53,435,260	2,067,739	4%
Business-type Activities:				
Unemployment Services	<u>379,412,845</u>	<u>152,140,809</u>	<u>227,272,036</u>	<u>149%</u>
Total Bus.-type Activities Expenses	<u>379,412,845</u>	<u>152,140,809</u>	<u>227,272,036</u>	<u>149%</u>
Total Program Expenses by Major Sources	434,915,844	205,576,069	229,339,775	112%

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2009 - continued

Financial Highlights - continued

Table A-2 - continued
Comparative Statement of Activities

	<u>FY 2009</u>	<u>FY2008</u>	<u>Amount Change</u>	<u>Total % Change</u>
Change in Net Assets:				
Governmental Activities:				
Beginning Net Assets, restated	\$ 10,920,068	5,567,727	5,352,341	96%
Change in Net Assets	<u>1,783,764</u>	<u>425,619</u>	<u>1,358,145</u>	<u>319%</u>
Ending Net Assets	<u>12,703,832</u>	<u>5,993,346</u>	<u>6,710,486</u>	<u>112%</u>
Business-type Activities:				
Beginning Net Assets	555,888,755	587,937,656	(32,048,901)	-5%
Change in Net Assets	<u>(166,930,826)</u>	<u>(32,048,901)</u>	<u>(134,881,925)</u>	<u>421%</u>
Ending Net Assets	<u>388,957,929</u>	<u>555,888,755</u>	<u>(166,930,826)</u>	<u>-30%</u>
Ending Net Assets	\$ <u>401,661,761</u>	<u>561,882,101</u>	<u>(160,220,340)</u>	<u>-29%</u>

Statement of Net Assets

Total Net Assets

The total net assets of the Department decreased by \$160,220,340 (including the prior period restatement of \$4,926,722). Net assets attributable to government activities increased by \$6,710,486, for a 112% increase over the prior fiscal year. Net assets attributable to business-type activities decreased by \$166,930,826, for a 30% decrease over the prior year.

Change in total Net Assets:

FY09	\$	401,661,761
FY08		<u>561,882,101</u>
Net decrease	\$	<u>(160,220,340)</u>

Business-type Activities

The \$166,930,826 decrease in net assets from business-type activities is the result of an increase in expenditures for unemployment services, \$227,272,036, and revenue earned, \$102,250,801, and a decrease in other revenue of \$9,860,690. The decrease in other revenue is due to an increase in transfers out to the State Investment Council of \$4,396,761 and a decrease in investment earnings of \$5,202,660.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2009 - continued

Financial Highlights - continued

Statement of Activities

The cost of business-type activities related to unemployment services increased by \$227,272,036, or 149%. The cause of this was primarily an increase in the amount of state unemployment benefits paid to claimants in FY2009 compared to FY2008.

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

FY09	\$	379,412,845
FY08		<u>152,140,809</u>
Net increase	\$	<u>227,272,036</u>

The cost of the Department's governmental and business-type activities reflected in the Statement of Activities increased by \$229,339,775, or 112%, over the prior year.

Change in total cost reflected in the Statement of Activities:

FY09	\$	434,915,844
FY08		<u>205,576,069</u>
Net increase	\$	<u>229,339,775</u>

This reflects a significant increase in unemployment insurance benefits paid out to claimants, as well as an increase in the overall cost of operations of the Department.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2009 - continued

Financial Highlights - continued

General Fund

The Department received increased appropriation from the General Fund in FY2009 for operations and to offset declining federal revenues.

General Fund Appropriations

Workforce Transition Services Division	\$	3,149,400
Labor Relations Division		1,405,600
Workforce Technology Services Division		1,489,100
Business Services Division		372,800
Program Support		1,459,000
Individual Development Account		250,000
Workforce Literacy		<u>49,800</u>
Total	\$	<u>8,175,700</u>

General Fund Budgetary Highlights

The Department's overall General Fund Appropriations increased by \$124,100 in FY2009 from FY2008. This increase was appropriated by the legislature to offset the Department's declining federal revenues. 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 FY2009, like FY2008, the Department received a transfer from the Workers Compensation Fund totaling \$691,500 for the Labor Relations Division. This amount is reflected in Other Transfers In for FY2009.

The Department also received \$382,000 for the 2009 compensation package.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Management's Discussion and Analysis
Year Ended June 30, 2009 - continued**

Financial Highlights - continued

Capital Assets

Capital Asset Additions: Investment in office equipment increased by \$178,548 in fiscal year 2009. These additions were primarily for computer hardware to support employment services related programs administered by the Department.

Capital Asset Disposals: Disposals for fiscal year 2009 increased significantly and were due to a combination of factors. One, a physical inventory was not conducted in fiscal year 2008, which effectively resulted in two years of dispositions being recorded. Two, the physical inventory process was improved, resulting in greater accuracy in identifying missing items. Three, items that did not qualify as capital assets and should not have been capitalized were removed from the inventory.

Capital Asset Additions

	<u>June 30,</u> <u>2008</u>	<u>FY09</u> <u>Additions</u>	<u>FY09</u> <u>Disposals</u>	<u>June 30,</u> <u>2009</u>
Office improvements	\$ 335,684	-	-	335,684
Office equipment	2,549,469	178,548	(374,312)	2,353,705
Furniture	338,876	-	(241)	338,635
Computer equipment	<u>967,522</u>	<u>-</u>	<u>(425,944)</u>	<u>541,578</u>
Total acquired value	4,191,551	178,548	(800,497)	3,569,602
Accumulated depreciation:				
Office improvements	(318,155)	(2,465)	-	(320,620)
Office equipment	(2,272,517)	(139,818)	374,312	(2,038,023)
Furniture	(345,608)	(920)	241	(346,287)
Computer equipment	<u>(804,086)</u>	<u>(7,561)</u>	<u>425,944</u>	<u>(385,703)</u>
Total accumulated depreciation	<u>(3,740,366)</u>	<u>(150,764)</u>	<u>800,497</u>	<u>(3,090,633)</u>
Net total	\$ <u>451,185</u>	<u>27,784</u>	<u>-</u>	<u>478,969</u>

Debt

The Department has no long-term debt except for compensated absences (Note 7).

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis
Year Ended June 30, 2009 - continued

Department Highlights

Changes in Federal Funding

The Department's federal revenues increased in FY2009 due to supplemental funding the Department received for the implementation of extended benefits to eligible claimants, as well as contingency funding to offset the costs of increased demand for unemployment insurance benefits. Also, the Department received funding for the implementation of the American Recovery and Reinvestment Act. However, 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 2009 as compared to fiscal year 2008 were as follows:

1. Unemployment Insurance Administration federal program revenues increased from \$8,788.1K to \$14,733.7K.
2. Employment Services federal program revenues declined from \$7,645.4K to \$6,265.4K.
3. Workforce Investment Act passthrough dollars declined from \$12,855.0K to \$12,287.8K.
4. Workforce Investment Act state operations declined from \$4,273.3K to \$1,994.2K.
5. Workforce Investment Act American Recovery Reinvestment Act passthrough totaled \$1,985.6K.
6. Labor Relations Division (Compliance Program) federal program revenues decreased from \$261.0K to \$233.7K.
7. Other Federal revenue declined from \$7,919.2K to \$5,289.4K.

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 2009, the Department expended \$374,421. These funds were budgeted throughout the Department for various operational needs.

Contracts with Local Workforce Investment Act Boards

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 FY2009.

Other Operating Highlights

Unemployment Insurance Compensation Fund

The deteriorating economic conditions in the Nation and in the State leading to the current recession placed an unprecedented demand for unemployment benefits from out-of-work claimants. As a result, the State's unemployment trust fund (UTF) balance, which at one time was regarded as one of the most solvent in the Nation, has significantly declined. At the current rate of payment of benefits, the UTF is projected to exhaust its reserves by the early part of 2011.

House Bill 247, which was passed by the 47th Legislative First Session of 2007, created the State Unemployment Trust Fund (SUTF). Receipts into this fund are derived from a pro-rata portion of the unemployment insurance taxes the Department collects from employers in the State. These receipts are invested by the State Investment Officer and the earnings remain in the SUTF. The earnings from these investments can be subsequently appropriated to the Department by the New Mexico Legislature to fund the costs of administration of the unemployment insurance program or toward the payment of unemployment benefits.

House Bill 144, passed by the 50th Legislative First Session of 2010, contains changes to the unemployment insurance program, which are intended to mitigate the projected decline in reserves of the UTF. Among its provisions are the following:

- Discontinuing the temporary increase in the weekly benefit amount paid to claimants. Effective July 1, 2010, the Weekly Benefit Amount will be reduced from 60% to 53.5% of the average weekly wages claimants.
- Implementing unemployment insurance schedule 1, which would increase contributions by employers into the fund. The temporary schedule will be effective from July 1, 2010 through December 31, 2011.
- Abolishing the SUTF and transferring the balance of funds in it to the UTF for the purpose of paying benefits to claimants. Effective July 1, 2010, the SUTF will be discontinued and the fund's balance will be transferred to the UTF.
- With the abolishment of the SUTF effective July 1, 2010, all unemployment tax contributions from employers will go directly to the UTF.

By taking these actions, the Department can avoid having to obtain an advance from the federal government to pay unemployment benefits, which it would have to pay back with interest.

Other Operating Highlights – continued

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).

Direct Deposit

The Department also receives 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).

American Recovery and Reinvestment Act

The Department was awarded \$55,927,102 in American Recovery and Reinvestment Act funding for the Workforce Investment Act Program, Re-employment Services, Unemployment Insurance Modernization and Unemployment Insurance Administration. In FY2009, \$10,828,120 in WIA funds was allocated to the four local boards and the state administrative entity and \$6,000,000 of UI Modernization was appropriated to DWS for UI system improvements and facility upgrades. Approximately \$33,000,000 will be requested to be appropriated in future fiscal years for UI Modernization. The balance for UI Administration and Re-employment Services does not require appropriation, but only that the plans be approved by the New Mexico Office of Recovery and Reinvestment (NMORR), the Governor's Office and the U.S. Department of Labor.

Economic Outlook

New Mexico's economy continues to outperform the national economy. The state's seasonally adjusted unemployment rate was 7.7 percent in September 2009, up from a revised 7.4 percent in August and 4.4 percent a year ago. In September, the national unemployment rate increased a tenth of a point to 9.8 percent.

For New Mexico, the rate of over-the-year job growth, comparing September 2009 with September 2008, was negative 3.6 percent, representing an over-the-year loss of 30,900 jobs. Even with the weakest job growth in decades, New Mexico ranked twenty-second highest in September for job growth. Every state reported declining year-over-year employment.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis Year Ended June 30, 2009 - continued

Other Operating Highlights – continued

Economic Outlook - continued

September's over-the-year decline actually marked a slight improvement from August's negative 3.8 percent rate, which was the lowest level the state had seen since December 1943. The 1943 to 1944 decline was fairly short-lived and followed years where job growth averaged more than 8 percent. Back in the 1940s, New Mexico had a much smaller economy and such variability was more normal than it is today. The current drop in employment is unprecedented in recent times.

Job growth is at a nearly 66-year low, while the unemployment rate is at a 13-year high. However, job growth may have reached a point from which a recovery can be staged, while the unemployment rate may continue to increase for a number of months.

Only four of the state's 13 industries posted any job growth since last year, while the nine others reported employment declines. Of the four, however, only educational & health services has made a sizeable and sustained contribution to job growth. Government jobs have increased, but only by 700, far fewer than the thousands that would be typical of the state's largest individual industry during more normal times. Many of the new government jobs are at the federal level now that workers are preparing for Census 2010. The information industry has added jobs over the year, but this appears to be the result of a one-month boost of 3,000 jobs for September 2009, presumably generated by the filming of several major productions. The job gains in the other services industry also appear to be transitory and unlikely to survive future revisions to the data. Therefore, what we are left with is several ailing industries, a few that are holding their own, and only one that is truly doing well.

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:

Neil Meoni, Deputy Secretary
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, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ -	3,941,633	3,941,633
Cash held with U.S. Treasury	-	392,712,905	392,712,905
Investment in State Treasurer Investment Pool	12,619,504	-	12,619,504
Due from other state agencies	567,759	-	567,759
Due from federal government	3,185,990	1,393,857	4,579,847
Due from governmental funds	-	357,382	357,382
Due from agency fund	142,553	-	142,553
Due from enterprise fund	4,863,776	-	4,863,776
Accounts receivable, net of allowance for uncollectibles	-	33,046,130	33,046,130
Capital assets, net	478,969	-	478,969
TOTAL ASSETS	\$ 21,858,551	431,451,907	453,310,458
LIABILITIES:			
Cash (overdraft)	\$ -	5,469,948	5,469,948
Accounts payable	3,098,414	29,633	3,128,047
Accrued payroll and benefits	1,333,205	-	1,333,205
Benefit payables	-	2,126,463	2,126,463
Due to other state agencies	1,539,416	6,313,608	7,853,024
Due to State General Fund	1,585,000	-	1,585,000
Due to federal government	-	5,202,842	5,202,842
Due to governmental funds	-	4,863,776	4,863,776
Due to enterprise fund	357,382	-	357,382
Deferred revenue	-	18,487,708	18,487,708
Compensated absences, due within one year	1,241,302	-	1,241,302
TOTAL LIABILITIES	9,154,719	42,493,978	51,648,697
NET ASSETS:			
Invested in capital assets	478,969	-	478,969
Restricted for:			
Unemployment insurance trust	-	388,957,929	388,957,929
Unrestricted	12,224,863	-	12,224,863
TOTAL NET ASSETS	12,703,832	388,957,929	401,661,761
TOTAL LIABILITIES AND NET ASSETS	\$ 21,858,551	431,451,907	453,310,458

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 2

Statement of Activities

YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES:						
Workforce transition services	\$ 21,348,172	-	12,353,904	(8,994,268)	-	(8,994,268)
Labor relations	3,612,345	-	4,271,227	658,882	-	658,882
Workforce technology	4,720,594	-	3,284,630	(1,435,964)	-	(1,435,964)
Business services	2,852,392	-	1,476,032	(1,376,360)	-	(1,376,360)
Program support	19,323,715	-	17,614,015	(1,709,700)	-	(1,709,700)
Other workforce initiatives	<u>3,645,781</u>	<u>5,447,050</u>	<u>3,930,963</u>	<u>5,732,232</u>	-	<u>5,732,232</u>
TOTAL GOVERNMENTAL ACTIVITIES	55,502,999	5,447,050	42,930,771	(7,125,178)	-	(7,125,178)
BUSINESS-TYPE ACTIVITIES:						
Unemployment services	<u>379,412,845</u>	<u>142,508,241</u>	<u>90,768,740</u>	-	<u>(146,135,864)</u>	<u>(146,135,864)</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>379,412,845</u>	<u>142,508,241</u>	<u>90,768,740</u>	-	<u>(146,135,864)</u>	<u>(146,135,864)</u>
TOTAL ACTIVITIES	434,915,844	147,955,291	133,699,511	(7,125,178)	(146,135,864)	(153,261,042)
GENERAL REVENUES/(EXPENSES):						
Other revenue				-		-
Investment earnings				1,955	23,166,075	23,168,030
Transfers in - State General Fund appropriations				8,175,700	-	8,175,700
Transfers in - other				1,250,819	-	1,250,819
Transfers out - other				-	(43,961,037)	(43,961,037)
Transfers - Reversions to State General Fund FY09				<u>(519,532)</u>	-	<u>(519,532)</u>
TOTAL GENERAL REVENUES AND TRANSFERS				<u>8,908,942</u>	<u>(20,794,962)</u>	<u>(11,886,020)</u>
CHANGE IN NET ASSETS				1,783,764	(166,930,826)	(165,147,062)
BEGINNING NET ASSETS				5,993,346	555,888,755	561,882,101
RESTATEMENT				<u>4,926,722</u>	-	<u>4,926,722</u>
BEGINNING NET ASSETS, RESTATED				<u>10,920,068</u>	<u>555,888,755</u>	<u>566,808,823</u>
NET ASSETS, ENDING				\$ <u>12,703,832</u>	<u>388,957,929</u>	<u>401,661,761</u>

Exhibit 3

AS OF JUNE 30, 2009

	32900	61300	61400
	General Fund	Penalty and Interest	Public Works Apprenticeship and Training
ASSETS:			
Investment in State Treasurer Investment Pool	\$ 7,004,839	3,639,906	1,492,418
Due from other funds	1,609,654	432,636	-
Due from agency funds	129,595	10,607	-
Due from enterprise funds	4,128,619	735,157	-
Due from other state agencies	486,457	-	-
Due from federal government	<u>669,136</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>14,028,300</u>	<u>4,818,306</u>	<u>1,492,418</u>
LIABILITIES:			
Accounts payable	\$ 1,149,879	-	-
Accrued payroll and benefits	1,333,205	-	-
Due to other funds	496,223	616,941	370,000
Due to enterprise funds	321,039	36,343	-
Due to State General Fund	1,585,000	-	-
Due to other state agencies	<u>1,539,416</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	6,424,762	653,284	370,000
FUND BALANCES:			
Reserved for Public Works Apprenticeship & Training	-	-	1,122,418
Unreserved-undesignated	<u>7,603,538</u>	<u>4,165,022</u>	<u>-</u>
TOTAL FUND BALANCES	<u>7,603,538</u>	<u>4,165,022</u>	<u>1,122,418</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>14,028,300</u>	<u>4,818,306</u>	<u>1,492,418</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Balance Sheet - Governmental Funds

Special Revenue Funds

71100 Labor Enforcement Fund	20410 Local WIA Board Fund	20430 Family Opportunity Fund	89000 ARRA	Total Governmental
334,039	-	148,302	-	12,619,504
63,587	-	-	-	2,105,877
2,351	-	-	-	142,553
-	-	-	-	4,863,776
90	46,862	34,350	-	567,759
<u>-</u>	<u>928,790</u>	<u>-</u>	<u>1,588,064</u>	<u>3,185,990</u>
<u>400,067</u>	<u>975,652</u>	<u>182,652</u>	<u>1,588,064</u>	<u>23,485,459</u>
-	537,522	54,394	1,356,619	3,098,414
-	-	-	-	1,333,205
-	391,268	-	231,445	2,105,877
-	-	-	-	357,382
-	-	-	-	1,585,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,539,416</u>
-	928,790	54,394	1,588,064	10,019,294
-	-	-	-	1,122,418
<u>400,067</u>	<u>46,862</u>	<u>128,258</u>	<u>-</u>	<u>12,343,747</u>
<u>400,067</u>	<u>46,862</u>	<u>128,258</u>	<u>-</u>	<u>13,466,165</u>
<u>400,067</u>	<u>975,652</u>	<u>182,652</u>	<u>1,588,064</u>	<u>23,485,459</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

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

Exhibit 4

AS OF JUNE 30, 2009

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

\$ 13,466,165

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.

Capital assets total acquisition value	3,569,602
Total accumulated depreciation	<u>(3,090,633)</u>
Total capital assets, net	478,969

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

Compensated absences payable	<u>(1,241,302)</u>
Total long-term and other liabilities	<u>(1,241,302)</u>

Net assets of governmental activities (Statement of Net Assets)

\$ 12,703,832

Exhibit 5

YEAR ENDED JUNE 30, 2009

	32900	61300	61400
	General Fund	Penalty and Interest	Public Works Apprenticeship and Training
REVENUES:			
Interest on deposit/investments	\$ -	-	-
Licenses and permits	-	-	-
Federal grant revenue	28,657,362	-	-
Penalties and interest	-	1,682,025	-
Public Works Apprenticeship and Training	-	-	976,782
Miscellaneous revenue	<u>2,393,243</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	31,050,605	1,682,025	976,782
EXPENDITURES:			
Current:			
Workforce transition services	20,832,221	-	-
Labor relations	3,598,521	-	-
Workforce technology	4,702,529	-	-
Business services	2,841,476	-	-
Program support	7,008,940	-	-
Other workforce initiatives	1,653,867	-	-
Capital outlay	<u>178,548</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>40,816,102</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,765,497)	1,682,025	976,782
OTHER FINANCING SOURCES (USES):			
State General Fund appropriation	7,925,700	-	-
Reversions to State General Fund, FY2009	(519,532)	-	-
Transfers in:			
Interfund	2,880,500	-	-
Other	1,250,819	-	-
Transfers out:			
Interfund	<u>-</u>	<u>(1,756,600)</u>	<u>(880,100)</u>
NET OTHER FINANCING SOURCES (USES):	<u>11,537,487</u>	<u>(1,756,600)</u>	<u>(880,100)</u>
NET CHANGE IN FUND BALANCES	1,771,990	(74,575)	96,682
BEGINNING FUND BALANCES	<u>904,826</u>	<u>4,239,597</u>	<u>1,025,736</u>
FUND BALANCE RESTATEMENT	<u>4,926,722</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCES, RESTATED	\$ <u><u>7,603,538</u></u>	<u><u>4,165,022</u></u>	<u><u>1,122,418</u></u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

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

Special Revenue Funds				
71100 Labor Enforcement Fund	20410 Local WIA Board Fund	20430 Family Opportunity Fund	89000 ARRA	Total Governmental
1,955	-	-	-	1,955
395,000	-	-	-	395,000
-	12,287,849	-	1,985,560	42,930,771
-	-	-	-	1,682,025
-	-	-	-	976,782
-	-	-	-	2,393,243
396,955	12,287,849	-	1,985,560	48,379,776
-	-	435,921	-	21,268,142
-	-	-	-	3,598,521
-	-	-	-	4,702,529
-	-	-	-	2,841,476
-	12,287,849	-	-	19,296,789
-	-	-	1,985,560	3,639,427
-	-	-	-	178,548
-	12,287,849	435,921	1,985,560	55,525,432
396,955	-	(435,921)	-	(7,145,656)
-	-	-	-	(8,310,200)
-	-	250,000	-	8,175,700
-	-	-	-	(519,532)
-	-	-	-	2,880,500
-	-	-	-	1,250,819
(243,800)	-	-	-	(2,880,500)
(243,800)	-	250,000	-	8,906,987
153,155	-	(185,921)	-	1,761,331
246,912	46,862	314,179	-	6,778,112
-	-	-	-	4,926,722
400,067	46,862	128,258	-	13,466,165

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, 2009

	GENERAL FUND - TOTAL			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Federal grant revenue	\$ 25,406,000	30,409,212	28,657,362	(1,751,850)
General fund appropriations	7,925,700	7,925,700	7,925,700	-
Other financing sources	7,001,100	10,555,122	4,131,319	(6,423,803)
Miscellaneous revenue	-	-	2,393,243	2,393,243
TOTAL REVENUES	\$ 40,332,800	48,890,034	43,107,624	(5,782,410)
P-775 WORKFORCE TRANSITION SERVICES:				
Expenditures:				
Personal services and benefits	\$ 15,567,600	16,080,257	15,505,360	574,897
Contractual services	498,400	1,295,234	955,925	339,309
Other costs	2,838,400	4,941,344	4,462,466	478,878
TOTAL EXPENDITURES	18,904,400	22,316,835	20,923,751	1,393,084
P-776 LABOR RELATIONS				
Expenditures:				
Personal services and benefits	2,168,100	2,323,100	2,323,100	-
Contractual services	108,200	48,200	37,262	10,938
Other	846,300	1,303,900	1,253,970	49,930
TOTAL EXPENDITURES	3,122,600	3,675,200	3,614,332	60,868
P-777 WORKFORCE TECHNOLOGY				
Expenditures:				
Personal services and benefits	3,194,300	3,126,979	3,084,805	42,174
Contractual services	821,500	821,500	793,994	27,506
Other costs	944,600	1,023,442	844,391	179,051
TOTAL EXPENDITURES	4,960,400	4,971,921	4,723,190	248,731
P-778 BUSINESS SERVICES				
Expenditures:				
Personal services and benefits	2,091,600	2,091,600	1,958,880	132,720
Contractual services	321,000	529,079	43,350	485,729
Other costs	1,129,500	1,261,682	851,732	409,950
TOTAL EXPENDITURES	3,542,100	3,882,361	2,853,962	1,028,399

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, 2009

	GENERAL FUND - TOTAL - continued			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
P-779 PROGRAM SUPPORT				
Expenditures:				
Personal services and benefits	\$ 5,991,800	5,624,217	5,564,239	59,978
Contractual services	607,800	607,800	511,458	96,342
Other costs	<u>1,171,900</u>	<u>2,590,541</u>	<u>964,037</u>	<u>1,626,504</u>
TOTAL EXPENDITURES	7,771,500	8,822,558	7,039,734	1,782,824
OTHER WORKFORCE INITIATIVES				
Expenditures:				
Personal services and benefits	1,117,500	1,302,403	176,034	1,126,369
Contractual services	1,365,549	1,872,549	845,890	1,026,659
Other costs	<u>(451,249)</u>	<u>2,046,207</u>	<u>639,209</u>	<u>1,406,998</u>
TOTAL EXPENDITURES	2,031,800	5,221,159	1,661,133	3,560,026
TOTAL EXPENDITURES:				
Expenditures:				
Personal services and benefits	30,130,900	30,548,556	28,612,418	1,936,138
Contractual services	3,722,449	5,174,362	3,187,879	1,986,483
Other costs	<u>6,479,451</u>	<u>13,167,116</u>	<u>9,015,805</u>	<u>4,151,311</u>
TOTAL EXPENDITURES	\$ <u>40,332,800</u>	<u>48,890,034</u>	<u>40,816,102</u>	<u>8,073,932</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES), EXCLUDING REVERSIONS			\$ 2,291,522	
REVERSIONS TO STATE GENERAL FUND (NOT BUDGETED)			<u>(519,532)</u>	
NET CHANGE IN FUND BALANCE			\$ <u>1,771,990</u>	

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, 2009

61300 - PENALTY AND INTEREST

	<u>Budgeted Amounts</u>			<u>Actual Amounts</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>			
REVENUES:					
Federal grant revenue	\$ -	-	-	-	-
General fund appropriations	-	-	-	-	-
Other financing sources	-	-	-	-	-
Other program revenues	1,756,600	1,756,600	1,682,025	74,575	
Miscellaneous revenue	-	-	-	-	-
TOTAL REVENUES	\$ <u>1,756,600</u>	<u>1,756,600</u>	<u>1,682,025</u>	<u>74,575</u>	
EXPENDITURES - current:					
Personal services and benefits	\$ -	-	-	-	-
Contractual services	-	-	-	-	-
Other costs	-	-	-	-	-
Other financing uses	<u>1,756,600</u>	<u>1,756,600</u>	<u>1,756,600</u>	-	-
TOTAL EXPENDITURES	\$ <u>1,756,600</u>	<u>1,756,600</u>	<u>1,756,600</u>	<u>-</u>	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ (74,575)		
REVERSIONS TO STATE GENERAL FUND			-		
NET CHANGE IN FUND BALANCE			\$ <u>(74,575)</u>		

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, 2009

61400 - PUBLIC WORKS APPRENTICESHIP AND TRAINING

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
	REVENUES:			
Federal grant revenue	\$ -	-	-	-
General fund appropriations	-	-	-	-
Other financing sources	-	-	-	-
Other program revenues	510,100	510,100	976,782	466,682
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>510,100</u>	<u>510,100</u>	<u>976,782</u>	<u>466,682</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>510,100</u>	<u>510,100</u>	<u>880,100</u>	<u>(370,000)</u>
TOTAL EXPENDITURES	\$ <u>510,100</u>	<u>510,100</u>	<u>880,100</u>	<u>(370,000)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ 96,682	
REVERSIONS TO STATE GENERAL FUND			-	
NET CHANGE IN FUND BALANCE			\$ <u>96,682</u>	

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, 2009

71100 - LABOR ENFORCEMENT FUND

	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Federal grant revenue	\$ -	-	-	-
General fund appropriations	-	-	-	-
Other financing sources	-	-	-	-
Other program revenues	243,800	243,800	396,955	153,155
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>243,800</u>	<u>243,800</u>	<u>396,955</u>	<u>153,155</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>243,800</u>	<u>243,800</u>	<u>243,800</u>	-
TOTAL EXPENDITURES	\$ <u>243,800</u>	<u>243,800</u>	<u>243,800</u>	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ 153,155	
REVERSIONS TO STATE GENERAL FUND			-	
NET CHANGE IN FUND BALANCE			\$ <u>153,155</u>	

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, 2009

20410 - LOCAL WIA BOARD FUND

	Budgeted Amounts		Actual Amounts	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Federal grant revenue	\$ 18,178,100	13,607,542	12,287,849	(1,319,693)
General fund appropriations	-	-	-	-
Other financing sources	-	-	-	-
Other program revenues	-	-	-	-
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ <u>18,178,100</u>	<u>13,607,542</u>	<u>12,287,849</u>	<u>(1,319,693)</u>
EXPENDITURES - current:				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	18,178,100	13,607,542	12,287,849	1,319,693
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ <u>18,178,100</u>	<u>13,607,542</u>	<u>12,287,849</u>	<u>1,319,693</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ -	
REVERSIONS TO STATE GENERAL FUND			-	
NET CHANGE IN FUND BALANCE			\$ <u>-</u>	

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, 2009

20430 - FAMILY OPPORTUNITY FUND

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
	REVENUES:			
Federal grant revenue	\$ -	-	-	-
General fund appropriations	250,000	250,000	250,000	-
Other financing sources	-	-	-	-
Other program revenues	-	-	-	-
Miscellaneous revenue	-	-	-	-
TOTAL REVENUES	\$ 250,000	250,000	250,000	-
BUDGETED FUND BALANCE		279,828	185,921	
TOTAL REVENUES AND BUDGETED FUND BALANCE				
EXPENDITURES - current:				
Personal services and benefits	\$ -	32,898	-	32,898
Contractual services	-	475,000	435,921	39,079
Other costs	250,000	21,930	-	21,930
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	\$ 250,000	529,828	435,921	93,907
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES			\$ (185,921)	
REVERSIONS TO STATE GENERAL FUND			-	
NET CHANGE IN FUND BALANCE			\$ (185,921)	

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, 2009

		<u>89000 - ARRA</u>			
		<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance From Final Budget Positive (Negative)</u>
		<u>Original</u>	<u>Final</u>		
REVENUES:					
Federal grant revenue	\$	-	8,309,446	1,985,560	6,323,886
General fund appropriations		-	-	-	-
Other financing sources		-	-	-	-
Other program revenues		-	-	-	-
Miscellaneous revenue		-	-	-	-
TOTAL REVENUES	\$	<u>-</u>	<u>8,309,446</u>	<u>1,985,560</u>	<u>6,323,886</u>
EXPENDITURES - current:					
Personal services and benefits	\$	-	-	-	-
Contractual services		-	-	-	-
Other costs		-	8,309,446	1,985,560	6,323,886
Other financing uses		-	-	-	-
TOTAL EXPENDITURES	\$	<u>-</u>	<u>8,309,446</u>	<u>1,985,560</u>	<u>6,323,886</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				\$	-
REVERSIONS TO STATE GENERAL FUND				-	
NET CHANGE IN FUND BALANCE				\$	<u>-</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 8

Statement of Net Assets - Proprietary Fund

AS OF JUNE 30, 2009

	20020	20060	
	Unemployment Insurance Trust Enterprise Fund	State Unemployment Insurance Trust Enterprise Fund	Total
CURRENT ASSETS:			
Cash on deposit	\$ 3,712,369	229,264	3,941,633
Cash held with U.S. Treasury	392,712,905	-	392,712,905
Due from governmental funds	357,382	-	357,382
* Due from enterprise funds	79	184,357	184,436
Due from federal government	1,393,857	-	1,393,857
Accounts receivable, net of allowance for uncollectibles	<u>27,082,348</u>	<u>5,963,782</u>	<u>33,046,130</u>
TOTAL CURRENT ASSETS	\$ <u>425,258,940</u>	<u>6,377,403</u>	<u>431,636,343</u>
CURRENT LIABILITIES:			
Cash (overdraft)	\$ 5,469,948	-	5,469,948
Accounts payable	29,633	-	29,633
Benefits payable	2,126,463	-	2,126,463
Due to federal government	5,202,842	-	5,202,842
Due to governmental funds	4,686,339	177,437	4,863,776
* Due to enterprise funds	184,357	79	184,436
Due to other state agencies	124,420	6,189,188	6,313,608
Deferred revenue	<u>18,487,708</u>	<u>-</u>	<u>18,487,708</u>
TOTAL CURRENT LIABILITIES	36,311,710	6,366,704	42,678,414
NET ASSETS:			
Restricted for unemployment benefits	388,947,230	10,699	388,957,929
Unreserved	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	<u>388,947,230</u>	<u>10,699</u>	<u>388,957,929</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>425,258,940</u>	<u>6,377,403</u>	<u>431,636,343</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

YEAR ENDED JUNE 30, 2009	20020	20060	
	Unemployment Insurance Trust Enterprise Fund	State Unemployment Insurance Trust Enterprise Fund	Total
OPERATING REVENUES:			
Interest on investments	\$ 23,155,376	10,699	23,166,075
Employers taxes and reimbursements	91,486,392	43,783,718	135,270,110
CWC reimbursements	<u>7,238,131</u>	<u>-</u>	<u>7,238,131</u>
TOTAL OPERATING REVENUES	121,879,899	43,794,417	165,674,316
OPERATING EXPENSES:			
Unemployment benefits distributed to beneficiaries	<u>379,412,845</u>	<u>-</u>	<u>379,412,845</u>
TOTAL OPERATING EXPENSES	<u>379,412,845</u>	<u>-</u>	<u>379,412,845</u>
NET OPERATING GAIN/CHANGE IN NET ASSETS	(257,532,946)	43,794,417	(213,738,529)
NON-OPERATING REVENUES:			
Grants, contracts and federal reimbursements	<u>90,768,740</u>	<u>-</u>	<u>90,768,740</u>
TOTAL NON-OPERATING REVENUES	90,768,740	-	90,768,740
NON-OPERATING EXPENSES:			
Other financing uses	<u>-</u>	<u>(43,961,037)</u>	<u>(43,961,037)</u>
TOTAL NON-OPERATING EXPENSES	<u>-</u>	<u>(43,961,037)</u>	<u>(43,961,037)</u>
NET LOSS/CHANGE IN NET ASSETS	(166,764,206)	(166,620)	(166,930,826)
BEGINNING NET ASSETS	<u>555,711,436</u>	<u>177,319</u>	<u>555,888,755</u>
NET ASSETS, END OF YEAR	\$ <u><u>388,947,230</u></u>	<u><u>10,699</u></u>	<u><u>388,957,929</u></u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 10

Statement of Cash Flows - Proprietary Fund

YEAR ENDED JUNE 30, 2009	20020	20060	Total
	Unemployment Insurance Trust Enterprise Fund	State Unemployment Insurance Trust Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from employers and CWC reimbursements	\$ 91,870,010	44,791,845	136,661,855
Cash received from federal government	91,875,930	-	91,875,930
Cash received from interest in investments (trust fund earnings)	23,155,376	10,699	23,166,075
Cash transferred to NM State Investment Council	-	(44,925,996)	(44,925,996)
Cash paid for unemployment benefits	<u>(371,214,710)</u>	<u>-</u>	<u>(371,214,710)</u>
CASH USED BY OPERATING ACTIVITIES	<u>(164,313,394)</u>	<u>(123,452)</u>	<u>(164,436,846)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(164,313,394)	(123,452)	(164,436,846)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>560,738,668</u>	<u>352,716</u>	<u>561,091,384</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>396,425,274</u></u>	<u><u>229,264</u></u>	<u><u>396,654,538</u></u>
RECONCILIATION OF NET OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:			
Changes in net assets	\$ (166,764,206)	(166,620)	(166,930,826)
Changes in receivables	(5,747,323)	1,008,127	(4,739,196)
Increase in cash overdraft	5,202,842	-	5,202,842
Increase in payables	2,933,038	(964,959)	1,968,079
Decrease in deferred revenue	<u>62,255</u>	<u>-</u>	<u>62,255</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ <u><u>(164,313,394)</u></u>	<u><u>(123,452)</u></u>	<u><u>(164,436,846)</u></u>
RECONCILIATION OF CASH:			
Cash on deposit		\$ 3,941,633	
Cash held with U.S. Treasury			<u>392,712,905</u>
TOTAL CASH		\$	<u><u>396,654,538</u></u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 11

Statement of Fiduciary Fund Assets and Liabilities - Agency Fund

AS OF JUNE 30, 2009

	<u>Agency Funds</u>
ASSETS:	
Cash on deposit	\$ 244,857
TOTAL ASSETS	\$ <u>244,857</u>
LIABILITIES:	
Due to other funds	\$ 142,553
Amounts held for others	101,834
Accounts payable	<u>470</u>
TOTAL LIABILITIES	\$ <u>244,857</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 FY2009, 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 (revenues and other financing sources) and decreases (expenditures and other financing uses) in

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

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.

General Fund (Fund 32900) - The Department's General Fund (Fund 32900) is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund combines activities for all of the programs of the Department. The Department's General Fund is funded from appropriations from the State of New Mexico General Fund, special appropriations, Federal grants and other revenue. Prior to FY09, the Department used various other funds to account for activities for the various programs of the Department. During FY09, the Department began using the General Fund (32900) for all of these programs. These additional funds consist of the following: 33000, 33100, 33200, 33300, 24000, 24100, 24400 and 20420. These funds do not have legally adopted budgets; thus, they do not have budgetary comparisons. During FY09, activity was not recorded in these funds and any remaining balances in the accounts were included in Fund 32900 in these financial statements. The fund is reverting and is considered a major fund.

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.

ARRA Fund (Fund 89000). The American Recovery and Reinvestment Act (ARRA) Fund is used to track all ARRA program and administration expenditures separately from all other funding sources. Funding includes UI Modernization, UI Administration, Employment and Re-employment Services and WIA ARRA activities. This fund was established in 2009 and is a non-reverting fund.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- Basis of Presentation - Fund Accounting - continued

Governmental Funds - continued

Special Revenue Funds - continued

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.

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

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.

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

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.

Effective July 1, 2010, House Bill 144 abolishes the SUTF and transfers the balance of funds into the UTF (20020) for the purpose of paying benefits to claimants.

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 Relations Division (LRD) 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 LRD Director. Only one fiduciary fund existed during the fiscal year.

• Basis of Accounting

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

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

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

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, 2009.

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.

• 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Budgets and Budgetary Accounting - continued**

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 unemployment insurance trust fund (20020) does not have a legally adopted budget.

For fiscal year 2009, the Department overspent the budgeted expenditures in the PWAT fund (61400) by \$370,000 in the other financing uses category.

• **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 2009, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Fund Balances and Net Assets - continued**

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 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 62, in the Bank of America (BA) of \$339,269. These deposits represent cash balances associated with agency vouchering activities. FDIC coverage of \$250,000 is available for these deposits; collateral for the balance is provided by collateral pledged to the New Mexico State Treasurer to secure state deposits in accordance with 6-10-17 NMSA 1978. The Department also has deposits, as defined in the Schedule of Individual Deposit Accounts, of \$148,553,815 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 63.

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, refer to the Schedule of Individual Deposit Accounts on page 62.

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

3. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>June 30,</u> <u>2008</u>	<u>FY09</u> <u>Additions</u>	<u>FY09</u> <u>Disposals</u>	<u>June 30,</u> <u>2009</u>
Office improvements	\$ 335,684	-	-	335,684
Office equipment	2,549,469	178,548	(374,312)	2,353,705
Furniture	338,876	-	(241)	338,635
Computer equipment	<u>967,522</u>	<u>-</u>	<u>(425,944)</u>	<u>541,578</u>
Total acquired value	4,191,551	178,548	(800,497)	3,569,602
Accumulated depreciation:				
Office improvements	(318,155)	(2,465)	-	(320,620)
Office equipment	(2,272,517)	(139,818)	374,312	(2,038,023)
Furniture	(345,608)	(920)	241	(346,287)
Computer equipment	<u>(804,086)</u>	<u>(7,561)</u>	<u>425,944</u>	<u>(385,703)</u>
Total accumulated depreciation	<u>(3,740,366)</u>	<u>(150,764)</u>	<u>800,497</u>	<u>(3,090,633)</u>
Net total	\$ <u>451,185</u>	<u>27,784</u>	<u>-</u>	<u>478,969</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 charged to functions as follows:

Workforce transition services	\$ 77,287
Labor relations	13,350
Workforce technology	17,446
Business services	10,542
Program support	26,003
Other workforce initiatives	<u>6,136</u>
	\$ <u>150,764</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

4. **UNEMPLOYMENT COMPENSATION FUND – BENEFITS PAYABLE**

A liability has been recorded for benefits claimed prior to but paid subsequent to June 30, 2009, consisting of the following:

Unemployment benefits	\$	2,126,463
Withholding benefits (due to Human Services Dept.) (Note 9)		<u>124,420</u>
	\$	<u><u>2,250,883</u></u>

5. **RECEIVABLES**

Receivables at June 30, 2009, consist of the following:

Receivable:		
Current UI taxes	\$	30,002,346
Benefit overpayments		6,205,976
Combined wage claimants (CWC)		<u>3,043,784</u>
Gross receivables		39,252,106
Less allowance for uncollectibles:		
Benefit overpayments		<u>(6,205,976)</u>
Total allowances		(6,205,976)
Net total receivables – fund level		<u>33,046,130</u>
Total net receivables	\$	<u><u>33,046,130</u></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, 2009, which were collected subsequently. This amount is an estimate based upon a review of cash receipts subsequent to the end of the fiscal year.

• **Benefit Overpayments**

This amount represents amounts due from claimants. These are derived from overpayment of benefits established as a result of an adjudicator's decision reversing an earlier award of benefits. An allowance for 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

5. RECEIVABLES - continued

• **Combined Wage Claimants**

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

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, 2009 were \$528,471. Rental expenditures for equipment for the fiscal year ended June 30, 2009 were \$501,997. The future minimum rental commitments as of June 30, 2009 were as follows:

<u>Year Ended June 30,</u>		<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2010	\$	431,326	555,052	986,378
2011		419,326	481,533	900,859
2012		329,083	437,984	767,067
2013		146,207	444,765	590,972
2014		25,949	397,602	423,551
2015 and thereafter		<u>15,617</u>	<u>442,074</u>	<u>457,691</u>
Total	\$	<u>1,367,508</u>	<u>2,759,010</u>	<u>4,126,518</u>

7. COMPENSATED ABSENCES

The changes to compensated absences are as follows:

<u>Liabilities</u>		<u>Balance June 30, 2008</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2009</u>
Sick and annual leave	\$	<u>1,235,951</u>	<u>1,123,128</u>	<u>(1,117,777)</u>	<u>1,241,302</u>
	\$	<u>1,235,951</u>	<u>1,123,128</u>	<u>(1,117,777)</u>	<u>1,241,302</u>

\$1,241,302 of the compensated absences is considered due within one year.

Compensated absences are liquidated with resources from the General Fund.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

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, 2009.

Due From	Due To								
	Agency Fund	General Fund	Penalty & Interest Fund	UI Fund	State UI Trust Fund	Local WIA Board	ARRA	PWAT	Total
General Fund	\$ 129,595	-	616,941	3,951,182	177,437	391,268	231,445	370,000	5,867,868
Penalty & Interest Fund	10,607	432,636	-	735,157	-	-	-	-	1,178,400
UI Fund	-	321,039	36,343	-	79	-	-	-	357,461
State UI Trust Fund	-	-	-	184,357	-	-	-	-	184,357
Labor Enforcement Fund	<u>2,351</u>	<u>63,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,938</u>
Total	\$ <u>142,553</u>	<u>817,262</u>	<u>653,284</u>	<u>4,870,696</u>	<u>177,516</u>	<u>391,268</u>	<u>231,445</u>	<u>370,000</u>	<u>7,654,024</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, 2009 consist of the following:

- **Due From Other State Agencies**

DWS Fund No.	Agency	Other Agency's Fund No.	Amount
Governmental Funds:			
20410	Office of Workforce Training and Development (635)	98100	\$ 46,862
32900	Office of Workforce Training and Development (635)	98100	55,606
20430	Office of Workforce Training and Development (635)	98100	34,350
32900	Office of Workforce Training and Development (635)	98400	430,851
71100	State Treasurer's Office (394)	74100	<u>90</u>
Total All Funds			\$ <u>567,759</u>

- **Due To Other State Agencies**

DWS Fund No.	Agency	Other Agency's Fund No.	Amount
Enterprise Funds:			
20020	Human Services Department – Child Support Withholding (630)	05200	\$ 124,420
20060	State Investment Council (337)	17300	<u>6,189,188</u>
Total Enterprise Funds			6,313,608
Governmental Funds:			
32900	Office of Workforce Training and Development (635)	98100	584,810
32900	Office of Workforce Training and Development (635)	98400	<u>954,606</u>
Total Governmental Funds			<u>1,539,416</u>
Total All Funds			\$ <u>7,853,024</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, 2009, 2008 and 2007 were \$3,124,453, \$3,162,071 and \$2,890,067, 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, 2009 are as follows:

<u>Fiscal Year</u>	<u>General Fund</u>
2000	\$ 84,962
2001	2,322
2003	10,158
2004	-
2005	625,068
2006	112,762
2007	187,926
2008	42,270
2009	<u>519,532</u>
Total	\$ <u>1,585,000</u>

The Department did not have any additional reversions for FY09. In accordance with statute, unexpended funds in the Department’s General Fund revert.

14. DEFERRED REVENUE

The Department’s deferred revenue in Fund 20020 as of June 30, 2009 consisted of the following:

Reed Act	\$ 15,639,515
Federal Additional Compensation-Administration	2,787,327
Employer Prepayments	<u>60,866</u>
Total	\$ <u>18,487,708</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

15. TRANSFERS

Interfund transfers as of June 30, 2009 are as follows:

<u>Fund</u>	<u>Governmental Funds</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
32900	General Fund	\$ 2,880,500	-
61300	Penalty & Interest	-	1,756,600
61400	PWAT	-	880,100
71100	Labor Enforcement	-	<u>243,800</u>
	Total governmental interfund transfers	\$ <u>2,880,500</u>	<u>2,880,500</u>
	<u>Other Interfund Transfers</u>		
32900	General Fund	\$ 177,319	-
20060	SUTF	-	<u>177,319</u>
	Total other interfund transfers	\$ <u>177,319</u>	<u>177,319</u>

In accordance with the General Appropriations Act in the Laws of 2004, receipts from the Penalty and Interest fund were transferred into the General 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 General 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>Governmental 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	<u>382,000</u>	<u>-</u>
		Subtotal	1,073,500	-

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

15. TRANSFERS – continued

<u>Agency</u>	<u>Fund</u>	<u>Enterprise Funds</u>		<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
33700	10340	NM State Investment Council – SUTF	\$	-	<u>43,783,718</u>
		Subtotal		-	43,783,718
		Total Inter-Agency Transfers		1,073,500	43,783,718
		Other Interfund Transfers		<u>177,319</u>	<u>177,319</u>
		Total Other Transfers	\$	<u>1,250,819</u>	<u>43,961,037</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 \$382,000 for compensation increases for employees. The Department also transferred \$43,783,718 from the State Unemployment Trust Fund to the State Investment Council.

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.

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.

16. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN - continued**• Plan Description - continued**

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, 2009, 2008 and 2007 were \$244,480, \$245,432 and \$224,424, 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

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.

19. RESTATEMENT

Due to a lack of reconciliations during the transition from FARS to SHARE in FY07, the Department was unaware of unrecorded receipts held in suspense that were not identified by the State Treasurer's Office as receipts belonging to the Department. In FY09 the State Treasurer's Office identified these receipts held in suspense as receipts of the Department. As a result, the Department had a prior period adjustment that increased the beginning fund balance in fund 32900 by \$4,926,722 and increased beginning net assets in governmental activities by \$4,926,722.

20. SPECIAL APPROPRIATIONS

The following are the special appropriations for the general fund (32900) as of June 30, 2009:

<u>Description</u>	<u>Appropriation Period</u>	<u>Appropriation Amount</u>	<u>Expenditures</u>	<u>Reversions</u>	<u>Balance</u>
Laws of 2008, Ch. 3, Section 5 (Item 74) to fund operations	2008-2009	\$ 800,000	(501,000)	(299,000)	-
Laws of 2008, Ch. 6, Section 24 for workforce literacy project	2009	\$ 49,800	(47,500)	(2,300)	-

SUPPLEMENTAL SCHEDULES

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Statement of Revenues and Expenditures -
Major Proprietary Funds -
Budget and Actual (Accrual Basis)

Schedule 1

YEAR ENDED JUNE 30, 2009

		20060 - STATE UNEMPLOYMENT INSURANCE TRUST FUND			
		Budgeted Amounts		Actual	Variance From
		Original	Final	Amounts	Final Budget
					Positive (Negative)
REVENUES:					
Federal grant revenue	\$	-	-	-	-
General fund appropriations		-	-	-	-
Other financing sources		-	-	-	-
Other program revenues		-	-	-	-
Miscellaneous revenue		<u>249,300</u>	<u>249,300</u>	<u>10,699</u>	<u>(238,601)</u>
TOTAL REVENUES	\$	<u>249,300</u>	<u>249,300</u>	<u>10,699</u>	<u>(238,601)</u>
EXPENDITURES - current:					
Personal services and benefits	\$	-	-	-	-
Contractual services		-	-	-	-
Other costs		-	-	-	-
Other financing uses		<u>249,300</u>	<u>249,300</u>	<u>177,319</u>	<u>71,981</u>
TOTAL EXPENDITURES	\$	<u>249,300</u>	<u>249,300</u>	<u>177,319</u>	<u>71,981</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES				\$	(166,620)
EMPLOYER TAXES AND REIMBURSEMENTS-NOT BUDGETED					43,783,718
TRANSFERS-STATE INVESTMENT COUNCIL-NOT BUDGETED					<u>(43,783,718)</u>
NET CHANGE IN NET ASSETS				\$	<u>(166,620)</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule 2

Schedule of Individual Deposit Accounts

AS OF JUNE 30, 2009

Account Title	Depository	Balance per Bank	Adjustments/ Reconciling Items	Reconciled Balance per Books
Governmental Funds with State Treasurer (with SHARE fund numbers):				
General Fund - 32900-33300, 20420	State Treasurer	\$ 123,520,946	(116,516,107)	7,004,839
Labor Enforcement Fund - 71100	State Treasurer	313,136	20,903	334,039
PWAT - 61400	State Treasurer	1,096,858	395,560	1,492,418
Penalty and Interest - 61300	State Treasurer	1,800,165	1,839,741	3,639,906
Workforce Investment Act Lcl Bds - 20410	State Treasurer	(391,268)	391,268	-
Workforce Investment Act Ops - 20420	State Treasurer	-	-	-
Family Opportunity Fund - 20430	State Treasurer	148,302	-	148,302
Program Support Fund - 33000	State Treasurer	-	-	-
ARRA - 89000	State Treasurer	(231,445)	231,445	-
Total Governmental with State Treasurer		126,256,694	(113,637,190)	12,619,504
Proprietary Funds Cash in Banks				
Clearing Account - 20020	Bank of America	755,460	2,875,007	3,630,467
State Unemployment Trust Fund - 20060	Bank of America	596,122	(366,858)	229,264
Benefit Account - 20020	Bank of America	(1,089,900)	(4,380,048)	(5,469,948)
Cash Security Deposit Account - 20020	Bank of America	77,587	4,315	81,902
Total Proprietary in Banks		339,269	(1,867,584)	(1,528,315)
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	7,503	(7,503)	-
NMDL V Warrant Series - 24500	State Treasurer	(2,372,052)	2,372,052	-
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	392,712,905	-	392,712,905
Total Proprietary Other		392,712,905	-	392,712,905
Total Proprietary Funds		415,105,794	(23,921,204)	391,184,590
Trust and Agency Funds with State Treasurer (with SHARE fund numbers):				
Wage Claim - 17800	State Treasurer	243,501	1,356	244,857
Total Trust and Agency with State Treasurer		243,501	1,356	244,857
Department Total - all funds		\$ 541,605,989	(137,557,038)	404,048,951

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule 3

Schedule of Pledged Collateral

AS OF JUNE 30, 2009

		<u>Bank of America</u>	<u>U.S. Department of the Treasury</u>	<u>Accounts at State Treasurer</u>	<u>Total</u>
Total amount of deposit	\$	339,269	392,712,905	148,553,815	541,605,989
Less FDIC		<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>
Total uninsured public money		89,269	392,712,905	148,553,815	541,355,989
50% collateral requirement		44,635	196,356,453	74,276,908	270,677,995
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, 2009

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS:				
Cash on deposit	\$ 243,941	25,298	(24,382)	244,857
TOTAL ASSETS	\$ <u>243,941</u>	<u>25,298</u>	<u>(24,382)</u>	<u>244,857</u>
LIABILITIES:				
Due to other funds	\$ 142,553	-	-	142,553
Amounts held for others	101,025	25,298	(24,489)	101,834
Accounts Payable	<u>363</u>	<u>470</u>	<u>(363)</u>	<u>470</u>
TOTAL LIABILITIES	\$ <u>243,941</u>	<u>25,768</u>	<u>(24,852)</u>	<u>244,857</u>

SINGLE AUDIT

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule 5

Supplemental Schedule of Expenditures of Federal Awards

AS OF JUNE 30, 2009

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
U.S. Department of Labor:		
Labor Force Statistics	17.002	\$ 812,716
Employment Services	17.207	6,265,375
Unemployment Insurance	17.225	388,121,799
Trade Adjustment Assistance Workers	17.245	739,383
Work Incentives Grant	17.266	631,307
H-1B Job Training	17.268	930,439
Work Opportunity Tax Credit Program	17.271	(2,689)
Temporary Labor Certification for Foreign Workers	17.273	88,381
Disabled Veteran's Outreach Program	17.801	378,414
Local Veteran's Employment Representative Program	17.804	731,667
Workforce Investment Act:		
Workforce Investment Act Adult Program	17.258	5,985,278
ARRA - Workforce Investment Act Adult Program	17.258	360,604
Workforce Investment Act Youth Activities	17.259	4,934,667
ARRA - Workforce Investment Act Youth Activities	17.259	1,304,153
Workforce Investment Act Dislocated Workers	17.260	4,185,774
ARRA - Workforce Investment Act Dislocated Workers	17.260	<u>320,803</u>
Total U.S. Department of Labor		415,788,071
U.S. Department of Health and Human Services:		
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	<u>156,150</u>
Total U.S. Department of Health and Human Services		<u>156,150</u>
Total Federal Awards Expended		\$ <u>415,944,221</u>
Reconciliation to Financial Statements		
Governmental Funds - Federal Revenue		\$ 42,930,771
Enterprise Funds - Federal Revenue		90,768,740
UI Benefit Payments from State Unemployment Compensation		<u>282,244,710</u>
		\$ <u>415,944,221</u>

See Independent Auditors' Report.

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 \$282,244,710.

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 \$374,421 related to Reed Act expenditures.

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, 2009 and have issued our report thereon dated March 25, 2010. 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, 05-04, 07-01, 07-10, 07-11, 08-01, 08-02, 08-03, 08-05, 08-06, 08-07, 09-01, 09-02, 09-03 and 09-04.

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 09-04 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 07-07.

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 questioned costs as finding 07-09.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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.


March 25, 2010

**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, 2009. 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.

As described in items 00-13, 02-02, 05-04, 06-01, 07-01, 08-02, 08-03, 09-03 and 09-04 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements that are applicable to its major Federal programs identified in the summary of audit results, item 7. Compliance with such requirements



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

Compliance - continued

is necessary, in our opinion, for the Department to comply with the requirements applicable to that program as detailed on the Schedule of Findings and Questioned Costs regarding items listed above.

In our opinion, except for the noncompliance as described in items 00-13, 02-02, 05-04, 06-01, 07-01, 08-02, 08-03, 09-03 and 09-04 in the accompanying schedule of findings and questioned costs, 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, 2009.

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, 05-04, 06-01, 07-01, 08-02, 08-03, 09-03 and 09-04 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 items 07-01 and 09-04 to be material weaknesses.

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.

Maynard + Company, LLC

March 25, 2010

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs

YEAR ENDED JUNE 30, 2009

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. Sixteen 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 were two instances of non-compliance material to the financial statement disclosure during the audit of the Department.
4. Nine 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, two were considered to be material weaknesses.
5. There were nine audit findings 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 a qualified 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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

Cause: Lack of an automated system to help identify inaccurate excess wages, and lack of effective manual controls and/or procedures in lieu of an automated system to identify excess wages.

Effect: The Department will collect an incorrect amount of unemployment taxes if the excess wages on the EX-903A reports are not accurate.

Recommendation: We recommend that the Department continue its efforts to develop and implement an automated system that will identify inaccurate excess wages. Additionally, we recommend that the Department develop and implement effective manual procedures to identify inaccurate excess wages until the automated system has been successfully implemented.

Management's Response: Until the new system is in place, the Tax Section staff will use the implemented internal procedures. The procedures have been implemented and will assist the Tax unit in auditing and verifying excess quarterly wages and will assist to correctly identify and verify the inaccurate reporting of excess wages by the employer, particularly in the first and second quarter when employers are submitting tax due on UI taxable wages.

02-02 UNEMPLOYMENT INSURANCE RECONCILIATIONS

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

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

Cause: The Department has not established a formal reconciliation process between the two systems due to the additional time and resources required.

Effect: Amounts recorded in the general ledger could potentially be misstated and, if undetected, would cause a misstatement of the Department's financial statements.

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

02-02 UNEMPLOYMENT INSURANCE RECONCILIATIONS - continued

Recommendation: We recommend that the Department establish a formal reconciliation process between the UICS and SHARE to ensure that unemployment insurance payments are accurately reflected in the general ledger. Additionally, we recommend that the Department designate 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 Department is committed to establishing a good reconciliation process. Subject matter experts from the Unemployment Insurance Bureau, Workforce Technology Services Division and Financial Management Bureau familiar with the Claims system will be identified and assigned to this project.

In order to accomplish this task, a project leader will be identified, and the team will work together to identify each task, set timelines for completion and assign team members to complete assigned duties. The new reconciliation process will be completed within ninety days of the hire of a new Chief Financial Officer.

05-04 DELINQUENT EMPLOYER CONTRIBUTION REPORT

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

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

Cause: Lack of effective procedures to ensure the proper cut-off of data at the end of periods and to retain the generated reports in a format that facilitates subsequent analysis.

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

05-04 DELINQUENT EMPLOYER CONTRIBUTION REPORT - continued

Recommendation: Until a new successive TACS with the capability to perform the above-mentioned tasks can be implemented, we recommend the Department create and adapt procedures to ensure the proper cut-off date and time for the receivables data at the end of a period (month/quarter/fiscal year) and retain the generated reports in a format (e.g. MS Excel, MS Access, Text, etc.) that facilitates subsequent analysis and the creation of accurate aging reports.

Management's Response: The Workforce Technology Services Division provided the Unemployment Insurance Treasury Unit with a download of receivables information for contributory and pre-paid employers from the TACS System. This information is further segregated by active and inactive employers. The information from this download includes amounts owed by type, e.g., taxes, penalties and associated interest by quarterly reporting period.

The UI Treasury Unit must analyze and format this information in order to establish meaningful receivable amounts to record in the SHARE System. Staff will complete this analysis by the end of April, 2010.

**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, 2009, 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 receiving, 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 (FIN 3.7-3.11). 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.

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

Management's Response: The Department has made extensive progress in addressing the FY2007 deficiencies noted in this finding. Deficiencies noted in this finding, which the Department considers resolved, include the following:

- Transactions posted to Receipts held in Suspense during FY2009 were thoroughly analyzed and accounted for, prior to fiscal year end closing. The volume and value of activity posted to this account during FY2009 has been dramatically reduced from FY2007.
- FY2009 accounts receivable transactions for all budgeted funding sources were reconciled with expenditures prior to fiscal year end closing. In addition, FY2007 and FY2008 accounts receivable transactions were also reconciled and appropriate adjustments made in the general ledger, prior to fiscal year end closing.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

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

Management's Response - continued:

Management does not concur with the auditor's assessment that the Department is unable to rely on financial data produced from the statewide accounting system. Financial data maintained in and extracted from the statewide accounting system for all budgeted funding sources, both federal and state, is considered very reliable and has been throughout FY2008 and FY2009. The issues that prompted the assessment by the auditors in FY2007 that data extracted from SHARE was unreliable are no longer valid.

Management concedes that cash reconciliations were not performed timely for all cash accounts during FY2009, which was due to insufficient fiscal staff resources. With the filling of vacant fiscal staff positions in April 2009, the Department made extensive progress in bringing the majority of its cash and fund reconciliations to current status prior to final closing of the 2009 fiscal year.

To ensure that all deficiencies noted in the FY2007 audit continue to be addressed, the Department's Financial Management Bureau has implemented 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. In addition, SHARE system improvements to curtail manual work-arounds and leverage the SHARE system capabilities will be undertaken in FY2010 and FY2011. Staff training on SHARE, Excel and reconciliations will also be conducted to help address and resolve this finding.

07-07 DISPOSITION OF PROPERTY

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. This notification shall also include a detailed list of the property to be disposed of and the method by which the Department intends to dispose of the property. In the event that 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

07-07 DISPOSITION OF PROPERTY - continued

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

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 established a Property Control Policy and Procedures and the most recently created internal process has been implemented to ensure that going forward the Department will follow the Department's Property Control Policy and Procedures and the State Auditor's rule to manage and document computer hardware related inventory disposal. Previously, the Workforce Technology Division used incorrect procedures that did not meet the State Auditor's rules for disposal of property. Additionally, the Cabinet Secretary has appointed a new three member committee that will oversee and approve the disposition of property prior to submitting the documents to the State Auditor's Office.

07-09 REVERSIONS TO THE STATE GENERAL FUND

Condition: The Department's fiscal year 2009 reversions due to the State General Fund amount to \$519,532, which was properly reverted prior to September 30, 2009. The total amount due to the State General Fund in non-paid reversions accumulated for the past fiscal years is \$1,065,468.

Criteria: Per State Auditor Rule 2.2.2.12, Subsection A(6)(b), Section 6-5-10(A) NMSA 1978 requires "all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert 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." Failure to transfer reverting funds timely in compliance with the statute requires an audit.

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.

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

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 - continued

Management's Response: Management implemented written procedures for compiling and computing reversions in conformance with the Department of Finance and Administration (DFA) reporting and payment requirements and due dates during fiscal year 2010, but was unable to meet the September 30th deadline for transferring fiscal year 2009 reversions to DFA for FY2009 audit adjustments were still being formulated. The Department will transfer all non-paid reversions to the State General Fund upon completion of the FY2009 audit.

07-10 RECONCILIATION OF AGENCY FUND

Condition: The Department is not reconciling the Labor and Industrial Wage Claim Fund. The fund has approximately \$101,834 of amounts held for claimants; however, the Department is uncertain of the claimants for whom the funds are being held.

Criteria: As a State Agency, the Department must follow the existing Model of Manual Accounting Practices (MAPs) procedures for monthly reconciliations between internal documentation and SHARE (general ledger), as described in MAPs (FIN 11.1-11.9), 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 whom the funds are held.

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

Management's Response: The Accounts Payable, Accounts Receivable and Labor & Industrial (L&I) Bureau have collectively created the Wage Claim Reconciliation Procedures. The quarterly wage claim reconciliation procedures reflect the quarterly reconciliation of wage claim activities within the Department based on the L&I Bureau's initiated wage claim amounts received from claimant employers and subsequent disbursements to the claimant and/or claimant's employer.

According to the Labor Relations Division, since inception of the wage claim fund, there has been no individual accounting of activity in the fund, although a tracking log was started in 2004. Previously, claim packets had been filed and archived accordingly.

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 - continued

Management's Response - continued:

The assigned teams have verified and researched documents back to 1999 and through June 30, 2009. Within this time period, the L& I Bureau has identified over \$56,000 in outstanding payments and is reflected in the attached spreadsheet. Going forward the teams will work together on a quarterly basis to reconcile the wage claim fund account using the Excel spreadsheet.

07-11 LATE FILING OF AUDIT REPORT

Condition: The audit report for the year ended June 30, 2009 was not submitted by the deadline of December 15, 2009 to the New Mexico State Auditor's Office. The report was submitted on March 26, 2010.

Criteria: State Auditor Rule 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 January 2010. Additionally, significant journal entries to correct the books were not provided to the auditors until late in the audit.

Effect: Users of 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.

Recommendation: Based on the size and complexity of the audit, the auditors require at least 60 days to complete the audit. We recommend that accurate and complete trial balances and other critical supporting schedules be provided to the auditors no later than mid-October in order to meet the December 15th deadline.

Management's Response: Management acknowledges the finding, and believes the submission for the FY 2010 audit report will be on or before December 15, 2010.

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 and June 30, 2008 audits and the amount of additional time needed to prepare reconciling schedules, we are not confident in the controls in place to perform accounting transactions. For the fiscal year 2009, 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 capital 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 as well.

Cause: The constant work the Department's financial division took on in order to prepare the necessary information and reconciliations to complete the 2008 audit left little time available to perform the necessary accounting processes for fiscal year 2009. Additionally, the Department lacks the adequate number of qualified accounting staff to provide accurate and reliable financial information.

Effect: The lack of controls over accounting transactions and preparing financial statements was significant in the June 30, 2009 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 2009 audit were prepared later in fiscal year 2010.

Recommendation: We recommend the Department develop and implement internal controls over the financial reporting process to facilitate the creation of timely and accurate reconciling schedules and financial statements.

Management's Response: A detailed plan has been developed, inclusive of account areas and owners, which the Financial Management Bureau will use to manage compliance with DFA policies and procedures and MAPs. The plan is to get on a regular monthly reconciliation schedule. The plan has been communicated to relevant staff. Staff training will be ongoing, to include advanced Excel, audit and accounting training.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-02 QUARTERLY STATUS REPORTS - UPDATED

Condition: During A-133 single audit testwork, we noted that management did not file special report ETA 2208A for all four quarters of 2009.

Criteria: Per CFDA 17.225 compliance supplement, OMB Circular A-133 requires a quarterly UI contingency report for each grant it receives (form ETA 2208A).

Cause: Failure or lack of effective 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.

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.

Management's Response: A Federal Grant Reporting and Closeouts policy and procedures have been developed. The scope of these procedures is to define the requirements for reporting, certifying and closing out grant awards from the US Department of Labor. The procedures have been implemented and will be managed and administered by the financial management units responsible for federal grants reporting. Policies and procedures will be developed by appropriate Financial Management staff for other required federal reports (i.e., 581, 191, 2112, 8401, 8405, 8413, 8414).

08-03 LATE QUARTERLY FINANCIAL STATUS REPORTS

Condition: During A-133 single audit testwork, we noted the following reports that were filed late:

- ETA 191 for three of the four quarters of the fiscal year 2009,
- ETA 227 for three of the four quarters of the fiscal year 2009,
- ETA 2112 for two of the twelve months of fiscal year 2009,
- ETA 9002 for two of the four quarters of the fiscal year 2009.

Criteria: CFDA 17.225 requires forms ETA 191 and ETA 227 to be filed in a timely manner after the end of the reporting quarter by a specified due date. CFDA 17.225 also requires form ETA 2112 to be submitted one month and one day after the end of the reporting month. Additionally, CFDA 17.207 requires form ETA 9002 to be submitted 45 days after the end of the reporting quarter.

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

08-03 LATE QUARTERLY FINANCIAL STATUS REPORTS - continued

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

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: A Federal Grant Reporting and Closeouts policy and procedures have been developed. The scope of these procedures is to define the requirements for reporting, certifying and closing out grant awards from the US Department of Labor. The procedures have been implemented and will be managed and administered by the financial management units responsible for federal grants reporting. Policies and procedures will be developed by appropriate Financial Management staff for other required federal reports (i.e., 581, 191, 2112, 8401, 8405, 8413, 8414).

The Actuarial Research unit is working with the Information Technology (IT) Bureau for timely receipt of the ETA 227 report. It has been submitted by the IT developer to be part of the production build. This will allow the report to be placed on a schedule and filed timely.

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.

Criteria: In accordance with the Manual of Model Accounting Practices (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, FIN 6 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 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.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**08-05 CAPITAL ASSET TRANSFERS/DISPOSALS RECORDED AT TIME OF PHYSICAL INVENTORY - continued**

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 General Services Bureau (GSB) key enters all Property Transfer forms upon receipt. Most areas tend to wait until the end of the year to submit their transfer forms. The Property Control Policy and Procedures was revised to explain the transfer of property to be documented as it occurs and not at the end of the fiscal year when the annual inventory is conducted.

For FY2009, recording of capital asset transfers was performed mostly at the end of the fiscal year due to the fact that most field operations and some internal units wait until the annual inventory process to get their paperwork processed.

For FY2010 and to ensure that the transfer of property follows the new policy, training was conducted by the General Services Bureau during the Veteran's Conference on March 1, 2010 in Albuquerque, NM. All field management personnel that are responsible for submitting transfer forms were in attendance and were given a copy of the Property Control Policy and Procedures and were reminded that the transfer/change forms must be submitted to GSB during the year as changes occur versus submitting all documents at the end of the fiscal year.

08-06 LACK OF FORMAL DISASTER RECOVERY PLAN

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

Criteria: The Department should have a finalized Disaster Recovery Plan that has been and can continue to be tested.

Cause: Lack of effective controls concerning the development and testing of the Department's existing Disaster Recovery Plan.

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

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-06 LACK OF FORMAL DISASTER RECOVERY PLAN - continued

Recommendation: We recommend that management place high priority in completing and formalizing the current Disaster Recovery Plan. This includes off-site storage of the Disaster Recovery Plan and testing the Plan to ensure its completeness and reliability.

Management's Response: The following is the status of the Business Continuity / Disaster Recovery project for IT.

- We are in a second draft review of the deliverables for this contract.
- We are working with GSD/SPD to identify a vendor on the statewide price agreement that can deliver these services.
- We expect that the plan analysis will begin approximately March 1 and be completed by June 15.

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; and job specific privileges were not disabled when an employee was transferred between positions within the Department. 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.

Recommendation: We recommend that management establish and 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.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

08-07 SYSTEM ACCESS FOR TERMINATED EMPLOYEES - continued

Management's Response: Policy 6-01; Use of Public Access Computer Networks; PC Hardware and Software is used by the agency for managing termination or changes for access of employment as identified in Section D, Termination or Change of Access, 1., Termination of Access. This section clearly defines the process to be used by the immediate supervisor, Human Resources, and the Workforce Technology Division. The published policy is available to all employees and is provided to all new hires and will be on the DWS Intranet under the HR Policy section.

The Workforce Technology Division (WTD) and the Human Resources Bureau (HRB) teamed up to assure that all terminated employees have been identified and deleted from the system, if applicable. HRB provided WTD a list of all employees who have terminated from the Department in the past two years. The following is a summary of those results:

- Total number of individuals on Terminated Employee list: 135
- Total from this list still employed: 9
- Balance 126 (Terminated)
- Count of Terminated individuals with e-mail or domain accounts not fully terminated: 17
 - 8 – Disabled e-mail accounts but not deleted from system.
 - 5 – Active e-mail accounts
 - 4 – Active Domain accounts

The WTD staff took corrective action on these accounts and provided the HRB with a status upon completion.

09-01 BUDGET OVERAGES

Condition: During FY 09, the Department overspent the Other Financing Use appropriation unit in the Public Works Apprenticeship and Training fund by \$370,000.

Criteria: Per State Auditor Rule 2.2.2.10, any actual expenditures that exceed the budget in any category must be reported as a finding.

Cause: The Department failed to adequately budget the payment of prior year participants in the program.

Effect: The Department is out of compliance with statutory requirements to obtain approval prior to making expenditures.

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

09-01 BUDGET OVERAGES - continued

Recommendation: We recommend that management establish controls necessary to monitor the budget and submit any necessary adjustments on a timely basis in order to avoid overages.

Management's Response: Management and staff were not previously advised by DFA, nor was DFA able to provide guidance until recently, that a Budget Adjustment Request (BAR) by itself would not serve to establish fund transfer authority for the Public Works Apprenticeship Training Fund within the state accounting system. A process to submit budget journals that establish fund transfer authority within the accounting system, simultaneously with submittal of BARs, has been implemented. A copy is attached.

09-02 CASH RECEIPTS NOT RECORDED OR DEPOSITED IN A TIMELY MANNER

Condition: During an inspection of the cash deposit safes on site, the Department discovered 47 uncashed checks received between April 2009 and December 2009 that were neither processed nor cancelled due to errors between the checks and the Department's records, such as a mismatch between the name and account number. The total amount of cash receipts not recorded or deposited was approximately \$25,000.

Criteria: According to the Manual of Model Accounting Practices (MAPs), section FIN 2.3 states that all state agencies shall deposit cash within 24 hours of receipt. Additionally, FIN 2.1 states that all state agencies shall log or receipt all monies received at the time received.

Cause: Lack of effective controls surrounding the cash receipts process, management oversight.

Effect: Misstatement of financial information, potential misappropriation of assets.

Recommendation: We recommend that management establish controls necessary to ensure that all cash received is recorded at the time of receipt and deposited by the end of the next business day. If errors are noted in the cash received, controls should also exist to correct the errors to ensure that cash is not held for a period longer than 24 hours. If errors cannot be corrected within 24 hours, the Department should return the cash until the errors can be corrected or any problems are resolved.

Management's Response: Procedures have been initiated to ensure that checks with processing issues are processed by close of business the day following receipt. The checks will either be processed into the system or returned to the employer within that time frame. An Excel check login spreadsheet has been established which will update daily and will be maintained on a shared drive for daily review. Copies of the procedures and forms to be used to return items to employer(s) are attached.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

09-03 INCOMPLETE PER DIEM MEAL RECEIPTS

Condition: During our single audit testwork, we noted an expense reimbursement for actual meals that contained incomplete receipts. Additionally, one receipt contained information that had been manually altered.

Criteria: According to the New Mexico State Per Diem and Mileage Act, section 2.42.2.9, subsection (3) states that the employee must submit receipts for the actual meal and lodging expenses incurred. Additionally, OMB A-133 states that adequate control activities should be in place to provide supporting documentation that can be compared to a list of allowable and unallowable expenditures.

Cause: Lack of effective controls surrounding the per diem reimbursement process.

Effect: The Department is in violation of the New Mexico State Per Diem and Mileage Act requiring actual meal receipts prior to reimbursement. Additionally, meal reimbursements could be made for items that include disallowable costs that would cause the Department to be in violation of OMB-87.

Recommendation: We recommend that management establish controls and procedures that require actual, complete and unaltered receipts for meals that are submitted for expense reimbursement prior to reimbursing employees. Receipts should contain sufficient detail so that management can properly determine that no disallowable items are being submitted for reimbursement.

Management's Response: In the review of a 20% Travel Advance, a receipt was altered and overlooked in error by the Accounts Payable (A/P) Unit. The Department agrees with the finding and will enforce existing policies and procedures related to federal expenditures with supporting documentation as required by OMB A-133 and state statutes.

The A/P Unit has established controls and procedures that require all travel advance submissions should have actual receipts that show proof of actual expense for meals, and any altered receipts will be unacceptable for expense reimbursement submission. If a credit card receipt is submitted, the A/P Unit will require an itemized receipt or an affidavit of lost receipts.

An e-mail was sent out to all NMDWS employees as a reminder if they travel, upon return they are to submit a copy of all itemized meals receipts along with a copy of the credit card charge. If paying with a credit card or if unable to provide actual receipt then an affidavit of lost receipts will be required. Additionally if a receipt is altered, it will be unacceptable for submission for reimbursement.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

09-04 DRAW DOWN PROCEDURES (Material Weakness)

Condition: The Department uses estimates for drawdowns of monies for Unemployment Compensation Military (UCX) and Unemployment Compensation Federal Employees (UCFE) programs. This process does not include a month end reconciliation to adjust the estimated amounts to actual amounts drawn once the actual data becomes available.

Criteria: The Department should reconcile the draws each month once the actual benefit information is available and has been received.

Cause: The Department continues to use an outdated process for estimating and requesting the draw monies even after the process drastically changed from manual checks to Automatic Clearing House (ACH) payments.

Effect: The Department has not had the information available to adjust the draws on a timely basis to eliminate monies being overdrawn. As of June 30, 2009, the Department has overdrawn approximately \$5.2 million.

Recommendation: The Department should revise the draw calculation process to include a detailed reconciliation process that reconciles estimated amounts drawn with actual benefits paid.

Management's Response: Unemployment Insurance Treasury Unit modified its draw process procedures effective November 20, 2009. At that time, the Unit updated its ratios for drawing Compensation Military (UCX) and Unemployment Compensation Federal Employees (UCFE) amounts. Additionally, the procedures to reconcile and true up expenditures related to UCFE, UCX and UI Regular have been developed and implemented

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

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

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 March 25, 2010.

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

Recommendation: We recommend that the Department file the required documentation as soon as the final financial statements are available.

Updated Management Response: The Department will finalize the 2009 financial statements by April 9, 2010. This will allow sufficient time to submit finalized schedules and notes, MD&A and draft review by DWS and Meyners + Company, which includes an estimated two week review by the State Auditor.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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

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.

- 07-01 Reliability of Financial Recording, Accounting and Reporting (Material Weakness)
- 09-03 Incomplete Per Diem Meal Receipts

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
- 05-04 Delinquent Employer Contribution Report – Questioned Costs – none
- 08-02 Quarterly Financial Status Reports – Questioned Costs – none
- 08-03 Late Quarterly Financial Status Reports – Questioned Costs – none
- 09-04 Drawdown Procedures – Questioned Costs – Approximately \$5.2 million (Material Weakness)

The following finding related to the Employment Services program (CFDA No. 17.207) and are 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 – Resolved
- 04-05 Contribution Operations Report (ETA 581) – Resolved
- 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/Updated
- 07-03 Cash Receipts Supporting Documentation – Resolved
- 07-05 Federal Grant Reports – Resolved
- 07-07 Disposition of Property – Repeated
- 07-09 Reversions to the State General Fund – Repeated/Updated
- 07-10 Reconciliation of Agency Fund – Repeated/Updated
- 07-11 Late Filing of Audit Report – Repeated/Updated
- 08-01 Financial Statement Preparation (SAS-112) (Material Weakness) – Repeated
- 08-02 Quarterly Financial Status Reports – Repeated/Updated
- 08-03 Late Quarterly Financial Status Reports – Repeated/Updated
- 08-04 Capital Asset Physical Inventory (Material Weakness) – Resolved
- 08-05 Capital Asset Transfers/Disposals Recorded at Time of Physical Inventory – Repeated
- 08-06 Lack of Disaster Recovery Plan and Formal Backup Procedures – Repeated/Updated
- 08-07 System Access for Terminated Employees – Repeated

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exit Conference

An exit conference was held with the Department on March 22, 2010. 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
Neil Meoni, Deputy Secretary
Richard Montes, Financial Management Bureau General Manager
Edwin Jaramillo, Administration Operations Manager
Susan Aragon, Financial Management Bureau Financial Specialist
Cynthia Brindley, Budget Director

MEYNNERS + COMPANY, LLC

Georgie Ortiz, CPA, CGFM, Assurance Principal
Javier Machuca, CPA, CGFM, Assurance Senior Manager
Matt Bone, Assurance Senior

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.