

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

**FINANCIAL STATEMENTS
June 30, 2013**

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NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
OFFICIAL ROSTER
June 30, 2013

Name	Title
Celina Bussey	Secretary
Joy Forehand	Deputy Cabinet Secretary
Susan Aragon	Chief Financial Officer (Acting)
Aaron Hinds	Chief Information Officer



CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons for the general fund and major special revenue fund, and the fiduciary fund of the New Mexico Department of Workforce Solutions (the Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the Department's nonmajor governmental funds, and the budgetary comparisons for all nonmajor funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and major special revenue fund and fiduciary fund for the year then ended in accordance 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 nonmajor governmental fund of the Department as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

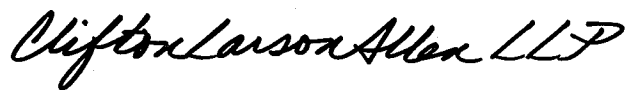
Our audit was conducted for the purpose of forming opinions on the Department's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The Schedule of Expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the other schedules required by 2.2.2.NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of federal awards and other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of federal awards and other schedules

required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 13, 2013

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

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

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

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

Financial Highlights

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

	<u>FY 2013</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Current and other assets	\$ 159,494,745	\$177,748,362	\$ (18,253,617)	-10%
Capital and non-current assets	42,633,562	32,893,326	9,740,236	30%
Total assets	<u>\$ 202,128,307</u>	<u>\$210,641,688</u>	<u>\$ (8,513,381)</u>	-4%
Liabilities:				
Current liabilities	\$ 30,026,550	\$ 41,693,315	\$ (11,666,765)	-28%
Long-term obligations	-	-	-	0%
Total liabilities	<u>30,026,550</u>	<u>41,693,315</u>	<u>(11,666,765)</u>	-28%
Net assets:				
Net investment in capital assets	42,633,562	32,893,326	9,740,236	30%
Restricted	131,931,760	136,523,930	(4,592,170)	-3%
Unrestricted	(2,463,565)	(468,883)	(1,994,682)	425%
Total net position	<u>172,101,757</u>	<u>168,948,373</u>	<u>3,153,384</u>	452%
Total liabilities and net position	<u>\$ 202,128,307</u>	<u>\$210,641,688</u>	<u>\$ (8,513,381)</u>	-4%

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

Financial Highlights - continued

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

	<u>FY 2013</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
<u>Program Revenues by Major Sources</u>				
Governmental Activities:				
Employment Services:				
Charges for Services	\$ 6,671,086	\$ 2,918,251	\$ 3,752,835	129%
Operating Grants	<u>60,303,234</u>	<u>63,985,483</u>	<u>(3,682,249)</u>	35%
Total Gov. Activities Revenue	<u>66,974,320</u>	<u>66,903,734</u>	<u>70,586</u>	0%
Business-Type Activities:				
Unemployment Activities:				
Charges for Services	221,158,780	216,824,376	4,334,404	2%
Operating Grants	<u>124,332,490</u>	<u>261,860,575</u>	<u>(137,528,085)</u>	-53%
Total Business-type Activities Revenue	<u>345,491,270</u>	<u>478,684,951</u>	<u>(133,193,681)</u>	-28%
Total Program Revenues by Major Sources	<u>412,465,590</u>	<u>545,588,685</u>	<u>(133,123,095)</u>	-24%
<u>General Revenues by Major Source</u>				
Governmental Activities				
State Appropriations	3,675,100	3,217,400	457,700	14%
Investment Earnings /Misc	1,650,374	1,984	1,648,390	100%
Other-Transfers in	1,000,000	1,000,000	-	0%
Reversions to State General Fund	<u>-</u>	<u>(5,810)</u>	<u>5,810</u>	100%
Total Governmental Activities Revenue	<u>6,325,474</u>	<u>4,213,574</u>	<u>2,111,900</u>	50%
Business-type Activities:				
Other Revenue				
Investment Earnings	<u>1,897,461</u>	<u>3,542,196</u>	<u>(1,644,735)</u>	-46%
Total Business-type Activities Revenues	<u>1,897,461</u>	<u>3,542,196</u>	<u>(1,644,735)</u>	-46%
Total General Revenues by Major Sources	<u>8,222,935</u>	<u>7,755,770</u>	<u>467,165</u>	6%
Total Revenues by Major Sources	<u>420,688,525</u>	<u>553,344,455</u>	<u>(132,655,930)</u>	-24%

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

Financial Highlights - continued

Revenue

- Unemployment Activities experienced a reduction in revenue which coincides with the reduction in unemployment claims. These are presently at approximately 21,000 weekly claims, down from a year ago of approximately 26,000 weekly claims.
- Appropriations from the State General Fund increased from \$3,217,400 to \$3,675,100, or 14%.
- Other revenue sources remained fairly constant, although the Department continues to experience an overall decline in many federal grants.

	<u>FY 2013</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Expenses:				
<u>Program Expenses by Major Sources</u>				
Governmental Activities:				
Governmental	<u>60,977,265</u>	<u>56,039,369</u>	<u>4,937,896</u>	9%
Total Governmental Activities Expenses	<u>60,977,265</u>	<u>56,039,369</u>	<u>4,937,896</u>	9%
Business-type Activities:				
Unemployment Services	<u>356,557,876</u>	<u>546,599,620</u>	<u>(190,041,744)</u>	-35%
Total Business-type Activities Expenses	<u>356,557,876</u>	<u>546,599,620</u>	<u>(190,041,744)</u>	-35%
Total Program Expenses by Major Sources	<u>\$ 417,535,141</u>	<u>\$ 602,638,989</u>	<u>\$ (185,103,848)</u>	-31%

Expenses

The cost of business-type activities related to unemployment services actually decreased in fiscal year 2013. The Department paid out about 35% less unemployment benefits in fiscal year 2013 than in 2012. The costs for operations did increase overall from \$56,039,369 to \$60,977,265, or about 9%. This was due to the availability of Unemployment Insurance Automation, Supplemental Budget Request, ARRA UI Modernization, and ARRA State Energy Sector Partnership federal funding in 2013.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

Financial Highlights - continued

	<u>FY 2013</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
<u>Change in Net Position</u>				
Governmental Activities:				
Beginning Net Position	\$ 41,620,973	\$ 26,543,034	\$ 15,077,939	57%
Change in Net Position	<u>12,322,529</u>	<u>15,077,939</u>	<u>(2,755,410)</u>	-18%
Ending Net Position	<u>53,943,502</u>	<u>41,620,973</u>	<u>12,322,529</u>	30%
Business-type Activities:				
Beginning Net Position	127,327,400	191,699,873	(64,372,473)	-34%
Change in Net Position	<u>(9,169,145)</u>	<u>(64,372,473)</u>	<u>55,203,328</u>	-86%
Ending Net Position	<u>118,158,255</u>	<u>127,327,400</u>	<u>(9,169,145)</u>	-7%
Ending Net Position	<u>\$ 172,101,757</u>	<u>\$ 168,948,373</u>	<u>\$ 3,153,384</u>	1.87%

Total Net Position

The Department's total ending net position increased by \$3,153,384, a 1.87% increase over fiscal year 2012. Net position attributable to government activities increased by \$12,322,529, or a 35% increase over the prior fiscal year. Net position attributable to business-type activities decreased by \$9,169,145, or a 7% decrease over the prior fiscal year.

The increase in net assets is due to:

- A general increase in expenditures; in addition to
- A decrease in unemployment claim activity.

Financial Analysis at the Fund Level

Major Governmental Funds

General Fund – Overall revenues and expenditures remained relatively consistent with prior year with a slight decline in federal funding. There was no change in fund balance from prior year.

ARRA Fund – Overall revenues and expenditures remained relatively consistent with prior year. There was no change in fund balance from prior year.

Non-major Governmental Funds

Non-major governmental fund revenues increased from prior year approximately \$3.8 million as a result of increased penalties and interest received. Other financing uses for these funds was consistent with prior year. There was an approximate \$4.6 million increase in the fund balance as a result of increased revenues.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

Financial Highlights - continued

Capital Assets

**Table A-3
Capital Assets**

	<u>June 30, 2012</u>	<u>FY13 Additions</u>	<u>FY13 Disposals/ Transfers</u>	<u>June 30, 2013</u>
Assets:				
Office improvements	\$ 3,050,782	\$ 23,760	\$ -	\$ 3,074,542
Vehicles	302,074	-	-	302,074
Office equipment	2,174,770	75,976	(92,416)	2,158,330
Furniture and fixtures	813,871	48,812	-	862,683
Computer equipment	1,859,459	13,792,293	28,845,210	44,496,962
WIP	28,845,210	-	(28,845,210)	-
Total acquired value	<u>37,046,166</u>	<u>13,940,841</u>	<u>(92,416)</u>	<u>50,894,591</u>
Accumulated depreciation:				
Office improvements	(699,741)	(233,514)	-	(933,255)
Vehicles	(45,311)	(30,207)	-	(75,518)
Office equipment	(2,118,747)	(24,897)	86,528	(2,057,116)
Furniture and fixtures	(351,267)	(56,591)	-	(407,858)
Computer equipment	(937,774)	(3,849,508)	-	(4,787,282)
Total accumulated depreciation	<u>(4,152,840)</u>	<u>(4,194,717)</u>	<u>86,528</u>	<u>(8,261,029)</u>
Net total	<u>\$ 32,893,326</u>	<u>\$ 9,746,124</u>	<u>\$ (5,888)</u>	<u>\$ 42,633,562</u>

The Department of Workforce Solutions officially launched the new, fully-integrated Unemployment Insurance system on January 6, 2013, called u-FACTS. The system provides improved integrity, reporting capabilities and maintenance. Increases occurred in Computer Equipment due to the transfer of Work in Process, which was an accumulation of costs associated with uFACTS and new costs associated with uFACTS. An increase in Office Improvements consisted of costs for uFACTS. An increase in costs for Office Equipment was for reengineering existing workspace, which resulted in a rent reduction. Finally, the increase in Office Equipment was for a new badge access system which improved security access to the building and on all floors.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

Financial Highlights - continued

Debt

The Department has no long-term debt.

General Fund Budgetary Highlights

The Department's overall General Fund Appropriations increased by \$457,700 in FY 2013 from FY 2012.

In FY 2013, like FY 2012, 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 2013.

The total original operating budget for the Department was \$69,666,436. Budget adjustments were significant during fiscal year 2013. A total of \$16,912,901 additional funds were brought into the budget. The increases were funded with Unemployment Insurance (UI) "above base" funding, UI Supplement Budget Request, UI Automation, ARRA UI Modernization carry in, Workforce Investment Act carry in flow through, and Trade Adjustment Assistance federal funding. Also, the increase was for Public Works Apprenticeship and Training fund balance for apprentice payments.

Changes in Federal Funding

The Department's federal revenues continue to experience declines in funding from its federal grant awards. The Department experienced an overall decline in federal awards for employment services and unemployment insurance 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.

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

The Department was awarded \$39 million of UI Modernization funds which were 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.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

Other Operating Highlights - continued

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 2014. 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 6.6 percent in October 2013, down from 6.7 percent in September and also down from 6.8 percent a year ago.

The rate of over-the-year job growth, comparing October 2013 with October 2012, was 0.2 percent, representing a gain of 1,900 jobs. The jobs survey indicates slower job growth than was reported for earlier in the year. Eight industries are currently adding employment and five industries are losing jobs.

The overall economic climate of uncertainty and restraint, following the partial shutdown of the federal government as well as continued effects from the sequester, appears to have created a wait-and-see environment where employers are reluctant to take on new workers until the future is more certain.

The largest employment gains were reported in the financial activities industry, adding 3,000 jobs since this time last year. Gains in the leisure and hospitality industry have moderated to 2,200 jobs now that peak season is over. Both the construction and retail trade industries reported 600 job gains each. The mining industry added 500 jobs, continuing the moderating trend from a previously higher growth rate that was in the thousands.

On the down side, the educational and health services industry lost 1,100 jobs, which is likely the result of the recent difficulties confronting several behavioral health care providers in New Mexico. Manufacturing employment declined by 900 jobs. Government employment registered a net loss of 3,100 jobs since last year, with similar-sized losses reported at the federal and local levels.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013**

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:

Joy Forehand, Deputy Cabinet 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 POSITION
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 532,233	\$ 532,233
Cash held with U.S. Treasury	-	67,257,248	67,257,248
Investment in State General Fund			
Investment Pool	11,260,619	-	11,260,619
Due from other state agencies	128	-	128
Due from federal government	2,683,946	12,597,490	15,281,436
Due from enterprise funds	7,318,621	-	7,318,621
Accounts receivable, net of allowance for uncollectibles	-	57,844,460	57,844,460
Capital assets, net	<u>42,633,562</u>	<u>-</u>	<u>42,633,562</u>
TOTAL ASSETS	<u>\$ 63,896,876</u>	<u>\$ 138,231,431</u>	<u>\$ 202,128,307</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Accounts payable	\$ 1,354,162	\$ -	\$ 1,354,162
Accrued payroll and benefits	516,324	-	516,324
Benefits payable	-	7,665,241	7,665,241
Due to other state agencies	4,924,921	95,549	5,020,470
Due to governmental funds	-	7,318,621	7,318,621
Other accrued liabilities	25,159	-	25,159
Unearned revenue	-	4,993,765	4,993,765
Compensated absences, due within one year	1,048,353	-	1,048,353
Contingency liability	<u>2,084,455</u>	<u>-</u>	<u>2,084,455</u>
Total liabilities	<u>9,953,374</u>	<u>20,073,176</u>	<u>30,026,550</u>
NET POSITION			
Net investment in capital assets	42,633,562	-	42,633,562
Restricted for:			
Unemployment insurance trust	-	118,158,255	118,158,255
Special revenue funds	13,773,505	-	13,773,505
Unrestricted	<u>(2,463,565)</u>	<u>-</u>	<u>(2,463,565)</u>
Total net position	<u>53,943,502</u>	<u>118,158,255</u>	<u>172,101,757</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 63,896,876</u>	<u>\$ 138,231,431</u>	<u>\$ 202,128,307</u>

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
Workforce transition services	\$ 18,422,259	\$ -	\$ 16,539,239
Labor relations	4,002,399	612,550	206,235
Workforce technology	11,553,387	-	7,495,821
Business services	4,251,395	531,580	4,200,500
Program support	18,594,216	5,526,956	17,706,115
Other workforce initiatives	4,153,609	-	14,155,324
	<u>60,977,265</u>	<u>6,671,086</u>	<u>60,303,234</u>
Total governmental activities			
BUSINESS-TYPE ACTIVITIES			
Unemployment services	<u>356,557,876</u>	<u>221,158,780</u>	<u>124,332,490</u>
	<u>356,557,876</u>	<u>221,158,780</u>	<u>124,332,490</u>
Total business-type activities			
TOTAL PRIMARY GOVERNMENT	<u>\$ 417,535,141</u>	<u>\$ 227,829,866</u>	<u>\$ 184,635,724</u>

Net (Expenses) Revenue and Changes in Net Position

	Governmental Activities	Business-type Activities	Total
	\$ (1,883,020)	\$ -	\$ (1,883,020)
	(3,183,614)	-	(3,183,614)
	(4,057,566)	-	(4,057,566)
	480,685	-	480,685
	4,638,855	-	4,638,855
	<u>10,001,715</u>	<u>-</u>	<u>10,001,715</u>
	5,997,055	-	5,997,055
	<u>-</u>	<u>(11,066,606)</u>	<u>(11,066,606)</u>
	<u>-</u>	<u>(11,066,606)</u>	<u>(11,066,606)</u>
	5,997,055	(11,066,606)	(5,069,551)
General revenues:			
Investment earnings	2,898	1,897,461	1,900,359
Miscellaneous	1,647,476	-	1,647,476
Transfers in - State General			
Fund appropriations	3,675,100	-	3,675,100
Transfers in - Other	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total general revenues and transfers	<u>6,325,474</u>	<u>1,897,461</u>	<u>8,222,935</u>
CHANGE IN NET POSITION	12,322,529	(9,169,145)	3,153,384
NET POSITION, BEGINNING	<u>41,620,973</u>	<u>127,327,400</u>	<u>168,948,373</u>
NET POSITION, ENDING	<u>\$ 53,943,502</u>	<u>\$ 118,158,255</u>	<u>\$ 172,101,757</u>

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

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	<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	\$ 7,789,990	\$ -	\$ 8,412,681	\$ 16,202,671
Due from other funds	-	402,896	4,944,050	5,346,946
Due from enterprise funds	2,288,571	4,608,251	421,799	7,318,621
Due from other state agencies	-	-	128	128
Due from federal government	<u>2,651,626</u>	<u>32,320</u>	<u>-</u>	<u>2,683,946</u>
TOTAL ASSETS	<u>\$ 12,730,187</u>	<u>\$ 5,043,467</u>	<u>\$ 13,778,658</u>	<u>\$ 31,552,312</u>
LIABILITIES				
Due to State General Fund Investment Pool (overdraft)	\$ -	\$ 4,942,052	\$ -	\$ 4,942,052
Accounts payable	1,265,859	83,150	5,153	1,354,162
Accrued payroll and benefits	516,324	-	-	516,324
Due to other funds	5,346,946	-	-	5,346,946
Other accrued liabilities	6,894	18,265	-	25,159
Due to other state agencies	<u>4,924,921</u>	<u>-</u>	<u>-</u>	<u>4,924,921</u>
Total liabilities	<u>12,060,944</u>	<u>5,043,467</u>	<u>5,153</u>	<u>17,109,564</u>
FUND BALANCES				
Restricted for:				
Public Works Apprenticeship and Training	-	-	-	-
Special Revenue Funds	-	-	13,773,505	13,773,505
Assigned	<u>669,243</u>	<u>-</u>	<u>-</u>	<u>669,243</u>
Total fund balances	<u>669,243</u>	<u>-</u>	<u>13,773,505</u>	<u>14,442,748</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,730,187</u>	<u>\$ 5,043,467</u>	<u>\$ 13,778,658</u>	<u>\$ 31,552,312</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 POSITION
June 30, 2013**

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$ <u>14,442,748</u>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

The cost of capital assets is:	50,894,591
Accumulated depreciation is:	<u>(8,261,029)</u>
 Total capital assets, net	 <u>42,633,562</u>

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

Compensated absences payable	(1,048,353)
Contingency liability	<u>(2,084,455)</u>
 Total long-term and other liabilities	 <u>(3,132,808)</u>

Net position of governmental activities (Statement of Net Position)	\$ <u>53,943,502</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, 2013

	<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	\$ -	\$ -	\$ 2,898	\$ 2,898
Licenses and permits	-	-	531,580	531,580
Federal grant revenue	46,147,910	14,155,324	-	60,303,234
Penalties and interest	-	-	5,526,956	5,526,956
Public Works Apprenticeship and Training	-	-	612,550	612,550
Other revenue	1,647,476	-	-	1,647,476
	<u>47,795,386</u>	<u>14,155,324</u>	<u>6,673,984</u>	<u>68,624,694</u>
Total revenues				
EXPENDITURES				
Current:				
Workforce transition services	18,366,801	-	-	18,366,801
Labor relations	3,987,468	-	-	3,987,468
Workforce technology	5,648,673	-	-	5,648,673
Business services	4,151,341	-	-	4,151,341
Program support	18,474,086	-	-	18,474,086
Other workforce initiatives	-	4,153,609	-	4,153,609
Capital outlay	3,939,126	10,001,715	-	13,940,841
	<u>54,567,495</u>	<u>14,155,324</u>	<u>-</u>	<u>68,722,819</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(6,772,109)</u>	<u>-</u>	<u>6,673,984</u>	<u>(98,125)</u>
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriation	3,675,100	-	-	3,675,100
Transfers in:				
Interfund	2,097,009	-	-	2,097,009
Other	1,000,000	-	-	1,000,000
Transfers out:				
Interfund	-	-	(2,097,009)	(2,097,009)
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>(2,097,009)</u>	<u>(2,097,009)</u>
Total other financing sources (uses)	<u>6,772,109</u>	<u>-</u>	<u>(2,097,009)</u>	<u>4,675,100</u>
NET CHANGES IN FUND BALANCES	-	-	4,576,975	4,576,975
FUND BALANCES, BEGINNING	<u>669,243</u>	<u>-</u>	<u>9,196,530</u>	<u>9,865,773</u>
FUND BALANCES, ENDING	<u>\$ 669,243</u>	<u>\$ -</u>	<u>\$ 13,773,505</u>	<u>\$ 14,442,748</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, 2013**

Net Changes in Fund Balances - Total Governmental Funds	
(Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ <u>4,576,975</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	13,940,841
Depreciation expense	(4,194,717)
Loss on disposal of capital assets	<u>(5,888)</u>
Excess of capital outlay over depreciation expense	<u>9,740,236</u>
Change in compensated absence balance not recorded in the governmental funds	89,773
Contingency liability balance not recorded in the governmental funds	<u>(2,084,455)</u>
Change in net position of governmental activities (Statement of Activities)	\$ <u>12,322,529</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 (BUDGETARY BASIS)
Year Ended June 30, 2013

	GENERAL FUND - TOTAL			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal funds	\$ 49,876,300	\$ 62,818,826	\$ 46,147,910	\$ (16,670,916)
General funds	3,675,100	3,675,100	3,675,100	-
Other State funds	1,628,400	1,628,400	1,647,476	19,076
Inter-agency transfers	3,633,600	4,233,600	3,097,009	(1,136,591)
Budgeted fund balance	-	-	-	-
TOTAL REVENUES	\$ 58,813,400	\$ 72,355,926	\$ 54,567,495	\$ (17,788,431)
P-775 WORKFORCE TRANSITION SERVICES EXPENDITURES				
Personal services and benefits	\$ 19,088,800	\$ 18,836,198	\$ 14,800,103	\$ 4,036,095
Contractual services	1,081,500	1,322,400	946,113	376,287
Other costs	2,892,900	3,735,020	2,656,218	1,078,802
Other financing uses	-	-	-	-
TOTAL P-775 EXPENDITURES	\$ 23,063,200	\$ 23,893,618	\$ 18,402,434	\$ 5,491,184
P-776 LABOR RELATIONS EXPENDITURES				
Personal services and benefits	\$ 2,270,700	\$ 1,963,700	\$ 1,963,700	\$ -
Contractual services	69,000	376,000	231,589	144,411
Other costs	1,559,600	2,159,600	1,881,767	277,833
Other financing uses	-	-	-	-
TOTAL P-776 EXPENDITURES	\$ 3,899,300	\$ 4,499,300	\$ 4,077,056	\$ 422,244
P-777 WORKFORCE TECHNOLOGY EXPENDITURES				
Personal services and benefits	\$ 2,974,400	\$ 3,199,400	\$ 2,818,044	\$ 381,356
Contractual services	3,664,000	6,414,000	4,752,110	1,661,890
Other costs	970,900	2,551,405	1,723,937	827,468
Other financing uses	-	-	-	-
TOTAL P-777 EXPENDITURES	\$ 7,609,300	\$ 12,164,805	\$ 9,294,091	\$ 2,870,714
P-778 BUSINESS SERVICES EXPENDITURES				
Personal services and benefits	\$ 1,955,700	\$ 1,955,700	\$ 1,593,863	\$ 361,837
Contractual services	123,800	142,443	26,459	115,984
Other costs	1,989,400	3,764,325	2,544,197	1,220,128
Other financing uses	-	-	-	-
TOTAL P-778 EXPENDITURES	\$ 4,068,900	\$ 5,862,468	\$ 4,164,519	\$ 1,697,949
P-779 PROGRAM SUPPORT EXPENDITURES				
Personal services and benefits	\$ 6,690,700	\$ 6,554,684	\$ 5,385,997	\$ 1,168,687
Contractual services	760,300	910,308	353,386	556,922
Other costs	12,721,700	18,470,743	12,734,702	5,736,041
Other financing uses	-	-	-	-
TOTAL P-779 EXPENDITURES	\$ 20,172,700	\$ 25,935,735	\$ 18,474,085	\$ 7,461,650

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENTAL FUNDS
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2013

GENERAL FUND - TOTAL (CONTINUED)				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
ALL EXPENDITURES				
Personal services and employee benefits	\$ 32,980,300	\$ 32,509,682	\$ 26,561,707	\$ 5,947,975
Contractual services	5,698,600	9,165,151	6,309,657	2,855,494
Other	20,134,500	30,681,093	21,540,821	9,140,272
Other financing uses	-	-	-	-
TOTAL ALL EXPENDITURES	\$ 58,813,400	\$ 72,355,926	54,412,185	\$ 17,943,741
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			155,310	
PRIOR YEAR REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT FUNDS			16,828	
CURRENT YEAR REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT FUNDS			(172,138)	
REVERSIONS (NOT BUDGETED)			-	
NET CHANGE IN FUND BALANCE			\$ -	

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 (BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2013

	<u>ARRA (89000)</u>			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
REVENUES				
Federal funds	\$ 10,853,036	\$ 15,386,960	\$ 14,155,324	\$ (1,231,636)
General funds	-	-	-	-
Other state funds	-	-	-	-
Inter-agency transfers	-	-	-	-
Budgeted fund balance	-	-	-	-
TOTAL REVENUES	<u>\$ 10,853,036</u>	<u>\$ 15,386,960</u>	<u>14,155,324</u>	<u>\$ (1,231,636)</u>
EXPENDITURES				
Personal services and benefits	\$ 300,000	\$ 211,777	211,771	\$ 6
Contractual services	8,564,086	12,449,398	12,219,587	229,811
Other costs	1,988,950	2,725,755	2,637,807	87,948
Other financing uses	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 10,853,036</u>	<u>\$ 15,386,930</u>	<u>15,069,165</u>	<u>\$ 317,765</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			(913,841)	
CURRENT YEAR REQUEST TO PAY PRIOR YEAR BILL WITH CURRENT FUNDS			<u>913,841</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 POSITION - PROPRIETARY FUND
June 30, 2013

	<u>20020</u> <u>Unemployment</u> <u>Insurance Trust</u> <u>Enterprise Fund</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 532,233
Cash held with U.S. Treasury	67,257,248
Due from federal government	12,597,490
Accounts receivable, net of allowance for uncollectibles	<u>57,844,460</u>
TOTAL CURRENT ASSETS	<u>\$ 138,231,431</u>
CURRENT LIABILITIES	
Benefits payable	7,665,241
Due to governmental funds	7,318,621
Due to other state agencies	95,549
Unearned revenue	<u>4,993,765</u>
TOTAL CURRENT LIABILITIES	<u>20,073,176</u>
NET POSITION	
Restricted for:	
Unemployment insurance trust	<u>118,158,255</u>
Total net position	<u>118,158,255</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 138,231,431</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 POSITION - PROPRIETARY FUND
Year Ended June 30, 2013**

	20020 Unemployment Insurance Trust Enterprise Fund
OPERATING REVENUES	
Interest on investments	\$ 1,897,461
Employers taxes and reimbursements	216,612,779
CWC reimbursements	<u>4,546,001</u>
Total operating revenues	223,056,241
OPERATING EXPENSES	
Unemployment benefits distributed to beneficiaries	<u>356,557,876</u>
Total operating expenses	<u>356,557,876</u>
OPERATING INCOME (LOSS)	(133,501,635)
NON-OPERATING REVENUES	
Grants, contracts and federal reimbursements	<u>124,332,490</u>
Total non-operating revenues	<u>124,332,490</u>
CHANGE IN NET POSITION	(9,169,145)
TOTAL NET POSITION, BEGINNING	<u>127,327,400</u>
TOTAL NET POSITION, ENDING	<u><u>\$ 118,158,255</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, 2013

	<u>2020</u> <u>Unemployment</u> <u>Insurance Trust</u> <u>Enterprise Fund</u>
CASH FLOWS PROVIDED BY (USED IN)	
OPERATING ACTIVITIES	
Cash received from employers and CWC reimbursements	\$ 218,787,401
Cash received from interest and principal in investments (trust fund earnings)	1,897,461
Cash paid for unemployment benefits	<u>(359,490,485)</u>
Cash provided by (used in) operating activities	(138,805,623)
CASH FLOWS PROVIDED BY NON-CAPITAL	
FINANCING ACTIVITY	
Cash received from federal government	126,337,057
Transfer of unearned revenue to governmental funds	<u>(7,622,460)</u>
Cash provided by non-capital financing activity	118,714,597
NET INCREASE (DECREASE) IN CASH AND	
CASH EQUIVALENTS	(20,091,026)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>87,880,507</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 67,789,481</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS)	
TO CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$ (133,501,635)
Change in receivables	(2,371,379)
Change in payables	<u>(2,932,609)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (138,805,623)</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, 2013

	<u>17800 Agency Fund</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ <u>278,264</u>
TOTAL ASSETS	\$ <u><u>278,264</u></u>
LIABILITIES	
Amounts held for others	\$ 143,299
Accounts payable	<u>134,965</u>
TOTAL LIABILITIES	\$ <u><u>278,264</u></u>

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013

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 2013, 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, 2013

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.

In June 2011, GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), effective for the Department's fiscal year beginning July 1, 2012. GASB 63 modifies the presentation of deferred inflows and deferred outflows in the financial statements; it also limits the use of the term "deferred." Implementation of GASB 63 had no effect on the Department's net position or changes in net position for the fiscal year ended June 30, 2013.

During FY13, the Department implemented GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS 62 incorporates any old FASB statements that apply to government accounting into GASB statements. Therefore, the old policy disclosure regarding which FASB pronouncements apply, or do not apply, to the Department's financial statements is no longer necessary.

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting Entity

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

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

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

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

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

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

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

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting

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

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

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

For FY 2013, 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.

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 2013

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, 2013.

The proprietary fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Interest on investments, employee taxes and reimbursements are considered operating revenues. All other services of revenue, such as grants, contracts and transfers, are considered non-operating revenues.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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. For the fiscal year ended June 30, 2013, the Department did not have any encumbrances presented in the financial statements.

Net Position/Fund Balance

Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. 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 position balance reported on the statement of net position 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, 2013

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, 2013

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Department did not have any items that qualified for reporting in this category as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Department did not have any items that were required to be reported in this category as of June 30, 2013.

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

At June 30, 2013, 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 13, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to December 13, 2013, that provided additional evidence about conditions that existed at June 30, 2013 have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, 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, 2013.

NOTE 3. STATE GENERAL FUND INVESTMENT POOL

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items was unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of DFA undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has implemented or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis; however, it did not resolve

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

Management of DFA in FY 2012 recorded a loss contingency of \$101.7 million in the State General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool; that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

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, 2013 the Department had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool: \$11,538,883

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, 2013.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 \$848,347. 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 \$11,538,883 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).

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, 2013

NOTE 6. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>June 30, 2012</u>	<u>FY13 Additions</u>	<u>FY13 Disposals</u>	<u>WIP Transfers</u>	<u>June 30, 2013</u>
Assets:					
Office improvements	\$ 3,050,782	\$ 23,760	\$ -	\$ -	\$ 3,074,542
Vehicles	302,074	-	-	-	302,074
Office equipment	2,174,770	75,976	(92,416)	-	2,158,330
Furniture and fixtures	813,871	48,812	-	-	862,683
Computer equipment	1,859,459	13,792,293	-	28,845,210	44,496,962
WIP	28,845,210	-	-	(28,845,210)	-
Total acquired value	<u>37,046,166</u>	<u>13,940,841</u>	<u>(92,416)</u>	<u>-</u>	<u>50,894,591</u>
Accumulated depreciation:					
Office improvements	(699,741)	(233,514)	-	-	(933,255)
Vehicles	(45,311)	(30,207)	-	-	(75,518)
Office equipment	(2,118,747)	(24,897)	86,528	-	(2,057,116)
Furniture and fixtures	(351,267)	(56,591)	-	-	(407,858)
Computer equipment	(937,774)	(3,849,508)	-	-	(4,787,282)
Total accumulated depreciation	<u>(4,152,840)</u>	<u>(4,194,717)</u>	<u>86,528</u>	<u>-</u>	<u>(8,261,029)</u>
Net total	<u>\$ 32,893,326</u>	<u>\$ 9,746,124</u>	<u>\$ (5,888)</u>	<u>\$ -</u>	<u>\$ 42,633,562</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	\$ 55,458
Workforce technology	3,814,371
Business services	100,054
Program support	209,903
Labor relations	<u>14,931</u>
Total	<u>\$ 4,194,717</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 7. UNEMPLOYMENT INSURANCE FUND – BENEFITS PAYABLE

A liability has been recorded for benefits claimed prior to but paid subsequent to June 30, 2013, consisting of the following:

Unemployment benefits	\$ 7,665,241
Withholding benefits (due to Human Services Dept.)	<u>95,549</u>
Total	<u>\$ 7,760,790</u>

NOTE 8. RECEIVABLES

Receivable:	
Current UI taxes	\$ 56,590,177
Benefit overpayments	68,965,598
Combined wage claimants (CWC)	<u>1,254,283</u>
Gross receivables	126,810,058
Less allowance for uncollectibles:	
Benefit overpayments	<u>(68,965,598)</u>
Total allowances	<u>(68,965,598)</u>
Net total receivables – fund level	<u>57,844,460</u>
Total	<u>\$ 57,844,460</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, 2013, 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, 2013

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, 2013 were \$475,593. Rental expenditures for equipment for the fiscal year ended June 30, 2013 were \$443,409. The future minimum rental commitments as of June 30, 2013 were as follows:

Year Ended June 30, 2013:

	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2014	\$ 387,257	\$ 1,079,509	\$ 1,466,766
2015	297,173	244,885	542,058
2016	179,300	132,937	312,237
2017	181,921	42,689	224,610
2018	184,620	8,121	192,741
2019 and thereafter	<u>575,738</u>	<u>-</u>	<u>575,738</u>
Net total	<u>\$ 1,806,009</u>	<u>\$ 1,508,141</u>	<u>\$ 3,314,150</u>

NOTE 10. COMPENSATED ABSENCES

The changes to compensated absences are as follows:

	<u>Balance, June 30, 2012</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance, June 30, 2013</u>
Sick and annual leave	\$ 1,138,126	\$ 922,495	\$ (1,012,268)	\$ 1,048,353
Net total	<u>\$ 1,138,126</u>	<u>\$ 922,495</u>	<u>\$ (1,012,268)</u>	<u>\$ 1,048,353</u>

\$1,048,353 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, 2013.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 11. INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

Due to Other Funds							
SHARE Fund Name	SHARE Fund No.	General Fund (32900)	Penalty & Interest (61300)	Public Works Apprenticeship and Training (61400)	Labor Enforcement (71100)	ARRA Fund (89000)	Total
Enterprise Fund	20020	\$ 2,288,571	\$ 421,799	\$ -	\$ -	\$ 4,608,251	\$ 7,318,621
General Fund	32900	-	3,180,558	1,170,062	593,430	402,896	5,346,946
Total		<u>\$ 2,288,571</u>	<u>\$ 3,602,357</u>	<u>\$ 1,170,062</u>	<u>\$ 593,430</u>	<u>\$ 5,011,147</u>	<u>\$ 12,665,567</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, 2013 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>128</u>
Total			<u>\$ 128</u>

Due To Other State Agencies

DWS Fund No.	Agency	Other Agency's Fund No.	Amount
20020	New Mexico Human Services Department	05200	\$ 95,549
32900	State General Fund	85200	<u>4,924,921</u>
Total			<u>\$ 5,020,470</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

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.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

**NOTE 15. PENSION PLAN – PUBLIC EMPLOYEES’ RETIREMENT ASSOCIATION
(CONTINUED)**

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, 2013, 2012 and 2011 were \$2,716,610, \$2,346,352 and \$2,725,106, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 16. REVERSIONS

The Department had no reversions for the year ended June 30, 2013.

NOTE 17. UNEARNED REVENUE

The Department’s unearned revenue in Fund 20020 as of June 30, 2013 consisted of the following:

UI Modernization - ARRA	\$ 234,493
Reed Act	4,587,581
Employer Prepayments	171,691
Total	\$ 4,993,765

NOTE 18. TRANSFERS

Transfers occurring during fiscal year June 30, 2013 are as follows:

Inter-fund transfers consist of the following:

Fund	Governmental Funds	Operating Transfers In	Operating Transfers Out
32900	General Fund	\$ 2,097,009	\$ -
61300	Penalty and Interest	-	647,009
61400	Public Work Apprenticeship and Training	-	1,450,000
	Total inter-fund transfers	\$ 2,097,009	\$ 2,097,009

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

NOTE 18. TRANSFERS (CONTINUED)

The inter-fund transfers that occurred during fiscal year ended June 30, 2013 represent transfers from Special Revenue Funds for FY13 appropriations.

Inter-agency transfers consist of the following:

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

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

Funding Policy

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3,4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the Legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2013, 2012 and 2011 were \$360,127, \$308,643 and \$297,972, respectively, which equal the required contributions for each year.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 20. CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)

During fiscal year 2012 and throughout fiscal year 2013, the Department of Information Technology (DoIT) has been assessing a fee to the Department related to the 1-877#, which the Department has disputed. In order to resolve the dispute, the Department would require a deficiency appropriation from the legislature to fund these fees from DoIT. This liability which DoIT is attempting to charge the Department totals \$2,084,455 as of June 30, 2013 and has been recorded as a contingent liability on the government-wide financial statements.

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, 2013 follows:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 22. FUND BALANCE CLASSIFICATIONS (CONTINUED)

	<u>Major Fund</u>	<u>Non-Major Special Revenue Fund</u>	<u>Non-Major Special Revenue Fund</u>	<u>Non-Major Special Revenue Fund</u>
	<u>General Fund (32900)</u>	<u>Penalty and Interest (61300)</u>	<u>Public Works Apprenticeship and Training (61400)</u>	<u>Labor Enforcement Fund (71100)</u>
Fund balances:				
Restricted for:				
Special Revenue Funds,				
per Section 51-1-34 NMSA 1978	\$ -	\$ 10,320,013	\$ -	\$ -
per Section 13-4-14.1 NMSA 1978	-	-	-	2,000,699
Public Works Apprenticeship & Training per Section 13-4D-2	-	-	1,452,793	-
Assigned *	<u>669,243</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>\$ 669,243</u>	<u>\$ 10,320,013</u>	<u>\$ 1,452,793</u>	<u>\$ 2,000,699</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 2014.

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, 2013**

	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	\$ 6,717,656	\$ 287,884	\$ 1,407,141	\$ 8,412,681
Due from other funds	3,180,558	1,170,062	593,430	4,944,050
Due from enterprise funds	421,799	-	-	421,799
Due from other state agencies	-	-	128	128
TOTAL ASSETS	<u>\$ 10,320,013</u>	<u>\$ 1,457,946</u>	<u>\$ 2,000,699</u>	<u>\$ 13,778,658</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 5,153	\$ -	\$ 5,153
Total liabilities	-	5,153	-	5,153
FUND BALANCES				
Restricted for:				
Special Revenue Funds	<u>10,320,013</u>	<u>1,452,793</u>	<u>2,000,699</u>	<u>13,773,505</u>
Total fund balances	<u>10,320,013</u>	<u>1,452,793</u>	<u>2,000,699</u>	<u>13,773,505</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,320,013</u>	<u>\$ 1,457,946</u>	<u>\$ 2,000,699</u>	<u>\$ 13,778,658</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, 2013

	SPECIAL REVENUE FUNDS			Total Non-major Governmental Funds
	61300 Penalty and Interest	61400 Public Works Apprenticeship and Training	71100 Labor Enforcement Fund	
REVENUES				
Interest on deposit/investments	\$ -	\$ -	\$ 2,898	\$ 2,898
Licences and permits	-	-	531,580	531,580
Penalties and interest	5,526,956	-	-	5,526,956
Public Works Apprenticeship and Training	-	612,550	-	612,550
Total revenues	<u>5,526,956</u>	<u>612,550</u>	<u>534,478</u>	<u>6,673,984</u>
EXPENDITURES				
Current:				
Other workforce initiatives	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,526,956	612,550	534,478	6,673,984
OTHER FINANCING SOURCES (USES)				
Transfers out:				
Interfund	(647,009)	(1,450,000)	-	(2,097,009)
Other	-	-	-	-
Net other financing uses	<u>(647,009)</u>	<u>(1,450,000)</u>	<u>-</u>	<u>(2,097,009)</u>
NET CHANGE IN FUND BALANCES	4,879,947	(837,450)	534,478	4,576,975
BEGINNING FUND BALANCES	<u>5,440,066</u>	<u>2,290,243</u>	<u>1,466,221</u>	<u>9,196,530</u>
ENDING FUND BALANCES	<u>\$ 10,320,013</u>	<u>\$ 1,452,793</u>	<u>\$ 2,000,699</u>	<u>\$ 13,773,505</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES -
NON-MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2013**

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	-	-	5,526,956	5,526,956
Inter-agency transfers	-	-	-	-
Budgeted fund balance	<u>2,189,100</u>	<u>2,189,100</u>	<u>-</u>	<u>(2,189,100)</u>
Total revenues	<u>\$ 2,189,100</u>	<u>\$ 2,189,100</u>	5,526,956	<u>\$ 3,337,856</u>
EXPENDITURES:				
Personal services and employee benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>2,189,100</u>	<u>2,189,100</u>	<u>647,009</u>	<u>1,542,091</u>
Total expenditures	<u>\$ 2,189,100</u>	<u>\$ 2,189,100</u>	<u>647,009</u>	<u>\$ 1,542,091</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			4,879,947	
BUDGETED FUND BALANCE			<u>-</u>	
NET CHANGE IN FUND BALANCE			<u>\$ 4,879,947</u>	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES -
NON-MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2013

PUBLIC WORKS APPRENTICESHIP AND TRAINING (61400)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Federal funds	\$ -	\$ -	\$ -	\$ -
General funds	-	-	-	-
Other state funds	-	-	612,550	612,550
Inter-agency transfers	-	-	-	-
Budgeted fund balance	<u>1,450,000</u>	<u>1,450,000</u>	<u>-</u>	<u>(1,450,000)</u>
Total revenues	<u>\$ 1,450,000</u>	<u>\$ 1,450,000</u>	612,550	<u>\$ (837,450)</u>
EXPENDITURES:				
Personal services and employee benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>1,450,000</u>	<u>1,450,000</u>	<u>1,450,000</u>	<u>-</u>
Total expenditures	<u>\$ 1,450,000</u>	<u>\$ 1,450,000</u>	<u>1,450,000</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			(837,450)	
BUDGETED FUND BALANCE			<u>-</u>	
NET CHANGE IN FUND BALANCE			<u>\$ (837,450)</u>	

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
STATEMENT OF REVENUES AND EXPENDITURES -
NON-MAJOR GOVERNMENTAL FUNDS -
BUDGET AND ACTUAL (BUDGETARY BASIS) (CONTINUED)
Year Ended June 30, 2013

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	-	-	534,478	534,478
Inter-agency transfers	-	-	-	-
Budgeted fund balance	<u>585,100</u>	<u>585,100</u>	<u>-</u>	<u>(585,100)</u>
Total revenues	<u>\$ 585,100</u>	<u>\$ 585,100</u>	534,478	<u>\$ (50,622)</u>
EXPENDITURES:				
Personal services and employee benefits	\$ -	\$ -	-	\$ -
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	<u>585,100</u>	<u>585,100</u>	<u>-</u>	<u>585,100</u>
Total expenditures	<u>\$ 585,100</u>	<u>\$ 585,100</u>	<u>-</u>	<u>\$ 585,100</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			534,478	
BUDGETED FUND BALANCE			<u>-</u>	
NET CHANGE IN FUND BALANCE			<u>\$ 534,478</u>	

OTHER SUPPLEMENTAL SCHEDULES

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE 1 - SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNTS
June 30, 2013

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	State Treasurer	\$ 7,789,990	\$ -	\$ 7,789,990
ARRA - 89000	State Treasurer	(4,942,052)	-	(4,942,052)
Penalty and Interest - 61300	State Treasurer	6,717,656	-	6,717,656
PWAT - 61400	State Treasurer	287,884	-	287,884
Labor Enforcement Fund - 71100	State Treasurer	<u>1,407,141</u>	<u>-</u>	<u>1,407,141</u>
Total Governmental Funds with State Treasurer		<u>11,260,619</u>	<u>-</u>	<u>11,260,619</u>
Proprietary Funds Cash in Banks				
Clearing Account - 20020	Wells Fargo	744,989	(39,810)	705,179
Clearing Account - 20020	Wells Fargo	-	-	-
Benefit Account - 20020	Wells Fargo	21,250	(276,304)	(255,054)
Benefit Account - 20020	Wells Fargo	-	-	-
Cash Security Deposit Account - 20020	Wells Fargo	<u>82,108</u>	<u>-</u>	<u>82,108</u>
Total Proprietary in Banks		<u>848,347</u>	<u>(316,114)</u>	<u>532,233</u>
Proprietary Funds Cash - Other				
Unemployment Trust Fund - 20020	U.S. Dept. of Treasury	<u>67,257,248</u>	<u>-</u>	<u>67,257,248</u>
Total Proprietary Other		<u>67,257,248</u>	<u>-</u>	<u>67,257,248</u>
Total Funds (excluding Agency Fund)		<u>79,366,214</u>	<u>(316,114)</u>	<u>79,050,100</u>
Trust and Agency Funds with State Treasurer (with SHARE fund numbers):				
Wage Claim - 17800	State Treasurer	<u>278,264</u>	<u>-</u>	<u>278,264</u>
Total Trust and Agency with State Treasurer		<u>278,264</u>	<u>-</u>	<u>278,264</u>
Department Total - All Funds		<u>\$ 79,644,478</u>	<u>\$ (316,114)</u>	<u>\$ 79,328,364</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE 2 - SCHEDULE OF PLEDGED COLLATERAL
June 30, 2013

	<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	\$ 848,347	\$ 67,257,248	\$ 11,538,883	\$ 79,644,478
Less FDIC	<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>(250,000)</u>
Total uninsured public money	598,347	67,257,248	11,538,883	79,394,478
50% collateral requirement	299,174	33,628,624	5,769,442	39,697,239
State Agency Collateral Listing	A	B	C	A&B&C
Total pledged	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Over (under) pledged	A	B	C	A&B&C

A: Collateral for the balance is provided by the collateral pledged to the New Mexico State Treasurer to secure state deposits in accordance with 6-10-17 NMSA 1978. Detail of pledged collateral to this agency is unavailable, 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, 2013

Description	Laws	Appropriations		Amount Budgeted in FY13	Amount Expended in FY13	Balance
		Expiration	Amount			
UI Modernization	Laws 2009, Ch. 124, Section 7 #9	2013	\$25,015,055	\$ 11,809,493	\$ 11,575,000	\$ <u>234,493</u>
Outstanding balance						\$ <u>234,493</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, 2013**

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				
Social Security (Datasharing)	N/A	8/1/2012	Ongoing	\$ -	\$ -	NMDWS	N/A
UI Tax RFP	N/A	7/1/2010	6/30/2014	\$ -	\$ -	N/A	N/A
Automatic Data Processing	ADP	4/22/2013	4/22/2014	\$ -	\$ -	N/A	N/A
NMDVR (Datasharing)	N/A	8/28/2012	8/28/2015	\$ -	\$ -	N/A	N/A
IRS (Information Sharing)	N/A	5/29/2013	5/29/2016	\$ -	\$ -	N/A	N/A
Eastern Area Local Workforce Board (RSA)	NMDWS	1/1/2009	Ongoing	\$ 9,134	\$ 3,642	N/A	N/A
Northern Area Local Workforce Board (RSA)	NMDWS	1/1/2009	Ongoing	\$ 11,018	\$ 5,509	N/A	N/A
Southwest Area Local Workforce Board (RSA)	NMDWS	1/1/2009	Ongoing	\$ 9,312	\$ 4,656	N/A	N/A
Unemployment Insurance Tax Reporting	N/A	5/1/2013	5/1/2014	\$ -	\$ -	N/A	N/A
Workforce Connection of Central New Mexico (RSA)	N/A	5/8/2008	Ongoing	\$ -	\$ -	N/A	N/A
Department of Homeland Security	N/A	7/19/2011	Ongoing	\$ -	\$ -	N/A	N/A

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE 5 - SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
June 30, 2013

	<u>Balance, June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2013</u>
ASSETS				
Investment in State General Fund Investment Pool	\$ 269,571	\$ 9,532	\$ (839)	\$ 278,264
TOTAL ASSETS	<u>\$ 269,571</u>	<u>\$ 9,532</u>	<u>\$ (839)</u>	<u>\$ 278,264</u>
LIABILITIES				
Amounts held for others	\$ 127,018	\$ 9,532	\$ (839)	\$ 135,711
Accounts payable	<u>142,553</u>	<u>-</u>	<u>-</u>	<u>142,553</u>
TOTAL LIABILITIES	<u>\$ 269,571</u>	<u>\$ 9,532</u>	<u>\$ (839)</u>	<u>\$ 278,264</u>

SINGLE AUDIT

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Federal Participating Expenditures
U.S. Department of Labor:		
Labor Force Statistics	17.002	\$ 749,332
Unemployment Insurance	17.225	378,666,027
ARRA Unemployment Insurance	17.225	10,639,819
Trade Adjustment Assistance Workers	17.245	2,784,963
Work Opportunity Tax Credit Program	17.271	125,794
Temporary Labor Certification for Foreign Workers	17.273	82,147
ARRA - Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	3,515,505
Workforce Investment Act National Emergency Grants	17.277	41,982
Homeless Veterans' Reintegration Project	17.805	19,796
Employment Service Cluster:		
Employment Services	17.207	5,206,631
Disabled Veteran's Outreach Program	17.801	351,749
Local Veteran's Employment Representative Program	17.804	716,381
Workforce Investment Act Cluster:		
Workforce Investment Act Adult Program	17.258	4,519,382
Workforce Investment Act Youth Activities	17.259	4,425,945
Workforce Investment Act Dislocated Workers	17.278	4,779,801
Total U.S. Department of Labor		<u>416,625,254</u>
U.S. Equal Employment Opportunity Commission:		
Employment Discrimination Title VII of the Civil Rights Act of 1964	30.001	<u>235,856</u>
Total U.S. Equal Employment Opportunity Commission		<u>235,856</u>
Total Federal Awards Expended		<u>\$ 416,861,110</u>
Reconciliation to the Financial Statements		
Governmental Funds - Federal Revenue		\$ 60,303,234
Proprietary Funds - Federal Revenue		<u>124,332,490</u>
Total Federal Revenue		184,635,724
Unemployment Benefit Distributions from State Trust Fund		<u>232,225,386</u>
Total		<u>\$ 416,861,110</u>

See Notes to the Schedule of Expenditures of Federal Awards.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013**

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 basic financial statements.

NON-CASH ASSISTANCE

The Department did not receive any federal non-cash assistance during the year ended June 30, 2013.

LOANS

The Department does not have any loans outstanding with the Federal government at June 30, 2013.

UNEMPLOYMENT INSURANCE EXPENDITURES FROM STATE UNEMPLOYMENT COMPENSATION

The unemployment compensations system is a unique federal-state partnership, founded upon federal law but implemented through state law. Expenditures reported for the Unemployment Insurance program (CFDA No. 17.225) include unemployment benefit payments from the State Unemployment Compensation Fund totaling \$232,225,386.

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. In FY 2013, there were no REED ACT expenditures for the unemployment insurance program (CFDA No. 17.225).

EMPLOYMENT SERVICE (ES) CLUSTER – US DEPARTMENT OF LABOR

ES Cluster includes:

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

WORKFORCE INVESTMENT ACT (WIA) CLUSTER – US DEPARTMENT OF LABOR

WIA Cluster includes:

WIA-Adult	17.258
WIA-Youth	17.259
WIA-Dislocated	17.278

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

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 three subparts: Adult, Dislocated Worker and Youth. Also, it receives funds from the Worker Training and Placement in High Growth and Emerging Industry Sectors grant (CFDA 17.275). The board received the following Federal support through the Department in fiscal year 2013:

WIA-Adult	\$973,258
WIA-Youth	\$608,939
WIA-Dislocated	\$674,558
CFDA 17.275	\$233,837

2. The Employment & Economic Information Center (EEIC/84362) is the administrative entity and fiscal agent for the Eastern Area Board of the county and municipal governments within the seven counties of Planning and Development District IV. The EEIC is an organization for local governments. It assists in planning for common needs and coordinating of the sound regional development. The board received the following Federal support through the Department in fiscal year 2013:

WIA-Adult	\$650,235
WIA-Youth	\$751,848
WIA-Dislocated	\$624,280
CFDA 17.275	\$245,967

3. The Mid Regional Council of Governments is the administrative entity and fiscal agent of the New Mexico Workforce Connection (WCCNM/9289) in the central region of the state (Bernalillo, Torrance, 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 2013:

WIA-Adult	\$1,476,490
WIA-Youth	\$1,721,639
WIA-Dislocated	\$2,096,429
CFDA 17.275	\$ 248,732

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

4. The Southwest Area Workforce Development Board (SAWDB/9293) is the southwest region's workforce agency that helps hundreds of employers connect with thousands of job seekers each year. The agency offers innovative solutions to assist businesses to succeed in today's highly competitive workforce, while providing the tools job seekers need to find or advance in their current careers. The board received the following Federal support through the Department in fiscal year 2013:

WIA-Adult	\$ 802,409
WIA-Youth	\$1,037,679
WIA-Dislocated	\$ 599,820
CFDA 17.275	\$ 473,803

5. The following were passed through to subrecipients for the ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (CFDA 17.275) program:

Central New Mexico Community College (CNMCC/46240) offers a Workforce Training Center for the metropolitan Albuquerque, NM. \$196,362

ENMU- Ruidoso (ENMU/58340) offers community education classes, customized training workshops, adult basic education courses, and operates a One-Stop Career Center providing free employment services for employers and job seekers throughout County. \$93,320

Mesalands Community College (MCC/47496) State Energy Sector Partnership Wind Center of Excellence to expand/develop curriculum and training for participants. \$358,350

NM Green Collaborative (NMGC/91152) State Energy Sector Partnership to provide training for participants. \$19,982

Santa Fe Community College (SFCC/48298) State Energy Sector Partnership to expand/develop curriculum and training for participants. \$754,654

The University of New Mexico (UNM/54450) State Energy Sector Partnership to expand/develop curriculum and training for participants. \$192,622



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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, the budgetary comparisons of the general fund and the major special revenue fund, and the fiduciary fund of the New Mexico Department of Workforce Solutions (the Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the combining and individual funds and related budgetary comparisons of the Department, presented as supplementary information, and have issued our report thereon dated December 13, 2013.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2007-01).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged

with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2005-004, 2007-010, and 2013-004).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-002 and 2013-003.

The Department's Responses to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Albuquerque, NM
December 13, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL 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

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Department of Workforce Solution's (the Department) compliance 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 the Department's major federal programs for the year ended June 30, 2013. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 items 2013-001, 2012-001, 2008-003, 2011-002, 2011-003 and 2005-004. Our opinion on each major federal program is not modified with respect to these matters.

The Department's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001, 2012-001, 2008-003, 2011-002, 2011-003 and 2005-004, which we consider to be significant deficiencies.

The Department's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 13, 2013

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

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: Unmodified

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>
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA
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
17.278	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, 2013**

Section II – Financial Statement Findings

2005-004 Delinquent Employer Contribution Report (Significant Deficiency)

Condition: Prior to January 2013, the Department was unable to generate reports from the legacy unemployment tax system, Tax Application Cooperative System (TACS), as it was updated on a real-time basis and constantly fluctuated due to the continuous processing of transactions. Consequently, the reports generated by TACS for the same time period, including but not limited to the delinquent employer contributions and the related penalty and interest (P&I) receivables, but run at different times, provide dissimilar results. With the implementation of the new system in January 2013 (uFACTS), the Department now is capable of generating delinquent employer contributions and related P&I receivables. However, the reports have not yet been tested by the Department to determine the reliability of the reported delinquent employer contributions and related P&I. 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 reliable reporting.

Cause: Due to the recent implementation of the system, the Department has not yet tested and developed the appropriate reports.

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 should make a priority to develop and adequately test the reports generated from the system on delinquent employer contributions 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: The new tax system has the capability of generating a "Fiscal Reports – Accounts Receivable – Delinquent Aging" report by month and "Account Receivable Aging Report with Detail". In addition to these reports, an aging report is needed to determine the P&I receivable and delinquency. Queries will need to be developed by tax payer number, which will be utilized to test the reports, for the audit sample and to determine the subsequent receipts following the fiscal year end. The Department plans on having the queries, test work, and reports validated by spring of 2014. The CFO is responsible for this corrective action.

2007-001 Financial Recording, Accounting and Reporting (Material Weakness)

Condition: The following issues related to financial recording, accounting and reporting were noted during the FY13 audit:

- The Department is not performing timely cash account reconciliations.
- The Department has not implemented monthly and year-end closing procedures to ensure all account balances are properly stated. As a result, there were an excessive amount of client prepared journal entries and audit entries required to properly prepare the financial statements in accordance with Generally Accepted Accounting Principles.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section II – Financial Statement Findings (continued)

2007-001 Financial Recording, Accounting and Reporting (Material Weakness) (continued)

- The Department is not liquidating amounts payable to other funds and agencies in a timely manner.
- The Department still has inactive funds within the SHARE system that have not been reclassified to the Department's General Fund, which results in yearly audit reclassifications.

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. In addition, NMAC 2.20.5.8 requires departments to ensure all transactions are properly classified in the department's accounting records, and MAPs establishes the requirement that departments: 1) verify monthly that all transactions have been posted in SHARE, and 2) prepare any reclassification or adjusting entries as soon as they are known.

Cause: Due to the implementation of the new uFACTS system and the Cash Remediation project, the Department had multiple entries to correct balances that were not corrected during the year. In addition, the financial department also saw a decrease in their labor force, which caused the Department to fall behind on monthly reconciliations related to the bank accounts and posting of necessary journal entries.

Effect: Possible misstatements of the financial statements.

Recommendation: We recommend the Department make it a high priority to establish procedures to ensure timely and accurate month-end and year-end closing procedures to provide for more timely and accurate financial reporting.

Management's Response: The Department's Financial Management Bureau (FMB) has experienced staff shortages in all areas and key positions, which has been ongoing issue. The implementations of uFACTS and cash remediation have placed additional burdens on FMB. FMB is in the process of a reorganization that will ensure there is dedicated staff for all aspects of reconciliations. The Department will have in place in fiscal year 2014 procedures to ensure timely and accurate month-end and year-end closing procedures to provide for more timely and accurate financial reporting. The CFO is responsible for this corrective action.

2007-010 Reconciliation of Agency Funds (Significant Deficiency)

Condition: The Department's Labor and Industrial Wage Claim Fund has an amount of approximately \$278,264 held for or due to others. Currently, the Department is uncertain as for whom all of the funds are held or to whom they are due.

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section II – Financial Statement Findings (continued)

2007-010 Reconciliation of Agency Funds (Significant Deficiency) (continued)

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 for whom the amounts are held or to whom they are due.

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

Recommendation: We recommend the Department continue to try to identify for whom the funds are held.

Management's Response: The Department's Labor Relations Division has a goal of completing all wage claim investigations within 90 days. Once a check is received by an employer to settle a wage claim, all efforts are made to contact the employee by phone and mail. If after 30 days we are unable to contact the employee, then a copy of the check is kept in the claimant's case folder, the check is logged in a spreadsheet and then sent to Financial Management Bureau (FMB) for deposit. If the claimant eventually makes contact with the division, the division requests a warrant be issued by FMB to reconcile the wage claim. Prior to 2004, however there was no documentation maintained to identify activity. The process to identify claimants is ongoing. The CFO is responsible for the corrective action and determining the best resolution for the issue by the end of fiscal year 2014.

2013-004 Information Technology (Significant Deficiency)

Condition: During the test work over the IT general controls and procedures related to the operating systems and applications of the Department, we noted the following issues:

- Programmers with production update capabilities.
- 106 user accounts had password force change override turned on.

Criteria: One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. Within a data processing environment, this can be translated to not permitting the same individual to program an application and operate the computer. Designating individuals as "programmers" or "operators" without restricting their functions to those traditionally associated with the titles makes the separation of duties more apparent than real. In addition, in order to safeguard client and financial information, it is appropriate to change passwords and log-ins on a regular basis.

Cause: With the implementation of the new UI Claim and Tax System, the Department has not yet established controls and procedures surrounding these issues.

Effect: Possible unauthorized or inappropriate access or changes within the system.

Recommendation: We recommend that, to maintain the desirable separation of duties between operators and programmers, the following policies be adopted:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section II – Financial Statement Findings (continued)

2013-004 Information Technology (Significant Deficiency) (continued)

- Programmer should not be permitted to implement program applications or modifications to programs made by programming personnel.
- Programmers should not be permitted to operate the computer in a “hands on” mode unless rigorous safeguards are installed (for example, a dedicated machine, a copy of the system and program pack being used, no live files being used for tests, review of files used in tests, and output from tests).

In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Department institute a policy that requires passwords to be changed on a regular basis for all user accounts.

Management's Response: The Department's Workforce Technology Division (WTD) is working to establish controls and procedures to address these issues. Currently, a reorganization is underway to ensure proper separation of duties between IT operational and development functions. This reorganization will be in effect by December 31, 2013. Developers will not have direct access to the production environments. A formal Change Control Board (CCB) is now in place and implementation hand-off to the IT Operations team is currently being conducted. A comprehensive review of accounts under all WTD domains is being conducted. Domain consolidation and migration is also under way to reduce the complexity of monitoring and reduce the number of user id and passwords held by staff. Policies regarding passwords and user access have already been developed in draft form. Monthly monitoring and reporting is being defined and is expected to commence by January 31, 2014. The identified user accounts with password force change override turned on will be corrected by December 31, 2013. Service accounts will be modified by January 31, 2014. Additional time for these types of accounts is required to ensure continuity of existing UIA functionality and appropriately test any impacts. The CIO is responsible for this corrective action.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

Section III – Federal Award Findings and Questioned Costs

2005-004 Delinquent Employer Contribution Report (Significant Deficiency, Instance of Non-compliance)

Applicable Compliance Requirement: Other

Condition: Prior to January 2013, the Department was unable to generate reports from the legacy unemployment tax system - Tax Application Cooperative System (TACS) as it was updated on a real-time basis and constantly fluctuated due to the continuous processing of transactions. Consequently, the reports generated by TACS for the same time period, including but not limited to the delinquent employer contributions and the related penalty and interest (P&I) receivables, but run at different times provide dissimilar results. With the implementation of the new system in January 2013 (uFACTS), the Department now is capable of generating delinquent employer contributions and related P&I receivables. However, the reports have not yet been tested by the Department to determine the reliability of the reported delinquent employer contributions and related P&I. 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 reliable reporting.

Cause: Due to the recent implementation of the system, the Department has not yet tested and developed the appropriate reports.

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 should make a priority to develop and adequately test the reports generated from the system on delinquent employer contributions 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: The new tax system has the capability of generating a "Fiscal Reports – Accounts Receivable – Delinquent Aging" report by month and "Account Receivable Aging Report with Detail". In addition to these reports, an aging report is needed to determine the P&I receivable and delinquency. Queries will need to be developed by tax payer number, which will be utilized to test the reports, for the audit sample and to determine the subsequent receipts following the fiscal yearend. The Department plans on having the queries, test work, and reports validated by spring of 2014. The CFO is responsible for this corrective action.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

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

2008-003 Federal Grant Reporting (Significant Deficiency, Instance of Non-compliance)

Applicable Compliance Requirement: Reporting

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

CFDA 17.207/17.801/17.804 – Employment Services Cluster

- 4 of 15 reports (two ETA9002 and two VETS 200) tested were not submitted timely.

CFDA 17.258/17.259/17.278 – Work Investment Act Cluster

- 1 of 23 reports (ETA9130) tested was 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.

Questioned Costs: None.

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:

4 of 15 reports (two ETA9002 and two VETS 200) tested were not submitted timely.

The Department has effective controls established and in place. The reports are submitted to management for review several days before the due date. Staff responsible for submitting the reports will email management confirming the timely submittal of the reports. The CFO is responsible for this corrective action, which will be in place effective immediately.

1 of 23 reports (ETA9130) tested was not submitted timely.

This was an oversight by the Department's management. The Department has effective controls established and in place. 9130s are due a week before the due date. 9130s are reviewed and signed by the reviewer. A report is generated from the reporting system and 9130 reports are checked off upon submittal. Finally, the Grant Analyst verifies the submission certificate and signature upon return of the 9130 for filing. The CFO is responsible for this corrective action, which will be in place effective immediately.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

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

2011-002 Internal Control over Federally Suspended/Debarred Vendors (Significant Deficiency, Instance of Non-compliance)

Applicable Compliance Requirement: Procurement and Suspension and Debarment

Condition: During our A-133 single audit suspended/debarred vendor testwork, it was noted that for 1 of 1 contract reviewed, there was no evidence that the Department verified that the vendor was not included in the federally *Excluded Parties Listing System* (EPLS) found in the *System for Award Management* (SAM) prior to awarding the contract. This is applicable to the Work Investment Act Cluster CFDA's 17.258/17.259/17.278.

Criteria: A-102 Common Rule and OMB Circular A-11 0 (2 CFR part 215) require that nonfederal 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 *System for Award Management's* (SAM) *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's Procurement and Contracts Unit has implemented a process for all contract files over \$25K. In the contract file, there will be a print out from both the SAM system and the EPLS showing that the vendor is not suspended or debarred. The CFO is responsible for this corrective action, which will be in place effective immediately.

2011-003 Benefit Accuracy Measurement (BAM) Sampling, (Significant Deficiency, Instance of Non-compliance)

Applicable Compliance Requirement: Special Tests

Condition: During our testwork over the Benefit Accuracy Measurement case populations, it was noted that the BAM unit did not sample the required 150 cases for the year. The BAM unit only completed 138 monetary denial cases, 138 separation denial cases and 137 nonseparation denial cases by year end. We noted 3 of 40 cases in which the UI specialist signed off or closed the case in which they prepared. This is applicable to CFDA 17.225, UI Administration.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

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

2011-003 Benefit Accuracy Measurement (BAM) Sampling, (Significant Deficiency, Instance of Non-compliance) (continued)

Criteria: Per BAM Methodology and Program Description found on the federal website, State BAM samples must consist of 360 paid cases and 150 cases for each of the three types of denials: monetary, separation, and nonseparation. In addition, someone other than the UI specialist that completed the BAM audit should review and close the case.

Cause: Lack of effective internal controls associated with verifying the BAM department is meeting its required sample of cases tested during the year.

Effect: Non-compliance with federal grant regulations.

Recommendation: It is recommended that the Department establish effective controls to ensure compliance with the federal regulations.

Management's Response: This finding is being addressed through a Corrective Action Plan to the United States Department of Labor. In the document, UICR addresses the staffing shortage due to retirements and the training need as replacement staff are hired. We also identify how we will monitor the measure through use of a "Time Lapse report" in the QC Sun System, which allows us to monitor the status quarterly. We continue to have five auditors working and four staff vacancies in 2014. This is being monitored monthly, with case assignments adjusted weekly to meet quarterly and annual targets. The CFO is responsible for this corrective action, which will be in place effective immediately.

2012-001 Payroll Charges to Federal Grants (Significant Deficiency, Instance of Non-compliance)

Applicable Compliance Requirement: Allowable Costs/Cost Principles

Condition: During single audit payroll test work over allowable costs, the following issues were noted which are detailed by CFDA and Federal Program:

CFDA 17.275 – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors

- On 8 of 21 payroll transactions tested, the timesheets provided were not certified in a timely manner.
- On 7 of 21 payroll transactions tested, although the timesheets were approved electronically based on actual hours worked on the grant, the Department was unable to provide printouts of the signed time and effort certifications.

CFDA 17.258/17.259/17.278 – Work Investment Act Cluster

- On 15 of 40 payroll transactions tested, the timesheets provided were not certified in a timely manner.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

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

2012-001 Payroll Charges to Federal Grants (Significant Deficiency, Instance of Non-compliance) (continued)

- On 12 of 40 payroll transactions tested, although the timesheets were approved electronically based on actual hours worked on the grant, the Department was unable to provide printouts of the signed time and effort certifications.

CFDA 17.207/17.801/17.804 – Employment Services Cluster

- On 20 of 40 payroll transactions tested, the timesheets provided were not certified in a timely manner.
- On 5 of 40 payroll transactions tested, although the timesheets were approved electronically based on actual hours worked on the grant, the Department was unable to provide printouts of the signed time and effort certifications.
- On 6 of 40 payroll transactions tested, the timesheets provided were not certified and/or dated by the supervisor.

Criteria: Per OMB A-133 and federal agreements, the programs will be reimbursed for actual costs incurred. 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. In addition, per OMB Circular A-87, for employees who work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personal activity reports or equivalent documentation.

Cause: During FY13, the Department implemented changes as to how the Department documents and supports payroll charges to federal programs in an effort to ensure compliance with federal regulations. As a result, the issues noted related to payroll substantially decreased and the Department is still improving this process and the controls surrounding it.

Effect: Non-compliance with applicable regulations.

Questioned Costs: Unknown

Recommendation: We recommend that management continue to monitor the newly implemented processes and procedures and continue to make improvements to ensure 100% compliance.

Management's Response: The Department utilizes PeopleSoft to establish a task profile that accurately reflects the funding source based on the work performed. In November 2012, the Department issued a Payroll Supporting Documentation Policy, in which a monthly Payable Time Distribution Report is certified by both the employee and supervisor. Some of the samples requested were prior to the implementation of the Payroll Supporting Documentation Policy. The Department's Financial Management Bureau's Federal Grants Unit will work with all Divisions to ensure the payroll charges are properly being certified and dated in a timely manner. The CFO is responsible for this corrective action, which will be in place effective immediately.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013**

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

2013-001 Lack of Sufficient Subrecipient Monitoring Procedures (Significant Deficiency, Instance of Non-compliance)

Applicable Compliance Requirement: Subrecipient Monitoring

Condition: During our single audit testing over subrecipient monitoring for the High Growth and Emerging Industry Sectors Grant (State Energy Sector Partnership) (CFDA17.275) Program, we noted the subrecipient review process performed by the program did not include a review of the annual independent audit.

Criteria: OMB Circular A-133, requires the prime recipient to: 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133, and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause: Lack of effective internal controls surrounding the subrecipient monitoring process.

Effect: Without adequate subrecipient monitoring, the Department is unable to ensure the subrecipients' compliance with applicable requirements and whether or not timely and appropriate corrective action is taken for instances of non-compliance.

Questioned Costs: None.

Recommendation: We recommend that management design and implement a system of internal controls to ensure that adequate and timely monitoring of subrecipients is performed.

Management's Response: The Department will design and implement a system of internal controls which will meet the criteria. The Monitoring staff responsible for Subrecipient monitoring have been notified of the requirements. The CFO or Federal Grants Manager will follow-up with the Monitoring staff regarding the receipt of the subrecipient's audit report. A copy of the management decision on audit findings is forwarded to the CFO and Federal Grants Manager. The CFO is responsible for this corrective action, which will be in place effective immediately.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section IV – Other Findings

Finding 2013-002 Untimely Deposits of Cash Receipts (Other)

Condition: During the internal controls test work for cash receipts, it was noted that 6 out of 22 deposits tested were not deposited within 24 hours of receipt, which was approximately \$31,524 in employer tax receipts and claimant overpayments.

Criteria: According to the Manual of Model Accounting Practices (MAPs), section FIN2.3 states that all state agencies shall deposit cash within 24 hours of receipt.

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

Effect: Non-compliance with the Public Money Act and potential misappropriation of assets.

Auditor's Recommendation: We recommend that management establish controls necessary to ensure that all cash received is deposited by the end of the next business day.

Management's Response: It is the Department's policy to deposit all cash within 24 hours of receipt. The implementation of a new Tax and Claims system at the beginning of this year enhanced many of the processes, but also created other challenges. In the early stages of our implementation, many of our employer customers had not activated their accounts; thus, restricting them from utilizing the online services and features of the new system. These employers submitted their quarterly wage reports along with their payments via mail, creating a huge backlog. Because of the implementation challenges, we lowered our tolerance on our electronic filing requirements. Without entering the wage records, the system cannot calculate the amount due. Staff had to rely on a two-step process of first manually entering the wage records, then applying the payment. Currently, we have a greater than 95% compliance on electronic wage filing, allowing staff to concentrate on processing payments during our peak periods. All staff who receive checks have been notified of the 24-hour requirement. In the event there are challenges, a copy of the check will be made instead of holding on to the check. The CFO is responsible for this corrective action, which will be in place effective immediately.

Finding 2013-003 Per Diem (Other)

Condition: During internal control test work over Per Diem, the following items were noted:

- Of 22 reimbursements tested, we noted one reimbursement which was over paid. An employee was paid \$90.00 for meals when actual meal expenses were approximately \$46.
- Of 22 reimbursements tested, we noted one reimbursement in which an employee was under reimbursed by approximately \$20 due to the reimbursement packet not being properly calculated.
- Of 22 reimbursements tested, we noted one reimbursement was not in compliance with the department's tip policy. An employee was reimbursed for the actual tip amount which exceeded the department's policy of 20%.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Section IV – Other Findings (continued)

Finding 2013-003 Per Diem (Other) (continued)

- Of 22 reimbursements tested, we noted one reimbursement did not have the proper post of duty or residence stated on the reimbursement form.
- The Department was aware of tracking per diem reimbursements that exceed \$1,500 in a single year. However, the Department is not maintaining an accurate log of the travel taken. Nine travel transactions were not included in the travel log that should have been. It was noted that the Department is not reconciling the log back to SHARE.

Criteria: Per MAPs, travel policies and procedures shall be in compliance with the Per Diem and Mileage Act, Sections 10-8-1 through 10-8-8, NMSA 1978, and Department of Finance and Administration (DFA) regulations. In addition, per 10-8-5 (I) NMSA, any person who is not an employee, appointee or elected official of a county or municipality and who is reimbursed under the provisions of the Per Diem and Mileage Act in an amount that singly or in the aggregate exceeds one thousand five hundred dollars (\$1,500) in any one year shall not be entitled to further reimbursement under the provisions of that act until the person furnishes in writing to his department head or, in the case of a department head or board or commission member, to the governor or, in the case of a member of the legislature, to the New Mexico legislative council, an itemized statement on each separate instance of travel covered within the reimbursement, the place traveled to and the executive, judicial or legislative purpose served by the travel.

Effect: Non-compliance with applicable statutes and possible inaccurate reimbursements.

Cause: Management oversight and lack of effective internal controls surrounding the reimbursement of travel and per diem.

Auditor's Recommendation: We recommend management establish policies and procedures to ensure that proper reviews of the reimbursements for travel or per diem are performed. We recommend that management review and reconcile the travel tracking log to SHARE to ensure all expenses related to an employee are captured on the log.

Management's Response: The Department's Financial Management Bureau's Accounts Payable Unit will incorporate staff training on the Per Diem and Mileage Act. The Accounts Payable Unit has initiated a second review process. Travel is first reviewed by another colleague, then a final review by the Accounts Payable Manager. The Accounts Payable Unit has established a monthly review for tracking per diem reimbursements that exceed \$1,500.00. At month-end, a SHARE travel reimbursement report will be created and reconciled back to the log. The CFO is responsible for this corrective action, which will be in place effective immediately.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2013**

Section II – Financial Statement Findings

2000-013 Employer's Quarterly Excess Wages (Significant Deficiency) – Resolved

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.

2005-004 Delinquent Employer Contribution Report (Significant Deficiency) – Repeated and 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.

2007-001 Financial Recording, Accounting and Reporting (Significant Deficiency) – Repeated and Updated

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 approximately \$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

2007-010 Reconciliation of Agency Funds (Significant Deficiency) – Repeated and Updated

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.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2013**

Section II – Financial Statement Findings (continued)

2012-003 – Unemployment Insurance Benefit Account Draws (Significant Deficiency) – Resolved

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.

Section III – Federal Award Findings and Questioned Costs

2000-013 Employer's Quarterly Excess Wages (Significant Deficiency, Compliance) – Resolved

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.

2005-004 Delinquent Employer Contribution Report (Significant Deficiency, Compliance) – Repeated and 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.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2013**

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

2008-003 Federal Grant Reporting (Significant Deficiency, Compliance) – Repeated and Updated

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.

2011-001 Travel to Training Reimbursements, Compliance and Internal Control (Significant Deficiency, Compliance) - Resolved

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

2011-001 Travel to Training Reimbursements, Compliance and Internal Control (Significant Deficiency, Compliance) – Resolved (continued)

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.

2011-002 Internal Control Over Federally Suspended/Debarred Vendors (Significant Deficiency) - Repeated and Updated

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.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2013

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

2011-003 Benefit Accuracy Measurement (BAM) Sampling, Compliance and Internal Control (Significant Deficiency, Compliance) - Repeated and Updated

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.

2012-001 Payroll Supporting Documentation (Significant Deficiency, Compliance) - Repeated and Updated

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).

2012-003 Unemployment Insurance Benefit Account Draws (Significant Deficiency, Compliance) - Resolved

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.

Section IV – Other Findings

2012-002 - Compliance with State Auditor NMAC 2.2.2.10.K - Resolved

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.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS
EXIT CONFERENCE
June 30, 2013**

An exit conference was held with the Department on December 10, 2013. The conference was held at the Department's offices in Albuquerque, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Celina Bussey, Cabinet Secretary
Joy Forehand, Deputy Secretary
Marshall Ray, Deputy Secretary
Erin Thompson, Chief of Staff
Susan Aragon, Chief Financial Officer (Acting)

CLIFTONLARSONALLEN LLP

Georgie Ortiz, CPA, CGFM, Assurance Principal
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.