

**NEW MEXICO DEPARTMENT OF
WORKFORCE SOLUTIONS
Albuquerque, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2012**

TABLE OF CONTENTS

OFFICIAL ROSTER	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
Statement of Net Assets	14
Statement of Activities	15
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	20
Statement of Revenues and Expenditures - Major Governmental Funds - Budget and Actual (Modified Accrual Basis)	21
Statement of Net Assets - Proprietary Fund	24
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	25
Statement of Cash Flows - Proprietary Fund	26
Statement of Fiduciary Fund Assets and Liabilities – Agency Fund	27
Notes to the Financial Statements	28
SUPPLEMENTARY INFORMATION	51
Combining Balance Sheet – Non-major Governmental Funds	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	53
Statement of Revenues and Expenditures – Non-Major Governmental Funds – Budget and Actual (Modified Accrual Basis) – 61300 - Penalty and Interest	54

Statement of Revenues and Expenditures – Non-Major Governmental Funds – Budget and Actual (Modified Accrual Basis) – 61400 - Public Works Apprenticeship and Training.....	55
Statement of Revenues and Expenditures – Non-Major Governmental Funds – Budget and Actual (Modified Accrual Basis) – 71100 - Labor Enforcement Fund	56
OTHER SUPPLEMENTAL SCHEDULES	57
Schedule 1 - Schedule of Individual Deposit Accounts.....	58
Schedule 2 - Schedule of Pledged Collateral	59
Schedule 3 – Schedule of Special Appropriations.....	60
Schedule 4 - Schedule of Memoranda of Understanding	61
Schedule 5 - Schedule of Changes in Assets and Liabilities - Agency Fund	62
SINGLE AUDIT	63
Supplemental Schedule of Expenditures of Federal Awards	64
Notes to the Schedule of Expenditures of Federal Awards.....	65
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	67
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	69
Schedule of Findings and Questioned Costs	71
Summary Schedule of Prior Year Audit Findings	85
Exit Conference	89

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
OFFICIAL ROSTER
June 30, 2012**

Name	Title
Celina Bussey	Secretary
Sara Lister	Deputy Cabinet Secretary
Donna Trujillo	Chief Financial Officer
Aaron Hinds	Chief Information Officer

Independent Auditors' Report

Celina Bussey, 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, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and the major special revenue fund of the New Mexico Department of Workforce Solutions (the Department) as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Department's non-major governmental and fiduciary funds, and the respective budgetary comparisons for the non-major governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements 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 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, the budgetary comparisons for the general fund and other major special revenue fund and the aggregate remaining fund information of the Department as of June 30, 2012, and the changes in financial position and cash flows, where applicable, of those activities and funds. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2012, or the respective changes in the financial position and cash flows, where applicable, thereof, in accordance 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and major special revenue fund 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 non-major governmental and fiduciary fund of the Department as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparisons for all non-major governmental funds 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 December 14, 2012 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, the combining and individual fund financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 financial statements. The additional schedules listed as "other supplemental schedules" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 14, 2012

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

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

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

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

Financial Highlights

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

	<u>FY 2012</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Current and other assets	\$ 177,748,362	\$259,753,111	\$ (82,004,749)	-32%
Capital and non-current assets	32,893,326	18,836,099	14,057,227	75%
Total assets	<u>\$ 210,641,688</u>	<u>\$278,589,210</u>	<u>\$ (67,947,522)</u>	-24%
Liabilities:				
Current Liabilities	\$ 41,693,315	\$ 60,346,303	\$ (18,652,988)	-31%
Long-term obligations	-	-	-	0%
Total liabilities	<u>41,693,315</u>	<u>60,346,303</u>	<u>(18,652,988)</u>	-31%
Net assets:				
Invested in capital assets	32,893,326	18,836,099	14,057,227	75%
Restricted	136,523,930	199,912,913	(63,388,983)	-32%
Unrestricted	(468,883)	(506,105)	37,222	-7%
Total net assets	<u>168,948,373</u>	<u>218,242,907</u>	<u>(49,294,534)</u>	36%
Total liabilities				
and net assets	<u>\$ 210,641,688</u>	<u>\$278,589,210</u>	<u>\$ (67,947,522)</u>	-24%

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Financial Highlights - continued

**Table A-2
Comparative Statement of Activities**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
<u>Program Revenues by Major Sources</u>				
Governmental Activities:				
Employment Services:				
Charges for Services	\$ 2,918,251	\$ 2,947,702	\$ (29,451)	-1%
Operating Grants	<u>63,985,483</u>	<u>68,693,117</u>	<u>(4,707,634)</u>	35%
Total Gov. Activities Revenue	<u>66,903,734</u>	<u>71,640,819</u>	<u>(4,737,085)</u>	-7%
Business-Type Activities:				
Unemployment Activities:				
Charges for Services	216,824,376	207,140,449	9,683,927	5%
Operating Grants	<u>261,860,575</u>	<u>437,717,976</u>	<u>(175,857,401)</u>	-40%
Total Business-type Activities Revenue	<u>478,684,951</u>	<u>644,858,425</u>	<u>(166,173,474)</u>	-26%
Total Program Revenues by Major Source	<u>545,588,685</u>	<u>716,499,244</u>	<u>(170,910,559)</u>	-24%
<u>General Revenues by Major Source</u>				
Governmental Activities				
State Appropriations	3,217,400	4,782,300	(1,564,900)	-33%
Investment Earnings /Misc	1,984	-	1,984	100%
Other-Transfers in	1,000,000	691,500	308,500	45%
Other-Transfers Out	-	(4,926,722)	4,926,722	229%
Reversions to State General Fund	<u>(5,810)</u>	<u>-</u>	<u>(5,810)</u>	100%
Total Governmental Activities Revenue	<u>4,213,574</u>	<u>547,078</u>	<u>3,666,496</u>	670%
Business-type Activities:				
Other Revenue				
Transfers in	-	117,803,140	(117,803,140)	-
Investment Earnings	<u>3,542,196</u>	<u>8,010,367</u>	<u>(4,468,171)</u>	-56%
Total Business-type Activities Revenues	<u>3,542,196</u>	<u>125,813,507</u>	<u>(122,271,311)</u>	-97%
Total General Revenues by Major Sources	<u>7,755,770</u>	<u>126,360,585</u>	<u>(118,604,815)</u>	-94%
Total Revenues by Major Sources	<u>553,344,455</u>	<u>842,859,829</u>	<u>(289,515,374)</u>	-34%

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Financial Highlights - continued

Revenue

- Unemployment Activities experienced a reduction in revenue which coincides with the reduction in unemployment claims, which is presently at approximately 26,000 weekly claims down from a year ago of approximately 45,000 weekly claims.
- Appropriations from the State General Fund fell from \$4,782,300 to \$3,217,400, or 33%, due to revenue shortfalls experienced within the State General Fund.
- Other revenue sources remained fairly constant although the Department continues to experience an overall decline in many federal grants.

**Table A-2b
Comparative Statement of Activities**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
Expenses:				
<u>Program Expenses by Major Sources</u>				
Governmental Activities:				
Governmental	56,039,369	63,029,522	(6,990,153)	-11%
Total Governmental Activities Expenses	<u>56,039,369</u>	<u>63,029,522</u>	<u>(6,990,153)</u>	-11%
Business-type Activities:				
Unemployment Services	546,599,620	742,883,858	(196,284,238)	-26%
Total Business-type Activities Expenses	<u>546,599,620</u>	<u>742,883,858</u>	<u>(196,284,238)</u>	-26%
Total Program Expenses by Major Sources	<u>\$ 602,638,989</u>	<u>\$ 805,913,380</u>	<u>\$(203,274,391)</u>	-25%

Expenses

The cost of business-type activities related to unemployment services actually decreased in fiscal year 2012. The Department paid out about 26% less unemployment benefits in fiscal year 2012 than in 2011. The costs for operations did decrease overall from \$63,029,522 to \$56,039,369, or about 11%. This was due to the administration of American Recovery and Reinvestment Act (ARRA) funds in 2011.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Financial Highlights - continued

**Table A-2c
Comparative Statement of Activities**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>\$ Change</u>	<u>% Change</u>
<u>Change in Net Assets</u>				
Governmental Activities				
Beginning Net Assets	\$ 26,543,034	\$ 13,440,388	\$ 13,102,646	97%
Change in Net Assets	<u>15,077,939</u>	<u>9,158,375</u>	<u>5,919,564</u>	65%
Ending Net Assets	<u>41,620,973</u>	<u>26,543,034</u>	<u>15,077,939</u>	57%
Business-type Activities				
Beginning Net Assets	191,699,873	167,856,070	23,843,803	14%
Change in Net Assets	<u>(64,372,473)</u>	<u>27,788,074</u>	<u>(92,160,547)</u>	-332%
Ending Net Assets	<u>127,327,400</u>	<u>191,699,873</u>	<u>(64,372,473)</u>	-34%
Ending Net Assets	<u>\$ 168,948,373</u>	<u>\$ 218,242,907</u>	<u>\$ (49,294,534)</u>	-22.59%

Total Net Assets

The total net assets or financial position of the Department declined by \$49,294,534, a 22.59% decrease over fiscal year 2011. Net assets attributable to government activities increased by \$15,077,939, for a 57% increase over the prior fiscal year. This increase is a result of the additions to work in process associated with the new tax and claims system. Net assets attributable to business-type activities decreased by \$64,372,473, for a 34% decrease over the prior year. This decrease is a result of the state portion of the unemployment claims for benefits paid in excess of operating revenues from employer taxes, reimbursements and interest.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Financial Highlights - continued

Capital Assets

**Table A-3
Capital Assets**

	<u>June 30, 2011</u>	<u>FY12 Additions</u>	<u>FY12 Disposals/ Adjustments</u>	<u>June 30, 2012</u>
Assets:				
Office improvements	\$ 2,920,044	\$ 120,690	\$ 10,048	\$ 3,050,782
Vehicles	302,074	-	-	302,074
Office equipment	2,174,723	-	47	2,174,770
Furniture	866,091	23,256	(75,476)	813,871
Computer equipment	1,744,444	113,714	1,301	1,859,459
WIP	14,438,421	14,406,789	-	28,845,210
Total acquired value	<u>22,445,797</u>	<u>14,664,449</u>	<u>(64,080)</u>	<u>37,046,166</u>
Accumulated depreciation:				
Office improvements	(465,270)	(229,318)	(5,153)	(699,741)
Vehicles	(15,104)	(30,207)	-	(45,311)
Office equipment	(2,001,811)	(19,830)	(97,106)	(2,118,747)
Furniture	(381,123)	(52,987)	82,843	(351,267)
Computer equipment	(746,390)	(274,880)	83,496	(937,774)
Total accumulated depreciation	<u>(3,609,698)</u>	<u>(607,222)</u>	<u>64,080</u>	<u>(4,152,840)</u>
Net total	<u>\$ 18,836,099</u>	<u>\$ 14,057,227</u>	<u>\$ -</u>	<u>\$ 32,893,326</u>

Increases occurred in Computer Equipment, Office Improvements and Furniture and Fixtures as the Department continued to maximize resources available to support the high level of unemployment. Purchases included additional work areas as well as reengineering existing workspace to facilitate information and resource flow.

The Work in Process additions include the accumulation of costs associated with the planned implementation of a new tax and claims system (u-FACTS). The system will integrate information that is currently housed separately to provide improved integrity, reporting capabilities and maintenance. u-FACTS will officially launch the new, fully-integrated Unemployment Insurance system on January 6, 2013. The costs of the project will be moved from Work-in-Process to Information Systems and depreciated per Department policy upon completion of the project.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Financial Highlights - continued

Debt

The Department has no long-term debt.

General Fund Budgetary Highlights

The Department's overall General Fund Appropriations decreased by \$1,564,900 in FY 2012 from FY 2011.

In FY 2012, like FY 2011, the Department received a transfer from the Workers Compensation Fund totaling \$1,000,000 for the Labor Relations Division. This amount is included in Other Transfers In for FY 2012.

The total original general fund operating budget for the Department was \$52,933,210. Budget adjustments were significant during fiscal year 2012. A total of \$19,264,218 additional funds were brought into the general fund budget. The increases were funded with Unemployment Insurance "above base" funding and Emergency Unemployment Contingency funding. Above base and contingency increases are modifications to the UI base grant through the U.S. Department of Labor, which are based on the activity that is reported by the Department, quarterly. The increases to base grants should continue; however, they are not guaranteed and therefore are not included in the original operating budget request. As they do become available, spend plans are prepared and based on these plans; the budget is adjusted pursuant to New Mexico State Budget Division compliance requirements.

Changes in Federal Funding

The 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 base from the United States Department of Labor, as well as most other grantors. The Workforce Investment Act funds realized a decrease in the amount of funding available as well as in the amount that is allowed to be used by the Department to administer the program.

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 2012, the Department expended \$2,474,385.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Financial Highlights - continued

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 who may have lost jobs to layoffs and plant closings to find training in new fields that are 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.

Other Operating Highlights

American Recovery and Reinvestment Act

The Department was awarded \$39 million of UI Modernization funds which was appropriated during the legislative session and have been approved by the U.S. Department of Labor (USDOL) for enhancements to the UI program, facility upgrades and phased implementation of a the new UI Claims and Tax system. \$6.0 million in State Energy Sector Partnership federal funds were allocated for investing in workforce sector strategies that target energy efficiency and renewable energy industries.

The Department has fully approved Administrative Spend Plans in place to use all Department ARRA funding. The New Mexico Department of Finance serves in an oversight capacity and requires that state agencies submit strategic plans before any funds may be spent.

Unemployment Insurance Compensation Fund

According to the Department's current projections, the Unemployment Trust Fund, held with the U.S. Treasury, is projected to be solvent through 2013. Unemployment Compensation (UC) is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Act (SUTA). States levy their own payroll taxes on employers to fund regular UC benefits from the Unemployment Trust Fund and, if applicable, the state share of the Extended Benefit (EB) program.

Economic Outlook

New Mexico's seasonally adjusted unemployment rate was 6.5 percent in August 2012, down from 6.6 percent a month earlier and 7.5 percent a year earlier. The national unemployment rate was 8.1 percent for August 2012.

The rate of over-the-year job growth, comparing August 2012 with August 2011, was negative 1.5 percent, representing a loss of 12,400 jobs. The current round of job loss started in June 2012 after ten months of year-over-year gains. Employment for August 2012 increased in six industries and decreased in seven.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

Other Operating Highlights - continued

Educational and health services, up 3,000 jobs, again led the expanding industries, with leisure and hospitality, up 2,300, also posting a large gain. The mining industry added 1,000 jobs, continuing a positive trend that has persisted for more than two years; while manufacturing, up 900; transportation, warehousing, and utilities, up 700; and wholesale trade, up 100, registered smaller increases.

The remaining six private-sector industries each recorded declining employment. The professional and business services industry was down 5,700 jobs or 5.6 percent from a year earlier, after briefly adding jobs in 2011. Construction employment was down 3,000 jobs from its year-earlier total, marking its largest decline since August 2010. Also reporting year-over-year job losses were miscellaneous other services, down 2,600; financial activities, down 1,600; information, down 1,000; and retail trade, down 700.

Government payrolls contracted by 5,800 jobs from their year-earlier total, with losses ongoing at all three levels: state, down 3,700; federal, down 1,700; and local, down 400. Public-sector employment growth has been negative year-over-year for 24 consecutive months.

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:

Sara Lister, 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
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash held with U.S. Treasury	\$ -	\$ 87,916,262	\$ 87,916,262
Investment in State General Fund Investment Pool	12,092,542	-	12,092,542
Due from other state agencies	221	-	221
Due from federal government	5,185,372	14,602,057	19,787,429
Due from governmental funds	-	51,012	51,012
Due from enterprise funds	2,468,733	-	2,468,733
Accounts receivable, net of allowance for uncollectibles	10,094	55,422,069	55,432,163
Capital assets, net	32,893,326	-	32,893,326
TOTAL ASSETS	\$ 52,650,288	\$ 157,991,400	\$ 210,641,688
LIABILITIES AND NET ASSETS			
LIABILITIES			
Cash overdraft	\$ -	\$ 35,755	\$ 35,755
Accounts payable	3,857,341	-	3,857,341
Accrued payroll and benefits	1,021,207	-	1,021,207
Benefits payable	-	10,597,529	10,597,529
Due to other state agencies	4,929,921	95,870	5,025,791
Due to governmental funds	-	2,468,733	2,468,733
Due to enterprise funds	51,012	-	51,012
Other accrued liabilities	31,708	-	31,708
Deferred revenue	-	17,466,113	17,466,113
Compensated absences, due within one year	1,138,126	-	1,138,126
Total liabilities	<u>11,029,315</u>	<u>30,664,000</u>	<u>41,693,315</u>
NET ASSETS			
Invested in capital assets, net of related debt	32,893,326	-	32,893,326
Restricted for:			
Unemployment insurance trust	-	127,327,400	127,327,400
Special revenue funds	9,196,530	-	9,196,530
Unrestricted	(468,883)	-	(468,883)
Total net assets	<u>41,620,973</u>	<u>127,327,400</u>	<u>168,948,373</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 52,650,288	\$ 157,991,400	\$ 210,641,688

The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
Workforce transition services	\$ 18,745,688	\$ -	\$ 17,672,241
Labor relations	3,871,189	770,279	250,999
Workforce technology	7,662,972	-	19,559,593
Business services	6,936,404	565,800	6,917,919
Program support	17,873,469	1,582,172	17,110,346
Other workforce initiatives	949,647	-	2,474,385
	<u>56,039,369</u>	<u>2,918,251</u>	<u>63,985,483</u>
Total governmental activities			
BUSINESS-TYPE ACTIVITIES			
Unemployment services	<u>546,599,620</u>	<u>216,824,376</u>	<u>261,860,575</u>
	<u>546,599,620</u>	<u>216,824,376</u>	<u>261,860,575</u>
Total business-type activities			
TOTAL PRIMARY GOVERNMENT	<u>\$ 602,638,989</u>	<u>\$ 219,742,627</u>	<u>\$ 325,846,058</u>

Net (Expenses) Revenue and Changes in Net Assets

	Governmental Activities	Business-type Activities	Total
	\$ (1,073,447)	\$ -	\$ (1,073,447)
	(2,849,911)	-	(2,849,911)
	11,896,621	-	11,896,621
	547,315	-	547,315
	819,049	-	819,049
	<u>1,524,738</u>	<u>-</u>	<u>1,524,738</u>
	10,864,365	-	10,864,365
	<u>-</u>	<u>(67,914,669)</u>	<u>(67,914,669)</u>
	<u>-</u>	<u>(67,914,669)</u>	<u>(67,914,669)</u>
	10,864,365	(67,914,669)	(57,050,304)
General revenues:			
Investment earnings	1,174	3,542,196	3,543,370
Miscellaneous	810	-	810
Reversions	(5,810)	-	(5,810)
Transfers in - State General			
Fund appropriations	3,217,400	-	3,217,400
Transfers in - Other	1,000,000	-	1,000,000
Transfers out - Other	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>4,213,574</u>	<u>3,542,196</u>	<u>7,755,770</u>
CHANGE IN NET ASSETS	15,077,939	(64,372,473)	(49,294,534)
NET ASSETS, BEGINNING	<u>26,543,034</u>	<u>191,699,873</u>	<u>218,242,907</u>
NET ASSETS, ENDING	<u>\$ 41,620,973</u>	<u>\$ 127,327,400</u>	<u>\$ 168,948,373</u>

The accompanying notes are an integral part of the financial statements.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	<u>Major Funds</u>		<u>Total Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>ARRA</u>		
ASSETS				
Investment in State General Fund Investment Pool	\$ 6,752,176	\$ -	\$ 5,771,922	\$ 12,524,098
Due from other funds	-	-	3,473,094	3,473,094
Due from enterprise funds	2,459,706	-	9,027	2,468,733
Due from other state agencies	-	-	221	221
Due from federal government	2,976,382	2,208,990	-	5,185,372
Other receivables	10,094	-	-	10,094
TOTAL ASSETS	<u>\$ 12,198,358</u>	<u>\$ 2,208,990</u>	<u>\$ 9,254,264</u>	<u>\$ 23,661,612</u>
LIABILITIES				
Due to State General Fund Investment Pool (overdraft)	\$ -	\$ 431,556	\$ -	\$ 431,556
Accounts payable	2,100,208	1,750,411	6,722	3,857,341
Accrued payroll and benefits	1,019,348	1,859	-	1,021,207
Due to other funds	3,473,094	-	-	3,473,094
Due to enterprise funds	-	-	51,012	51,012
Other accrued liabilities	6,544	25,164	-	31,708
Due to other state agencies	4,929,921	-	-	4,929,921
Total liabilities	<u>11,529,115</u>	<u>2,208,990</u>	<u>57,734</u>	<u>13,795,839</u>
FUND BALANCES				
Restricted for:				
Public Works Apprenticeship and Training	-	-	2,290,243	2,290,243
Special Revenue Funds	-	-	6,906,287	6,906,287
Assigned	669,243	-	-	669,243
Total fund balances	<u>669,243</u>	<u>-</u>	<u>9,196,530</u>	<u>9,865,773</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,198,358</u>	<u>\$ 2,208,990</u>	<u>\$ 9,254,264</u>	<u>\$ 23,661,612</u>

The accompanying notes are an integral part of the financial statements.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ <u>9,865,773</u>
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

The cost of capital assets is:	37,046,166
Accumulated depreciation is:	<u>(4,152,840)</u>
 Total capital assets, net	 <u>32,893,326</u>

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

Compensated absences payable	<u>(1,138,126)</u>
 Total long-term and other liabilities	 <u>(1,138,126)</u>

Net assets of governmental activities (Statement of Net Assets)	\$ <u>41,620,973</u>
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The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>Major Funds</u>		<u>Total Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>ARRA</u>		
REVENUES				
Interest on deposit/investments	\$ -	\$ -	\$ 1,174	\$ 1,174
Licenses and permits	-	-	565,800	565,800
Federal grant revenue	49,263,528	14,721,955	-	63,985,483
Penalties and interest	-	-	1,582,172	1,582,172
Public Works Apprenticeship and Training	-	-	770,279	770,279
Miscellaneous revenue	810	-	-	810
Total revenues	<u>49,264,338</u>	<u>14,721,955</u>	<u>2,919,425</u>	<u>66,905,718</u>
EXPENDITURES				
Current:				
Workforce transition services	18,492,784	211,669	-	18,704,453
Labor relations	3,873,788	-	-	3,873,788
Workforce technology	4,757,327	2,626,515	-	7,383,842
Business services	4,882,385	2,034,834	-	6,917,219
Program support	17,678,469	-	-	17,678,469
Other workforce initiatives	911,598	-	-	911,598
Capital outlay	4,815,512	9,848,937	-	14,664,449
Total expenditures	<u>55,411,863</u>	<u>14,721,955</u>	<u>-</u>	<u>70,133,818</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,147,525)</u>	<u>-</u>	<u>2,919,425</u>	<u>(3,228,100)</u>
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriation	3,217,400	-	-	3,217,400
Reversions to State General Fund, FY12	(5,810)	-	-	(5,810)
Transfers in:				
Interfund	1,935,935	-	-	1,935,935
Other	1,000,000	-	-	1,000,000
Transfers out:				
Interfund	-	-	(1,935,935)	(1,935,935)
Other	-	-	-	-
Total other financing sources (uses)	<u>6,147,525</u>	<u>-</u>	<u>(1,935,935)</u>	<u>4,211,590</u>
NET CHANGES IN FUND BALANCES	-	-	983,490	983,490
FUND BALANCES, BEGINNING	<u>669,243</u>	<u>-</u>	<u>8,213,040</u>	<u>8,882,283</u>
FUND BALANCES, ENDING	<u>\$ 669,243</u>	<u>\$ -</u>	<u>\$ 9,196,530</u>	<u>\$ 9,865,773</u>

The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2012

Net Changes in Fund Balances - Total Governmental Funds	
(Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ <u>983,490</u>

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	14,664,449
Depreciation expense	<u>(607,222)</u>
Excess of capital outlay over depreciation expense	<u>14,057,227</u>
Change in compensated absence balance not recorded in the governmental funds	<u>37,222</u>
Change in net assets of governmental activities (Statement of Activities)	\$ <u>15,077,939</u>

The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS
BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS)
Year Ended June 30, 2012

	GENERAL FUND - TOTAL			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal funds	\$ 45,414,559	\$ 61,875,735	49,263,528	\$ (12,612,207)
General funds	3,217,400	3,217,400	3,217,400	-
Other State funds	-	-	810	810
Inter-agency transfers	6,263,000	7,246,367	2,935,935	(4,310,432)
Budgeted fund balance	-	-	-	-
TOTAL REVENUES	\$ 54,894,959	\$ 72,339,502	\$ 55,417,673	\$ (16,921,829)
P-775 WORKFORCE TRANSITION SERVICES EXPENDITURES				
Personal services and benefits	\$ 12,884,200	\$ 17,180,538	\$ 14,712,094	\$ 2,468,444
Contractual services	1,275,500	1,332,951	782,239	550,712
Other costs	3,276,100	5,654,271	3,395,277	2,258,994
Other financing uses	-	-	-	-
TOTAL P-775 EXPENDITURES	\$ 17,435,800	\$ 24,167,760	\$ 18,889,610	\$ 5,278,150
P-776 LABOR RELATIONS EXPENDITURES				
Personal services and benefits	\$ 2,352,900	\$ 2,279,277	\$ 1,855,331	\$ 423,946
Contractual services	23,500	144,500	85,461	59,039
Other costs	1,358,800	2,214,894	1,927,996	286,898
Other financing uses	-	-	-	-
TOTAL P-776 EXPENDITURES	\$ 3,735,200	\$ 4,638,671	\$ 3,868,788	\$ 769,883
P-777 WORKFORCE TECHNOLOGY EXPENDITURES				
Personal services and benefits	\$ 2,274,100	\$ 2,988,869	\$ 2,454,943	\$ 533,926
Contractual services	941,300	4,737,482	2,697,734	2,039,748
Other costs	827,500	4,241,701	2,582,103	1,679,598
Other financing uses	-	-	-	-
TOTAL P-777 EXPENDITURES	\$ 4,042,900	\$ 11,968,052	\$ 7,714,780	\$ 4,253,272
P-778 BUSINESS SERVICES EXPENDITURES				
Personal services and benefits	\$ 1,666,800	\$ 1,816,857	\$ 1,550,545	\$ 266,312
Contractual services	310,600	451,180	150,610	300,570
Other costs	2,905,800	3,564,194	3,181,930	382,264
Other financing uses	-	-	-	-
TOTAL P-778 EXPENDITURES	\$ 4,883,200	\$ 5,832,231	\$ 4,883,085	\$ 949,146
P-779 PROGRAM SUPPORT EXPENDITURES				
Personal services and benefits	\$ 5,790,100	\$ 6,204,839	\$ 5,137,340	\$ 1,067,499
Contractual services	1,296,700	1,296,700	709,574	587,126
Other costs	15,094,600	15,614,790	11,872,671	3,742,119
Other financing uses	-	-	-	-
TOTAL P-779 EXPENDITURES	\$ 22,181,400	\$ 23,116,329	\$ 17,719,585	\$ 5,396,744

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
 STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS
 BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
 Year Ended June 30, 2012

	GENERAL FUND - TOTAL (CONTINUED)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
OTHER WORKFORCE INITIATIVES EXPENDITURES				
Personal services and benefits	\$ 215,638	\$ 215,638	\$ 160,142	\$ 55,496
Contractual services	2,368,293	2,368,293	2,291,217	77,076
Other costs	32,528	32,528	23,026	9,502
Other financing uses	-	-	-	-
TOTAL OTHER EXPENDITURES	<u>\$ 2,616,459</u>	<u>\$ 2,616,459</u>	<u>\$ 2,474,385</u>	<u>\$ 142,074</u>
ALL EXPENDITURES				
Personal services and employee benefits	\$ 25,183,738	\$ 30,686,018	\$ 25,870,395	\$ 4,815,623
Contractual services	6,215,893	10,331,106	6,716,835	3,614,271
Other	23,495,328	31,322,378	22,963,003	8,359,375
Other financing uses	-	-	-	-
TOTAL ALL EXPENDITURES	<u>\$ 54,894,959</u>	<u>\$ 72,339,502</u>	<u>55,550,233</u>	<u>\$ 16,789,269</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			(132,560)	
PRIOR YEAR REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT BILL WITH CURRENT FUNDS			138,370	
REVERSIONS (NOT BUDGETED)			<u>(5,810)</u>	
NET CHANGE IN FUND BALANCE			<u>\$ -</u>	

The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
Year Ended June 30, 2012

	ARRA (89000)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal funds	\$ 35,573,531	\$ 40,031,673	\$ 14,721,955	\$ (25,309,718)
General funds	-	-	-	-
Other state funds	-	-	-	-
Inter-agency transfers	-	-	-	-
Budgeted fund balance	-	-	-	-
TOTAL REVENUES	<u>\$ 35,573,531</u>	<u>\$ 40,031,673</u>	<u>14,721,955</u>	<u>\$ (25,309,718)</u>
EXPENDITURES				
Personal services and benefits	\$ 3,641,532	\$ 3,458,306	884,406	\$ 2,573,900
Contractual services	22,671,262	24,934,760	12,157,666	12,777,094
Other costs	9,260,737	11,638,607	1,118,657	10,519,950
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 35,573,531</u>	<u>\$ 40,031,673</u>	<u>14,160,729</u>	<u>\$ 25,870,944</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			561,226	
PRIOR YEAR REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT FUNDS			47,408	
CURRENT YEAR REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT FUNDS			<u>(608,634)</u>	
NET CHANGE IN FUND BALANCE			<u>\$ -</u>	

The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2012

	<u>2012</u> <u>Unemployment</u> <u>Insurance Trust</u> <u>Enterprise Fund</u>
CURRENT ASSETS	
Cash held with U.S. Treasury	\$ 87,916,262
Due from governmental funds	51,012
Due from federal government	14,602,057
Accounts receivable, net of allowance for uncollectibles	<u>55,422,069</u>
TOTAL CURRENT ASSETS	<u>\$ 157,991,400</u>
CURRENT LIABILITIES	
Cash overdraft	\$ 35,755
Benefits payable	10,597,529
Due to governmental funds	2,468,733
Due to other state agencies	95,870
Deferred revenue	<u>17,466,113</u>
TOTAL CURRENT LIABILITIES	<u>30,664,000</u>
NET ASSETS	
Restricted for:	
Unemployment insurance trust	<u>127,327,400</u>
Total net assets	<u>127,327,400</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 157,991,400</u>

The accompanying notes are an integral part of the financial statements.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUND
Year Ended June 30, 2012**

	2020 Unemployment Insurance Trust Enterprise Fund
OPERATING REVENUES	
Interest on investments	\$ 3,542,196
Employers taxes and reimbursements	211,736,066
CWC reimbursements	<u>5,088,310</u>
Total operating revenues	220,366,572
OPERATING EXPENSES	
Unemployment benefits distributed to beneficiaries	<u>546,599,620</u>
Total operating expenses	<u>546,599,620</u>
OPERATING INCOME (LOSS)	(326,233,048)
NON-OPERATING REVENUES	
Grants, contracts and federal reimbursements	<u>261,860,575</u>
Total non-operating revenues	<u>261,860,575</u>
CHANGE IN NET ASSETS	(64,372,473)
TOTAL NET ASSETS, BEGINNING	<u>191,699,873</u>
TOTAL NET ASSETS, ENDING	<u><u>\$ 127,327,400</u></u>

The accompanying notes are an integral part of the financial statements.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
Year Ended June 30, 2012**

	<u>20020 Unemployment Insurance Trust Enterprise Fund</u>
CASH FLOWS PROVIDED BY (USED IN)	
OPERATING ACTIVITIES	
Cash received from employers and CWC reimbursements	\$ 220,699,641
Cash received from interest and principal in investments (trust fund earnings)	3,542,196
Cash paid for unemployment benefits	<u>(539,157,206)</u>
Cash provided by (used in) operating activities	(314,915,369)
CASH FLOWS PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITY	
Cash received from federal government	248,379,203
Transfer of other interfund payable	526,922
Transfer of deferred revenue to governmental funds	<u>(23,558,887)</u>
Cash provided by non-capital financing activity	225,347,238
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(89,568,131)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>177,448,638</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 87,880,507</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$ (326,233,048)
Change in receivables	3,875,265
Change in payables	<u>7,442,414</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (314,915,369)</u>

The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND
June 30, 2012

	17800
	Agency
	Fund
	<hr/>
ASSETS	
Investment in State General Fund Investment Pool	\$ 269,571
	<hr/>
TOTAL ASSETS	\$ 269,571
	<hr/>
LIABILITIES	
Amounts held for others	\$ 127,018
Accounts payable	142,553
	<hr/>
TOTAL LIABILITIES	\$ 269,571
	<hr/>

The accompanying notes are an integral part of the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - NATURE OF ORGANIZATION

Organization

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

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

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

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

Effective January 22, 2004, Executive Order 2004-004 established the Office of Workforce Training and Development (OWTD) and vested responsibility in it for the receipt, administration and oversight of expenditure of funds from all grants pursuant to the federal Workforce 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 tracking system for recording and reporting financial activity associated with the administration of the WIA program.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - NATURE OF ORGANIZATION (CONTINUED)

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

In FY 2012, 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:

- 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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - NATURE OF ORGANIZATION (CONTINUED)

The Department expended the money for the following purposes:

- Payments to claimants for unemployment insurance benefits
- Operating and administrative costs including capital expenditures
- Payments to employers for apprenticeship training
- Workforce 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Reporting Entity

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

The governmental fund statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Department actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

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

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

Basis of Presentation - Fund Accounting

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

For FY 2012, the General fund (SHARE fund 32900) and ARRA (SHARE Fund 89000) special revenue fund are presented as major funds. The ARRA fund was presented as major for transparency purposes. The remaining special revenue funds (SHARE funds 61300, 61400 and 71100) are presented as non-major on the Department's financial statements.

General Fund (SHARE Fund 32900) - The Department's General Fund is the operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund combines activities for all of the programs of the Department. The Department's General Fund is funded from appropriations from the State of New Mexico General Fund, special appropriations, Federal grants and other revenue. Prior to FY 09, the Department used various other funds to account for activities for the various programs of the Department. During FY 09, the Department began using the General Fund for all of these programs. These additional funds consist of the following: SHARE 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 FY10, activity was not recorded in these funds and any remaining balances in the accounts were included in SHARE 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Restricted or committed revenue sources are expected to continue to represent a substantial portion of the inflows reported in these funds.

ARRA Fund (SHARE 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. The fund was

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

established for the Department by New Mexico Department of Finance and Administration and New Mexico Office of Recovery and Reinvestment in FY 09.

Special Revenue Non-Major Funds

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

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

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

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

Unemployment Insurance Trust Enterprise Fund (SHARE 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 classified as an enterprise fund. This is a non-reverting fund.

Fiduciary Fund (SHARE Fund 17800) - The fiduciary fund is used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Department. Agency funds are custodial in nature and do not involve measurement of results of operations. The Wage Claim Fund is an agency fund which is a holding account for wage claim assignments collected by the Department's Labor Relations Division (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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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

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

Governmental fund types follow the modified accrual basis of accounting for financial statement purposes. Under the modified accrual basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, typically 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, 2012.

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. 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

The Department follows these procedures in establishing the budgetary data reflected in the financial statements for the agency:

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

Encumbrances

The Department uses encumbrances for certain balances that may be carried forward based on the appropriation language from Legislation. Encumbered funds that do not revert at the end of the appropriation period are re-budgeted in the new fiscal year. If the applicable appropriation extends beyond the end of the fiscal year, then the Department is permitted to carry forward the encumbrance into the new fiscal year. Fund balance is designated as either reserved or unreserved in these financial statements in accordance with this criterion. For the fiscal year ended June 30, 2012, the Department did not have any encumbrances presented in the financial statements.

Net Assets/Fund Balance

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The entire restricted net asset balance reported on the statement of net assets is restricted by enabling legislation.

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

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Committed is that portion of fund balance that has been approved by the highest level of formal action of the Legislature and does not lapse at year-end. The Department does not have any committed fund balance this fiscal year.

Assigned fund balance has a use constraint imposed unilaterally by government separate from legislation creating the revenue source. This classification indicates the intent to use resources for a specific purpose, but is neither restricted nor committed.

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

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

Cash and Investments

Cash includes amounts in the demand deposits.

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

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

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

Salvage value is not included in the depreciation calculation.

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

Computer equipment	3 years
Office equipment	5 years
Furniture and fixtures	10 years
Vehicles	10 years
Office improvements	20 years

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.

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.

Subsequent Events

At June 30, 2012, the Department had no claims that the Risk Management Division has returned as not covered that would become the responsibility of the Department.

Management evaluated subsequent events through December 14, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to December 14, 2012, that provided additional evidence about conditions that existed at June 30, 2012 have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2012.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3. STATE GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012, an independent expert diagnostic report revealed that the State General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management REporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is, "Current State Diagnostic of Cash Control".

The State General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the State General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the Department's balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. It is the understanding of Management that these changes will allow for the completion of a timely and accurate reconciliation on a *point-forward basis only*. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the State General Fund Investment Pool. In addition, as required by Section 6-5-201 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4. INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

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

At June 30, 2012 the Department had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool: \$12,362,113

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

NOTE 5 - CASH DEPOSIT ACCOUNTS AND INVESTMENTS

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts on page 58, in Wells Fargo Bank (WF) of \$1,828,397. 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 \$12,362,113 with the State Treasurer in the State General Fund Investment Pool.

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

Detail of pledged collateral specific to this agency is unavailable because the bank maintains pledged collateral for the state as a whole. However, the State Treasurer's Office collateral bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts (Schedule 2).

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 - CASH DEPOSIT ACCOUNTS AND INVESTMENTS

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

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, refer to the Schedule of Individual Deposit Accounts (Schedule 1).

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
June 30, 2012

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	June 30, 2011	FY12 Additions	FY12 Disposals	Adjustments	June 30, 2012
Assets:					
Office improvements	\$ 2,920,044	\$ 120,690	\$ -	\$ 10,048	\$ 3,050,782
Vehicles	302,074		-		302,074
Office equipment	2,174,723		-	47	2,174,770
Furniture and fixtures	866,091	23,256	(64,080)	(11,396)	813,871
Computer equipment	1,744,444	113,714	-	1,301	1,859,459
WIP	14,438,421	14,406,789	-	-	28,845,210
Total acquired value	<u>22,445,797</u>	<u>14,664,449</u>	<u>(64,080)</u>	<u>-</u>	<u>37,046,166</u>
Accumulated depreciation:					
Office improvements	(465,270)	(229,318)	-	(5,153)	(699,741)
Vehicles	(15,104)	(30,207)	-	-	(45,311)
Office equipment	(2,001,811)	(19,830)	-	(97,106)	(2,118,747)
Furniture and fixtures	(381,123)	(52,987)	64,080	18,763	(351,267)
Computer equipment	(746,390)	(274,880)	-	83,496	(937,774)
Total accumulated depreciation	<u>(3,609,698)</u>	<u>(607,222)</u>	<u>64,080</u>	<u>-</u>	<u>(4,152,840)</u>
Net total	<u>\$ 18,836,099</u>	<u>\$ 14,057,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,893,326</u>

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

Depreciation expense was charged to functions as follows:

Workforce transition services	\$ 53,786
Workforce technology	284,085
Business services	23,827
Program support	206,863
Other workforce initiatives	<u>38,661</u>
Total	<u>\$ 607,222</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 - UNEMPLOYMENT INSURANCE FUND – BENEFITS PAYABLE

A liability has been recorded for benefits claimed prior to but paid subsequent to June 30, 2012, consisting of the following:

Unemployment benefits	\$ 10,597,529
Withholding benefits (due to Human Services Dept.)	<u>95,870</u>
Total	<u>\$ 10,693,399</u>

NOTE 8 - RECEIVABLES

Receivable:	
Current UI taxes	\$ 54,115,224
Benefit overpayments	74,117,342
Combined wage claimants (CWC)	<u>1,306,845</u>
Gross receivables	129,539,411
Less allowance for uncollectibles:	
Benefit overpayments	<u>(74,117,342)</u>
Total allowances	<u>(74,117,342)</u>
Net total receivables – fund level	<u>55,422,069</u>
Total	<u>\$ 55,422,069</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, 2012, 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 would usually be for an equal amount of accounts receivable. Although some past due accounts will be collected, no estimate has been made by the Department of the amount of collectible receivables.

Combined Wage Claimants

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 - 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, 2012 were \$503,254. Rental expenditures for equipment for the fiscal year ended June 30, 2012 were \$650,086. The future minimum rental commitments as of June 30, 2012 were as follows:

Year Ended June 30, 2012:

	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2013	\$ 373,870	\$ 573,094	\$ 946,964
2014	209,162	432,699	641,861
2015	147,465	408,008	555,473
2016	-	314,179	314,179
2017	-	160,864	160,864
2018 and thereafter	<u>-</u>	<u>9,288</u>	<u>9,288</u>
Total	<u>\$ 730,497</u>	<u>\$ 1,898,132</u>	<u>\$ 2,628,629</u>

NOTE 10 - COMPENSATED ABSENCES

The changes to compensated absences are as follows:

	<u>Balance June 30, 2011</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2012</u>
Sick and annual leave	<u>\$ 1,175,348</u>	<u>\$ 999,669</u>	<u>\$ (1,036,891)</u>	<u>\$ 1,138,126</u>
	<u>\$ 1,175,348</u>	<u>\$ 999,669</u>	<u>\$ (1,036,891)</u>	<u>\$ 1,138,126</u>

\$1,138,126 of the compensated absences is considered due within one year. Compensated absences are liquidated with resources from the Department's General Fund (SHARE Fund 32900).

NOTE 11 - 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, 2012.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 11 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

Due to Other Funds		Due From Other Funds					
SHARE Fund Name	SHARE Fund No.	Enterprise Fund (20020)	General Fund (32900)	Penalty & Interest (61300)	Public Works Apprenticeship and Training (61400)	Labor Enforcement (71100)	Total
Enterprise Fund	20020	\$ -	\$ 2,459,706	\$ 9,027	\$ -	\$ -	\$ 2,468,733
General Fund	32900	-	-	1,809,602	1,170,062	493,430	3,473,094
Penalty & Interest	61300	<u>51,012</u>	-	-	-	-	<u>51,012</u>
Total		<u>\$ 51,012</u>	<u>\$ 2,459,706</u>	<u>\$ 1,818,629</u>	<u>\$ 1,170,062</u>	<u>\$ 493,430</u>	<u>\$ 5,992,839</u>

NOTE 12 - 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, 2012 consist of the following:

Due From Other State Agencies

DWS Fund No.	Agency	Other Agency's Fund No.	Amount
71100	State Treasurer's Office	74100	\$ <u>221</u>
Total			<u>\$ 221</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 - DUE FROM AND DUE TO OTHER AGENCIES (CONTINUED)

Due To Other State Agencies

DWS Fund No.	Agency	Other Agency's Fund No.	Amount
20020	New Mexico Human Services Department	05200	\$ 95,870
32900	State General Fund	85200	<u>4,929,921</u>
Total			<u>\$5,025,791</u>

NOTE 13 - 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.

NOTE 14 - 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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 15 - 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.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 15.09% 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, 2012, 2011 and 2010 were \$2,346,352, \$2,725,106 and \$2,822,164, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 16 - REVERSIONS

Reversions for the year ended June 30, 2012 totaled \$5,810.

NOTE 17 - DEFERRED REVENUE

The Department’s deferred revenue in Fund 20020 as of June 30, 2012 consisted of the following:

UI Modernization - ARRA	\$ 12,598,261
Reed Act	4,651,014
Federal Additional Compensation - Administration	45,147
Employer Prepayments	<u>171,691</u>
Total	<u>\$ 17,466,113</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 18 - TRANSFERS

Transfers occurring during fiscal year June 30, 2012 are as follows:

Inter-fund transfers consist of the following:

Fund	Governmental Funds	Operating Transfers In	Operating Transfers Out
32900	General Fund	<u>\$ 1,935,935</u>	
61300	Penalty and Interest		\$ 367,072
61400	Public Work Apprenticeship and Training		1,485,893
71100	Labor Enforcement Fund		<u>82,970</u>
Total inter-fund transfers		<u>\$ 1,935,935</u>	<u>\$ 1,935,935</u>

The inter-fund transfers that occurred during fiscal year ended June 30, 2012 represent transfers from Special Revenue Funds for FY12 appropriations.

Inter-agency transfers consist of the following:

Agency	Fund	Governmental Funds	Operating Transfers In	Operating Transfers Out
63200	98200	Worker's Compensation Administration	<u>\$ 1,000,000</u>	<u>\$ -</u>
Total inter-agency transfers			<u>\$ 1,000,000</u>	<u>\$ -</u>

The inter-agency transfer from Worker's Compensation Administration is an appropriation.

NOTE 19 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

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

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 19 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

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

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

Funding Policy

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan, the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

Also, employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 19 - POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)

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, 2012, 2011 and 2010 were \$308,643, \$297,972 and \$240,808, respectively, which equal the required contributions for each year.

NOTE 20 - 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.

NOTE 21 - 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.

NOTE 22 - FUND BALANCE CLASSIFICATIONS

The Department's fund balances represent: 1) Restricted purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; 2) Committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned purposes, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these reserves by fund type at June 30, 2012 follows:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 22 - FUND BALANCE CLASSIFICATIONS (CONTINUED)

	Major Fund	Non-Major Special Revenue Fund	Non-Major Special Revenue Fund	Non-Major Special Revenue Fund
	General Fund (32900)	Penalty and Interest (61300)	Public Works Apprenticeship and Training (61400)	Labor Enforcement Fund (71100)
Fund balances:				
Restricted for:				
Special Revenue Funds,				
per Section 51-1-34 NMSA 1978	\$ -	\$ 5,440,066	\$ -	\$ -
per Section 13-4-14.1 NMSA 1978	-	-	-	1,466,221
Public Works Apprenticeship & Training per Section 13-4D-2	-	-	2,290,243	-
Assigned *	<u>669,243</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>\$669,243</u>	<u>\$ 5,440,066</u>	<u>\$ 2,290,243</u>	<u>\$ 1,466,221</u>

* The assigned fund balance remaining within the General Fund (32900) relates to residual unexpended fund balance from the special revenue funds to be expended for operations in fiscal year 2013.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2012

	SPECIAL REVENUE FUNDS			Total Non-major Governmental Funds
	61300 Penalty and Interest	61400 Public Works Apprenticeship and Training	71100 Labor Enforcement Fund	
ASSETS				
Investment in State General Fund				
Investment Pool	\$ 3,672,449	\$ 1,126,903	\$ 972,570	\$ 5,771,922
Due from other funds	1,809,602	1,170,062	493,430	3,473,094
Due from enterprise funds	9,027	-	-	9,027
Due from other state agencies	-	-	221	221
TOTAL ASSETS	<u>\$ 5,491,078</u>	<u>\$ 2,296,965</u>	<u>\$ 1,466,221</u>	<u>\$ 9,254,264</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 6,722	\$ -	\$ 6,722
Due to enterprise funds	51,012	-	-	51,012
Due to other funds	-	-	-	-
Total liabilities	51,012	6,722	-	57,734
FUND BALANCES				
Restricted for:				
Public Works Apprenticeship and Training	-	2,290,243	-	2,290,243
Special Revenue Funds	5,440,066	-	1,466,221	6,906,287
Total fund balances	<u>5,440,066</u>	<u>2,290,243</u>	<u>1,466,221</u>	<u>9,196,530</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,491,078</u>	<u>\$ 2,296,965</u>	<u>\$ 1,466,221</u>	<u>\$ 9,254,264</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2012**

	SPECIAL			Total Non-major Governmental Funds
	61300 Penalty and Interest	61400 Public Works Apprenticeship and Training	71100 Labor Enforcement Fund	
REVENUES				
Interest on deposit/investments	\$ -	\$ -	\$ 1,174	\$ 1,174
Licences and permits	-	-	565,800	565,800
Penalties and interest	1,582,172	-	-	1,582,172
Public Works Apprenticeship and Training	-	770,279	-	770,279
Total revenues	<u>1,582,172</u>	<u>770,279</u>	<u>566,974</u>	<u>2,919,425</u>
EXPENDITURES				
Current:				
Other workforce initiatives	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,582,172	770,279	566,974	2,919,425
OTHER FINANCING SOURCES (USES)				
Transfers out:				
Interfund	(367,072)	(1,485,893)	(82,970)	(1,935,935)
Other	-	-	-	-
Net other financing uses	<u>(367,072)</u>	<u>(1,485,893)</u>	<u>(82,970)</u>	<u>(1,935,935)</u>
NET CHANGE IN FUND BALANCES	1,215,100	(715,614)	484,004	983,490
BEGINNING FUND BALANCES	<u>4,224,966</u>	<u>3,005,857</u>	<u>982,217</u>	<u>8,213,040</u>
ENDING FUND BALANCES	<u>\$ 5,440,066</u>	<u>\$ 2,290,243</u>	<u>\$ 1,466,221</u>	<u>\$ 9,196,530</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES -
NON-MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS)
Year Ended June 30, 2012**

PENALTY AND INTEREST (61300)

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General funds	-	-	-	-
Other state funds	2,994,900	2,944,900	1,582,172	(1,362,728)
Inter-agency transfers	-	-	-	-
Budgeted fund balance	-	-	-	-
Total revenues	<u>\$ 2,994,900</u>	<u>\$ 2,944,900</u>	1,582,172	<u>\$ (1,362,728)</u>
EXPENDITURES:				
Personal services and employee benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>2,994,900</u>	<u>2,944,900</u>	<u>367,072</u>	<u>2,577,828</u>
Total expenditures	<u>\$ 2,994,900</u>	<u>\$ 2,944,900</u>	<u>367,072</u>	<u>\$ 2,577,828</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			1,215,100	
BUDGETED FUND BALANCE			-	
NET CHANGE IN FUND BALANCE			<u>\$ 1,215,100</u>	

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES -
NON-MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
Year Ended June 30, 2012**

PUBLIC WORKS APPRENTICESHIP AND TRAINING (61400)

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General funds	-	-	-	-
Other state funds	700,000	700,000	770,279	70,279
Inter-agency transfers	-	-	-	-
Budgeted fund balance	-	869,166	715,614	(153,552)
Total revenues	\$ 700,000	\$ 1,569,166	1,485,893	\$ (83,273)
EXPENDITURES:				
Personal services and employee benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	700,000	1,569,166	1,485,893	83,273
Total expenditures	\$ 700,000	\$ 1,569,166	1,485,893	\$ 83,273
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
			-	
BUDGETED FUND BALANCE			(715,614)	
NET CHANGE IN FUND BALANCE			<u>\$ (715,614)</u>	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES -
NON-MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) (CONTINUED)
Year Ended June 30, 2012

LABOR ENFORCEMENT FUND (71100)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary Basis)</u>	<u>Final Budget</u> <u>Positive (Negative)</u>
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General funds	-	-	-	-
Other state funds	718,000	718,000	566,974	(151,026)
Inter-agency transfers	-	-	-	-
Budgeted fund balance	-	-	-	-
Total revenues	<u>\$ 718,000</u>	<u>\$ 718,000</u>	566,974	<u>\$ (151,026)</u>
EXPENDITURES:				
Personal services and employee benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	718,000	718,000	82,970	635,030
Other financing uses	-	-	-	-
Total expenditures	<u>\$ 718,000</u>	<u>\$ 718,000</u>	<u>82,970</u>	<u>\$ 635,030</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			484,004	
BUDGETED FUND BALANCE			-	
NET CHANGE IN FUND BALANCE			<u>\$ 484,004</u>	

OTHER SUPPLEMENTAL SCHEDULES

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE 1 - SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
June 30, 2012

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	\$ 6,752,176	\$ -	\$ 6,752,176
ARRA - 89000	State Treasurer	(431,556)	-	(431,556)
Penalty and Interest - 61300	State Treasurer	3,672,449	-	3,672,449
PWAT - 61400	State Treasurer	1,126,903	-	1,126,903
Labor Enforcement Fund - 71100	State Treasurer	972,570	-	972,570
Total Governmental Funds with State Treasurer		<u>12,092,542</u>	<u>-</u>	<u>12,092,542</u>
Proprietary Funds Cash in Banks				
Clearing Account - 20020	Wells Fargo	1,189,830	-	1,189,830
Clearing Account - 20020	Wells Fargo	-	(973,198)	(973,198)
Benefit Account - 20020	Wells Fargo	33,501	-	33,501
UTF - 20020	Wells Fargo	527,073	-	527,073
Benefit Account - 20020	Wells Fargo	-	(890,954)	(890,954)
Cash Security Deposit Account - 20020	Wells Fargo	77,993	-	77,993
Total Proprietary in Banks		<u>1,828,397</u>	<u>(1,864,152)</u>	<u>(35,755)</u>
Proprietary Funds Cash - Other				
Unemployment Trust Fund - 20020	U.S. Dept. of Treasury	87,916,262	-	87,916,262
Total Proprietary Other		<u>87,916,262</u>	<u>-</u>	<u>87,916,262</u>
Total Funds (excluding Agency Fund)		<u>101,837,201</u>	<u>(1,864,152)</u>	<u>99,973,049</u>
Trust and Agency Funds with State Treasurer (with SHARE fund numbers):				
Wage Claim - 17800	State Treasurer	269,571	-	269,571
Total Trust and Agency with State Treasurer		<u>269,571</u>	<u>-</u>	<u>269,571</u>
Department Total - All Funds		<u>\$ 102,106,772</u>	<u>\$ (1,864,152)</u>	<u>\$ 100,242,620</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE 2 - SCHEDULE OF PLEDGED COLLATERAL
June 30, 2012

	<u>Wells Fargo</u>	<u>U.S. Department of the Treasury</u>	<u>Accounts at State Treasurer</u>	<u>Total</u>
Total amount of deposit	\$ 1,828,397	\$ 87,916,262	\$ 12,362,113	\$ 102,106,772
Less FDIC	(250,000)	-	-	(250,000)
Total uninsured public money	1,578,397	87,916,262	12,362,113	101,856,772
50% collateral requirement	789,199	43,958,131	6,181,057	50,928,386
State Agency Collateral Listing	A	B	C	A&B&C
Total pledged	-	-	-	-
Over (under) pledged	A	B	C	A&B&C

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

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

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

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

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
 SCHEDULE 3 - SCHEDULE OF SPECIAL APPROPRIATIONS
 June 30, 2012

Description	Laws	Appropriations		Amount Budgeted in FY12	Amount Expended in FY12	Balance
		Expiration	Amount			
Reed Act for SHARE enhancement	Laws 2009, Ch. 124, Section 7 #9	2012	\$ 3,500,000	\$ 816,673	\$ 738,990	\$ <u>77,683</u>
Outstanding balance						\$ <u>77,683</u>
Reed Act for UI tax system time extension	Laws 2009, Ch. 124, Section 7 #9	2012	\$12,260,000	\$ 1,806,772	\$ 1,735,395	\$ <u>71,377</u>
Outstanding balance						\$ <u>71,377</u>

The outstanding balance of special appropriations to these funds is recorded as part of deferred revenue in fund 20020, with the remaining unexpended balance to be re-appropriated in accordance with the Reed Act and is not subject to reversion to State GF.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE 4 - SCHEDULE OF MEMORANDA OF UNDERSTANDING
Year Ended June 30, 2012

The following is a list of Memoranda of Understanding the Department has entered into:

Description	Responsible Party	Dates of Agreement		Project Amount	Department Portion	Audit Responsibility	Agency Reporting Revenues/ Expenses
		Beginning	Ending				
Datasharing	N/A	7/1/2010	Ongoing	\$ -	-	N/A	N/A
UI Tax RFP	N/A	7/1/2010	6/30/2014	\$ -	-	N/A	N/A
Vending Machine Maintenance	N/A	7/1/2010	Ongoing	\$ -	-	NMDWS	N/A
HVRP Grant - Veterans' Program	N/A	7/1/2011	6/30/2012	\$ -	-	N/A	N/A

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE 5 - SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
June 30, 2012

	<u>Balance, June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2012</u>
ASSETS				
Investment in State General Fund Investment Pool	\$ 269,856	\$ 21,624	\$ (21,909)	\$ 269,571
TOTAL ASSETS	<u>\$ 269,856</u>	<u>\$ 21,624</u>	<u>\$ (21,909)</u>	<u>\$ 269,571</u>
LIABILITIES				
Amounts held for others	\$ 127,303	\$ 21,624	\$ (21,909)	\$ 127,018
Accounts payable	<u>142,553</u>	<u>-</u>	<u>-</u>	<u>142,553</u>
TOTAL LIABILITIES	<u>\$ 269,856</u>	<u>\$ 21,624</u>	<u>\$ (21,909)</u>	<u>\$ 269,571</u>

SINGLE AUDIT

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
U.S. Department of Labor:		
Labor Force Statistics	17.002	\$ 805,939
Unemployment Insurance	17.225	571,264,789
ARRA Unemployment Insurance	17.225	12,122,857
Trade Adjustment Assistance Workers	17.245	3,370,381
H-1B Job Training	17.268	35,637
Work Opportunity Tax Credit Program	17.271	162,976
Temporary Labor Certification for Foreign Workers	17.273	75,041
ARRA - Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	2,380,502
Homeless Veterans' Reintegration Project	17.805	17,000
Employment Service Cluster:		
Employment Services	17.207	5,617,096
Disabled Veteran's Outreach Program	17.801	330,917
Local Veteran's Employment Representative Program	17.804	660,451
Workforce Investment Act Cluster:		
Workforce Investment Act Adult Program	17.258	4,530,457
Workforce Investment Act Youth Activities	17.259	4,096,174
ARRA - Workforce Investment Act Youth Activities	17.259	6,952
Workforce Investment Act Dislocated Workers	17.260	4,478,034
ARRA - Workforce Investment Act Dislocated Workers	17.260	211,644
Total U.S. Department of Labor		<u>610,166,847</u>
U.S. Equal Employment Opportunity Commission:		
Employment Discrimination Title VII of the Civil Rights Act of 1964	30.001	226,156
Total U.S. Equal Employment Opportunity Commission		<u>226,156</u>
U.S. Department of Health and Human Services:		
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	62,426
ACA State Healthcare Workforce Development Grants	93.509	129,674
Total U.S. Department of Health and Human Services		<u>192,100</u>
Total Federal Awards Expended		<u>\$ 610,585,103</u>
Reconciliation to the Financial Statements		
Governmental Funds - Federal Revenue		\$ 63,985,483
Proprietary Funds - Federal Revenue		<u>261,860,575</u>
Total Federal Revenue		325,846,058
Unemployment Benefit Distributions from State Trust Fund		<u>284,739,045</u>
Total		<u>\$ 610,585,103</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

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 except for the subrecipient disbursements, which are reported on a cash basis.

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 \$284,739,045.

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 \$2,474,385 related to Reed Act expenditures.

EMPLOYMENT SERVICE (ES) CLUSTER – U.S. DEPARTMENT OF LABOR

ES Cluster includes:

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

WORKFORCE INVESTMENT ACT (WIA) CLUSTER – U.S. DEPARTMENT OF LABOR

WIA Cluster includes:

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

SUBRECIPIENTS

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

1. The Northern Area Local Workforce Development Board (NALWDB/53895) is one of four regional workforce boards established in compliance with the Workforce Investment Act (WIA) of 1999 and certified by the New Mexico Governor. WIA funds are allocated in

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

three subparts: Adult, Dislocated Worker and Youth. The board received the following pass-through Federal support through the Department in fiscal year 2012:

WIA - Adult	\$ 741,260
WIA - Youth	780,165
WIA - Dislocated	<u>896,119</u>
 Total	 <u>\$ 2,417,544</u>

2. The Eastern Plains Council of Governments (EPCOG/54561) is a voluntary association of county and municipal governments within the seven counties of Planning and Development District IV. The EPCOG is an organization of, by and for local governments. It was established in 1972 to assist in planning for common needs and coordinating for sound regional development. The board received the following Federal support through the Department in fiscal year 2012:

WIA - Adult	\$ 945,105
WIA - Youth	427,411
WIA - Dislocated	<u>380,119</u>
 Total	 <u>\$ 1,752,635</u>

3. The Mid Regional Council of Governments is the administrative entity and fiscal agent for the New Mexico Workforce Connection (WCCNM/9289) in the central region of the state (Bernalillo, Tarrant, Sandoval and Valencia Counties). The WCCNM works to support industries help businesses become competitive and profitable, and grow workers who are skilled and productive. The board received the following Federal support through the Department in fiscal year 2012:

WIA - Adult	\$ 1,326,100
WIA - Youth	1,485,027
WIA - Dislocated	<u>1,600,689</u>
 Total	 <u>\$ 4,411,817</u>

4. Southwest Area Workforce Development Board (SAWDB/9293) is the southwest region's workforce agency that helps hundreds of employers connect with thousands of job seekers each year. The agency offers innovative solutions to assist businesses to succeed in today's highly competitive workforce, while providing the tools job seekers need to find or advance in their current careers. The board received the following Federal support through the Department in fiscal year 2012:

WIA - Adult	\$ 721,373
WIA - Youth	1,043,720
WIA - Dislocated	<u>579,607</u>
 Total	 <u>\$ 2,344,700</u>

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Celina Bussey, 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, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and the major special revenue fund and the combining and individual funds and related budgetary comparisons presented as supplementary information of the New Mexico Department of Workforce Solutions (the Department) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. 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

Management of the Department is responsible for establishing and maintaining effective 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 auditing 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs and responses to be significant

deficiencies in internal control over financial reporting (findings 00-13, 05-04, 07-01, 07-10 and 12-03). A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

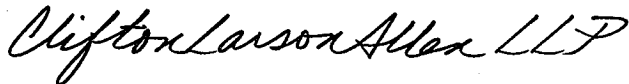
Compliance and Other Matters

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

We also noted certain other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as finding 12-02.

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 responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Department, the New Mexico Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration, 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.



Albuquerque, New Mexico
December 14, 2012



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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the New Mexico Department of Workforce Solutions (the Department) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants 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 of the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 00-13, 05-04, 08-03, 11-01, 11-03, 12-01, and 12-03.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 entity's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as findings 00-13, 05-04, 08-03, 11-01, 11-02, 11-03, 12-01 and 12-03. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 responses and, accordingly, we express no opinion on them.

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

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 14, 2012

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings, disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA

<u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
17.245	Trade Adjustment Assistance Workers
17.225	U.S Department of Labor – UI Administration
ES Cluster:	
17.207	Employment Services
17.801	Disables Veterans’ Outreach Program
17.804	Local Veterans’ Employment Representative
WIA Cluster:	
17.258	WIA Adult
17.259	WIA Youth
17.260	WIA Dislocated

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

Auditee qualified as low-risk auditee? yes no

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section II – Financial Statement Findings

00-13 – Employer’s Quarterly Excess Wages (Significant Deficiency)

Condition: The Tax Unit is not consistently identifying inaccurate excess wages reported on the employer’s quarterly wage and contribution reports (ES-903). This is applicable to CFDA 17.225 – UI Administration.

Criteria: Per Section 6-5-2, NMSA 1978, the Department should ensure that the amounts of excess wages reported by employers on the ES-903 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 ES-903 reports are not accurate.

Recommendation: The Department is currently in the process of implementing a new tax system, which will allow the Department to verify the wage data for all tax reporting submissions.

Management’s Response: The Department will officially launch the new, fully-integrated Unemployment Insurance system on January 6, 2013. Among other applications, the system will have the capability of verifying the wage data for all tax reporting submissions, which will assist the Tax Unit in resolving this finding. The CFO will be responsible for the ensuring the corrective action adequately addresses the finding.

05-04 – Delinquent Employer Contribution Report (Significant Deficiency)

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. This is applicable to CFDA 17.225 – UI Administration.

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.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section II – Financial Statement Findings (continued)

05-04 – Delinquent Employer Contribution Report (Significant Deficiency) (continued)

Recommendation: The Department is currently in the process of implementing a new tax system that will provide the Department with accurate charge and collection data in an “aged” format to allow the Department to appropriately reserve, identify and account for delinquent balances.

Management’s Response: Currently, the Department assesses subsequent payment and past trends to identify the receivable balance and uncollectible amounts. A new tax system launches January 6, 2013 and will provide accurate charge and collection data in an “aged” format. This data will enable the Tax Unit to more appropriately reserve, identify and account for delinquent balances. The CFO will be responsible for the ensuring the corrective action adequately addresses the finding.

07-01 – Financial Recording, Accounting and Reporting (Significant Deficiency)

Condition: The following issues related to financial recording, accounting and reporting were noted during the FY12 audit:

- The Department is consistently reconciling the outstanding V and H warrants within the UI fund (20020); however, an adequate reconciliation of the book balances within the fund to the bank balances is lacking. As a result, there is an approximate \$236,000 unreconciled difference in the fund.
- The Department prepared and posted adjusting journal entries to the SHARE balances as audit adjustments in excess of the expected closing entries.

Criteria: 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: Up until the end of FY12, the Department was still in the process of working with DFA to get all audit adjustments posted from the late submissions of the FY07-09 audits. The result of these adjustments not being posted into SHARE by DFA caused difficulties in the monthly reconciliations of balance sheet accounts. In addition, the Department is still in the process of establishing effective controls to ensure that all necessary adjustments as a result of monthly reconciliations are being recorded in a timely manner into SHARE, the official book of record.

Effect: Possible misstatements of the financial statements.

Recommendation: We recommend the Department establish controls and procedures surrounding the cash reconciliation process within the UI fund to ensure the bank and book balances are reconciled on a monthly basis. In addition, we recommend the Department continues to establish the necessary internal controls to ensure timely recording of all adjustments during the course of the fiscal year to prevent excessive closing entries.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section II – Financial Statement Findings (continued)

07-01 – Financial Recording, Accounting and Reporting (Significant Deficiency)
(continued)

Management's Response: The UI Treasury Unit will establish a policy with related procedures to ensure that monthly reconciliations are prepared and reviewed for discrepancies by the UI Treasury. The reconciliation will note the reconciling items between the General Ledger Cash Accounts and the Wells Fargo Bank Statement with supporting documentation for any necessary corrections. The procedure will be implemented December 2012 and is the responsibility of the Treasury Unit Manager.

07-10 – Reconciliation of Agency Funds (Significant Deficiency)

Condition: The Department's Labor and Industrial Wage Claim Fund has an amount of approximately \$270,000 held for or due to others. Currently, the Department is uncertain as to whom all of the funds are held for or due to.

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: Prior to 2004, the Department did not maintain documentation for the activity of this agency fund and, as a result, there is no documentation to identify who the amounts are held for or due to.

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

Recommendation: We recommend the Department continues to try to identify who the funds are held for.

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. Prior to 2004, however, there was no documentation maintained to identify activity. The process to identify claimants is ongoing. The CFO is responsible for ensuring the finding is appropriately addressed and will determine if it is possible to properly identify whom the amounts are held for or due to and/or work with DFA to determine the best resolution for the issue by the end of FY13.

12-03 – Unemployment Insurance Benefit Account Draws (Significant Deficiency)

Condition: In February 2012, the Department performed a reconciliation in which the Department compared the actual unemployment benefits paid and reported by program to the

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section II – Financial Statement Findings (continued)

12-03 – Unemployment Insurance Benefit Account Draws (Significant Deficiency)
(continued)

the Department noted the previous daily draw process utilized an estimate in determining the daily draw amount from the state benefit account versus the federal benefit account. The Department modified the daily draw process to include the use of actual amounts paid by program in determining the actual amount to draw from the state benefit account versus the federal benefit account. However, the following deficiencies were still noted as it relates to the overall UI benefit draw process:

- The Department is not consistently reconciling the state and federal benefit account draws to the actual benefits paid and reported by program on a monthly basis, which would allow the Department to make the appropriate draw adjustments between the state and federal benefit accounts as necessary in a timely manner.
- The Department's draw process does not include draw adjustments of the federal benefit account for applicable overpayment recoveries.

Criteria: Per CFR 609.11/614.11, each State shall be paid, either in advance or by way of reimbursement, as may be determined by the Department, the sum that the Department estimates the State is entitled to receive under the Act and this part for each calendar month. The sum shall be reduced or increased by the amount which the Department finds that its estimate for an earlier calendar month was greater or less than the sum which should have been paid to the State. In addition, as noted in CFR 609.11/614.11, recovered overpayments shall be deposited in the fund from which payment was made.

Cause: Lack of effective controls surrounding all aspects of the UI benefit draw process to ensure the state versus federal benefit account draws represent actual amounts paid by the applicable programs.

Effect: Amounts drawn from the state and federal benefit accounts may not reflect the actual amounts paid and reported by program.

Recommendation: We recommend the Department establish controls and procedures surrounding the benefit draw process to ensure draws from the state and federal benefit accounts are accurate. In addition, it was noted that the Department immediately modified the daily draw process to offset benefit account draws by the applicable overpayment recoveries. However, it is recommended that the Department continue to monitor this process to ensure overpayment recoveries are properly captured and applicable federal benefit account draws are adjusted appropriately.

Management's Response: The UI Treasury does reduce the draw by overpayment recoveries; however, the appropriate programs are not being adjusted for their receipts. In December 2012, procedures have been initiated to ensure that all overpayment deposits are processed and applied to the correct program. In addition, the UI Treasury Unit will establish a policy with related procedures to ensure that monthly reconciliations are prepared and reviewed for discrepancies by the UI Treasury. The UI Treasury Unit manager is responsible for this corrective action.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs

00-13 – Employer’s Quarterly Excess Wages (Significant Deficiency, Compliance)

Condition: The Tax Unit is not consistently identifying inaccurate excess wages reported on the employer’s quarterly wage and contribution reports (ES-903). This is applicable to CFDA 17.225 – UI Administration.

Criteria: Per Section 6-5-2, NMSA 1978, the Department should ensure that the amounts of excess wages reported by employers on the ES-903 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 ES-903 reports are not accurate.

Recommendation: The Department is currently in the process of implementing a new tax system, which will allow the Department to verify the wage data for all tax reporting submissions.

Management’s Response: The Department will officially launch the new, fully-integrated Unemployment Insurance system on January 6, 2013. Among other applications, the system will have the capability of verifying the wage data for all tax reporting submissions, which will assist the Tax Unit in resolving this finding. The CFO will be responsible for the ensuring the corrective action adequately addresses the finding.

05-04 – Delinquent Employer Contribution Report (Significant Deficiency, Compliance)

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. This is applicable to CFDA 17.225 – UI Administration.

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.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs (continued)

05-04 – Delinquent Employer Contribution Report (Significant Deficiency, Compliance)
(continued)

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.

Recommendation: The Department is currently in the process of implementing a new tax system that will provide the Department with accurate charge and collection data in an “aged” format to allow the Department to appropriately reserve, identify and account for delinquent balances.

Management’s Response: Currently, the Department assesses subsequent payment and past trends to identify the receivable balance and uncollectible amounts. A new tax system launches January 6, 2013 and will provide accurate charge and collection data in an “aged” format. This data will enable the Tax Unit to more appropriately reserve, identify and account for delinquent balances. The CFO will be responsible for the ensuring the corrective action adequately addresses the finding.

08-03 – Federal Grant Reporting (Significant Deficiency, Compliance)

Condition: During our A-133 single audit reporting testwork, the following exceptions were noted regarding required federal reporting:

Unemployment Insurance CFDA 17.225:

- 4 of 20 reports (ETA191, ETA581, ETA2208a, ETA191, ETA2112) tested were not submitted timely
- 2 of 20 reports (ETA-2112 and ETA-227) tested did not have evidence of review.

Employee Services Cluster CFDA’s 17.801/17.804/17.207

- 3 of 14 reports (Two ETA9002 and one VETS 200) tested were not submitted timely

WIA Cluster CFDA’s 17.258/17.259/17.260:

- 2 of 22 reports (FFATA) tested were not submitted timely.

Criteria: Per OMB Circular A-133, *Compliance Requirements Reporting – Financial Reporting*, the Department is required to maintain reports specified by the Federal agency. In addition, A-102 Common Rule requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements

Cause: Failure or lack of internal controls over reporting requirements established by the Federal government.

Effect: The Department is in violation of grant requirements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section III – Federal Award Findings and Questioned Costs (continued)

08-03 – Federal Grant Reporting (Significant Deficiency, Compliance) (continued)

Auditor's 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: The Department did experience the submission of late reports in the UI Bureau. The UI Bureau experienced staffing issues coupled with new reporting requirements due to the increase in claimants and continuing benefit extensions. The UI Bureau will require cross-training for all reporting activity. Currently, all reports are due for review within 72 hours of the reporting deadline. Overtime will be required when reports are not ready within this timeline. This process is effective immediately.

The Financial Management Bureau will implement in Fiscal Year 2013 a dual review process to ensure the 9130's are submitted timely on all federal grants, including Employee Services Cluster. The process includes verification of the submittal paperwork and on-line verification.

In Fiscal Year 2013, the Financial Management Bureau implemented a process to ensure the FFATA reports will be submitted timely. The CFO is responsible for this corrective action.

11-01 – Travel to Training Reimbursements, Compliance and Internal Control (Significant Deficiency, Compliance)

Condition: During the review of the travel to training reimbursements under the TAA program (CFDA 17.245), it was determined that the Department updated the template used to calculate reimbursements amounts. However, the Department's field offices were using the incorrect template for the area that the travel was related to or was using a template that had not been updated with the current applicable federal per diem rates. It was noted that on 7 of 40 vouchers tested, the reimbursement amount was incorrect. Four of these over/underpayments were the result of the rates not being updated when they changed in October 2011. The other three of these over/underpayments were instances in which the field offices used the incorrect form for the area where the travel took place. All of these over/underpayments were less than \$100 each. In total, the 7 instances resulted in a \$154 underpayment.

Criteria: Per 20 CFR part 617, payments shall not exceed the lesser of: the actual per diem expenses or 50 percent of the per diem rate authorized under the federal travel regulations for the locale of the training. In addition, A-102 Common Rule requires that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements

Cause: Failure or lack of internal controls over the reimbursement process to ensure current per diem rates are used in the calculation of the reimbursement amount.

Effect: Non-compliance with federal grant regulations, incorrect reimbursements to participants.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs (continued)

11-01 – Travel to Training Reimbursements, Compliance and Internal Control (Significant Deficiency) (continued)

Auditor's Recommendation: We recommend that management establish effective controls necessary to ensure accurate reimbursements and compliance with the federal grant regulations.

Management's Response: The Business Development and Outreach Bureau will reevaluate reimbursement calculations annually to ensure compliance with current federal regulations. Beginning in December 2012, the program will perform an internal review of all travel reimbursements. The CFO will be responsible for ensuring the corrective action has been appropriately implemented.

11-02 – Internal Control Over Federally Suspended/Debarred Vendors (Significant Deficiency)

Condition: During our A-133 single audit suspended/debarred vendor testwork, it was noted that for 6 of 6 contracts reviewed, there was no evidence that the Department verified that the vendor was not included in the federally *Excluded Parties Listing System* (EPLS) prior to awarding the contract. This is applicable to CFDA's 17.245, 17.258/17.259/17.260, and 17.207/17.801/17.804.

Criteria: A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. A-133 prohibits non-Federal entities from contracting with or making sub awards under covered transactions that are suspended or debarred or whose principals are suspended or debarred.

Cause: Lack of effective internal controls associated with procurement function associated with federal grant funds.

Effect: Possible non-compliance with federal grant regulations.

Recommendation: We recommend that management establish effective controls over the procurement function that requires staff to determine that entities receiving sub awards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination; i.e., checking the *Excluded Parties Listing System* (EPLS), which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement.

Management's Response: The Department will implement a policy whereby proposed vendors are checked for suspension/debarment prior to submitting a contract for legal review.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs (continued)

11-02 – Internal Control Over Federally Suspended/Debarred Vendors (Significant Deficiency) (continued)

In December 2012, the Contracts Unit has been working with Legal to add a statement requesting verification that the vendor is neither suspended nor debarred and it will be written into an article of all future contracts for certification by the vendor. The CFO will be responsible for ensuring the corrective action has been appropriately implemented.

11-03 – Benefit Accuracy Measurement (BAM) Sampling, Compliance and Internal Control (Significant Deficiency, Compliance)

Condition: During our testwork of the BAM sampling (CFDA 17.225, UI Administration), we reviewed 40 case files and noted the following exceptions:

- 1) 1 case was reviewed and closed by the same case worker that prepared the case.
- 2) 1 case lacked either the conclusion/summary page.
- 3) 1 case lacked a signature on the conclusion/summary page.

Criteria: Per BAM ET Handbook 395, 5th edition, case workers need to conclude and sign off on their cases. Per BAM Methodology Program Description found on the federal website, not all cases need to be reviewed; however, they should not be reviewed by the same person who prepared the case.

Cause: Management oversight, failure or lack of internal controls over BAM sampling review process.

Effect: Non-compliance with federal grant regulations.

Recommendation: It is recommended that the Department establish effective controls over the review process for the BAM cases to ensure compliance with the federal regulations.

Management's Response: The Quality Control unit has reviewed your findings of our Unemployment Insurance Claim cases/audits. Following is a summary of each with the associated action items we will take to mitigate the issues.

2011-01 – This case was reviewed and closed by a previous supervisor who has since retired. The summary / conclusion was included but not signed by the investigator/auditor. The investigator has recently retired.

• **Action Item**

- We will advise current staff of this finding and direct them to review their cases and to ensure that they are signing the summary document before a case is closed.
- We assigned another auditor to perform a formal review of this case. He has signed and dated his review of the closed case for our records in lieu of the original auditor's signature.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs (continued)

11-03 – Benefit Accuracy Measurement (BAM) Sampling, Compliance and Internal Control (Significant Deficiency, Compliance) (continued)

2011-08 – This case was reviewed and closed by a previous supervisor who has since retired. The summary / conclusion document was not included by the investigator/auditor.

- **Action Item**

- The investigator will be asked to print the document and insert it into the case file.
- We will advise current staff of this finding and direct them to review their cases to ensure that they include the summary document in the file before a case is closed. The Reviewing auditor will also take ownership of this.

2011-15 – This case was reviewed and closed by the investigator that performed the audit, against standard process and procedure.

- **Action Item**

- The investigator will be directed to avoid this practice in the future. It is a rare exception when this occurs. The current Federal system does not allow data to be corrected once the error is identified.
- We will advise current auditor staff of this finding and direct them to review their cases to ensure they avoid reviewing and closing their own cases.
- We will ask another auditor to perform a formal review of this case and document and sign the review for our records.
- The Federal system for this process is not configured to perform this business rule validation that would limit this from happening.

2011-48 – This case was reviewed and closed by a previous supervisor who has since retired. The summary / conclusion was included but not signed by the investigator/auditor. The investigator has recently retired.

- **Action Item**

- We will advise current staff of this finding and direct them to review their cases and to ensure that they are signing the summary document before a case is closed.
- We assigned another auditor to perform a formal review of this case. He has signed and dated his review of the closed case for our records in lieu of the original auditor's signature.

12-01 – Payroll Supporting Documentation (Significant Deficiency, Compliance)

Condition: The Department staff does not consistently charge staff time to each grant based on actual after the fact activity. In some cases, the payroll charges are based on estimates of actual time spent on each funding source. (This is applicable to all Major Programs as listed on the summary of auditor's results).

Criteria:

2 CFR Part 225, Appendix B – 8.h.(4)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs (continued)

12-01 – Payroll Supporting Documentation (Significant Deficiency, Compliance)
(continued)

Cause: Lack of a complete understanding of federal requirements.

Effect: As a result, the Department is not in compliance with federal regulations.

Recommendation: Upon DOL notification of the non-compliance by the Department and at the request of the DOL, the Department drafted a policy outlining the Department's new policy pertaining to payroll supporting documentation, which includes monthly time and effort certifications of the hours entered into SHARE HCM to be maintained in a file for each employee as further evidence to support the time entered into SHARE and charged to each grant. We recommend the Department continue to work with DOL to finalize an approved policy and ensure the policy is properly implemented across all divisions of the Department.

Management's Response: The Financial Management Bureau is waiting for a response from DOL regarding its drafted policy. Upon approval, the Department's Federal Grants Unit will work with all Divisions to ensure the policy is properly implemented. The CFO is responsible for this corrective action.

12-03 – Unemployment Insurance Benefit Account Draws (Significant Deficiency, Compliance)

Condition: In February 2012, the Department performed a reconciliation in which the Department compared the actual unemployment benefits paid and reported by program to the actual unemployment state and federal account benefit draws. As a result of this reconciliation, the Department noted the previous daily draw process utilized an estimate in determining the daily draw amount from the state benefit account versus the federal benefit account. The Department modified the daily draw process to include the use of actual amounts paid by program in determining the actual amount to draw from the state benefit account versus the federal benefit account. However, the following deficiencies were still noted as it relates to the overall UI benefit draw process (CFDA 17,225, UI):

- The Department is not consistently reconciling the state and federal benefit account draws to the actual benefits paid and reported by program on a monthly basis, which would allow the Department to make the appropriate draw adjustments between the state and federal benefit accounts as necessary in a timely manner.
- The Department's draw process does not include draw adjustments of the federal benefit account for applicable overpayment recoveries.

Criteria: Per CFR 609.11/614.11, each State shall be paid, either in advance or by way of reimbursement, as may be determined by the Department, the sum that the Department estimates the State is entitled to receive under the Act and this part for each calendar month. The sum shall be reduced or increased by the amount which the Department finds that its estimate for an earlier calendar month was greater or less than the sum which should have been paid to the State. In addition, as noted in CFR 609.11/614.11, recovered overpayments shall be deposited in the fund from which payment was made.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012

Section III – Federal Award Findings and Questioned Costs (continued)

12-03 – Unemployment Insurance Benefit Account Draws (Significant Deficiency, Compliance) (continued)

Cause: Lack of effective controls surrounding all aspects of the UI benefit draw process to ensure the state versus federal benefit account draws represent actual amounts paid by the applicable programs.

Effect: Amounts drawn from the state and federal benefit accounts may not reflect the actual amounts paid and reported by program.

Recommendation: We recommend the Department establish controls and procedures surrounding the benefit draw process to ensure draws from the state and federal benefit accounts are accurate. In addition, it was noted that the Department immediately modified the daily draw process to offset benefit account draws by the applicable overpayment recoveries. However, it is recommended that the Department continue to monitor this process to ensure overpayment recoveries are properly captured and applicable federal benefit account draws are adjusted appropriately.

Management's Response: The UI Treasury does reduce the draw by overpayment recoveries; however, the appropriate programs are not being adjusted for their receipts. In December 2012, procedures have been initiated to ensure that all overpayment deposits are processed and applied to the correct program. In addition, the UI Treasury Unit will establish a policy with related procedures to ensure that monthly reconciliations are prepared and reviewed for discrepancies by the UI Treasury. The UI Treasury Unit manager is responsible for this corrective action.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2012**

Section IV – Other Findings

12-02 - Compliance with State Auditor NMAC 2.2.2.10.K

Condition: During our field work, the Department disclosed an instance of fraud involving an employee, in which the Department appropriately notified the police. However, the Department failed to inform the State Auditor's Office immediately upon discovery of the fraud.

Criteria: Per NMAC 2.2.2.10 K. (2), an agency or IPA, pursuant to Section 12-6-6 NMSA 1978 (Criminal Violations), shall notify the State Auditor immediately, in writing, upon discovery of any violation of a criminal statute in connection with financial affairs.

Cause: Management oversight.

Effect: The Department is not in compliance with NMAC 2.2.2.10 K (2).

Auditor's Recommendation: We recommend that, for future discoveries of such violations in connection with financial affairs, the Department notify the State Auditor's Office immediately as required.

Management's Response: In the future, the Department will notify the State Auditor's Office immediately of fraud.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Section II – Financial Statement Findings

00-13 – Employer’s Quarterly Excess Wages (Significant Deficiency) – Repeated/Updated

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

05-04 – Delinquent Employer Contribution Report (Significant Deficiency) – Repeated/Updated

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.

07-01 –Financial Recording, Accounting and Reporting (Significant Deficiency) – Repeated/Updated

The following were noted during the FY11 audit:

- The Department prepared and posted adjusting journal entries to the Share balance in excess of the expected closing entries
- Incorrect recording of interfund activity related to the Reed Act Funds

07-10 – Reconciliation of Agency Funds (Significant Deficiency) – Repeated/Updated

The Department is not reconciling the Labor and Industrial Wage Claim Fund. The fund has approximately \$270,000 of amounts held for others; however, the Department is uncertain for whom the funds are being held.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012

Section III – Federal Award Findings and Questioned Costs

00-13 – Employer’s Quarterly Excess Wages (Significant Deficiency) – Repeated/Updated

The Tax Unit is not consistently identifying inaccurate excess wages reported on the employer’s quarterly wage and contribution reports (ES-903). This is applicable to CFDA 17.225–UI Administration.

05-04 – Delinquent Employer Contribution Report (Significant Deficiency) – Repeated/Updated

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. This is applicable to CFDA 17.225-UI Administration.

07-01 – Financial Recording, Accounting and Reporting (Significant Deficiency) – Repeated/Updated (only applicable to financial statements for FY12)

The following were noted during the FY11 audit and are applicable to all federal award programs (see Schedule of Expenditures of Federal Awards for program names and CFDA numbers):

- The Department prepared and posted adjusting journal entries to the Share balance in excess of the expected closing entries
- Incorrect recording of interfund activity related to the Reed Act Funds

08-03 – Federal Grant Reporting (Significant Deficiency) – Repeated/Updated

During A-133 single audit reporting testwork, the following exceptions were noted regarding federal reporting:

Unemployment Insurance CFDA 17.225:

- 9 of 23 reports (ETA9130, ETA581, ETA2208a, ETA191, ETA2112) tested were not submitted timely

WIA Cluster CFDA’s 17.258/17.259/17.260:

- 5 of 93 reports (ETA9130) tested were not adequately supported
- 1 of 93 reports (ETA9130) tested was not submitted timely

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

Section III – Federal Award Findings and Questioned Costs (continued)

11-01 – Travel to Training Reimbursements, Compliance and Internal Control (Significant Deficiency) – Repeated/Updated

During the review of the travel to training reimbursements under the TAA program (CFDA 17.245) it was determined that the Department's template used to calculate reimbursements amounts was using the FY09 federal per diem rates. It was noted that on 16 of 40 vouchers tested, the reimbursement amount was incorrect. In addition, it was noted that on 1 out of 40 vouchers tested, the number of days the participant was to be reimbursed was incorrect. As a result, reimbursements were less than the allowable amount. For FY11, it was estimated the reimbursements were less than the allowable amount by approximately \$35,000 in total.

11-02 – Internal Control Over Federally Suspended/Debarred Vendors (Significant Deficiency) – Repeated/Updated

During A-133 single audit suspended/debarred vendor testwork, it was noted that for 8 of 8 contracts reviewed there was no evidence that the Department verified the vendor was not included in the federally *Excluded Parties Listing System* (EPLS) prior to awarding the contract. This is applicable to CFDA's 17.225, 17.258/17.259/17.260, and 17.207/17.801/17.804.

11-03 – Benefit Accuracy Measurement (BAM) Sampling, Compliance and Internal Control (Significant Deficiency) – Repeated/Updated

During BAM testwork the BAM department could not locate 1 of the 40 files selected for sampling. BAM unit did not complete the 150 monetary denial cases required for the year. The BAM unit only completed 143 by year end. This is applicable to CFDA 17.225–UI Administration.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

Section IV – Other Findings

09-02 – Untimely Deposit of Cash Receipts (Other) – Resolved

During the internal controls test work for cash receipts, it was noted that 4 out of 22 cash receipts for a total of \$8,308 was not deposited within 24 hours of receipt

11-04 – Travel and Per Diem Reimbursements (Other) – Resolved

During the compliance testwork with the per diem and mileage act it was noted that on 1 of 22 vouchers a reimbursement was made for a magazine.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
EXIT CONFERENCE
June 30, 2012**

An exit conference was held with the Department on December 11, 2012. The conference was held at the Department's offices in Albuquerque, New Mexico. In attendance were:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Celina Bussey, Cabinet Secretary
Sara Lister, Deputy Secretary
Jackie Ingle, Chief of Staff
Marshall Ray, General Counsel
Susan Aragon, Chief Financial Officer (Acting)
Violetta Apodaca, Financial Coordinator

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Assurance Partner
Matt Bone, CPA, CGFM, Assurance Manager
Cammie Archuleta, Assurance Senior Associate

PREPARATION OF FINANCIAL STATEMENTS

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