



REPORT OF INDEPENDENT AUDITORS OF
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
WORKFORCE SOLUTIONS DEPARTMENT

June 30, 2018

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State of New Mexico Workforce Solutions Department
Official Roster
June 30, 2018

Celina Bussey, Cabinet Secretary and Acting Labor Relations Director

Erin Thompson, Deputy Cabinet Secretary

David Robbins, Administrative Services Division Director and
Chief Financial Officer

Sue Anne Athens, Chief Information Officer

Roy Padilla, Acting Unemployment Insurance Director

Marcos Martinez, Employment Services Director

Yolanda Montoya-Cordova, Workforce Innovation and Opportunity Act Administrator

Report of Independent Auditors

Ms. Erin Thompson, Acting Cabinet Secretary
New Mexico Workforce Solutions Department
Mr. Wayne Johnson
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of New Mexico Workforce Solutions Department (the Department), a department of the State of New Mexico, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and each major special revenue fund of the Department as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Department present the financial position and changes in financial position of only that portion of governmental activities, business-type activities, each major fund, the aggregate remaining fund information, and all the respective budgetary comparisons of the State of New Mexico that are attributable to the transactions of the Department. The financial statements do not present fairly the financial position of the entire State of New Mexico as of June 30, 2018, the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

The schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 26, 2018

State of New Mexico Workforce Solutions Department

Management's Discussion and Analysis

Year Ended June 30, 2018

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

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

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

Financial Highlights

Table A-1
Comparative Statement of Total Net Position

	FY 2018	FY 2017	\$ Change	% Change
Assets				
Current and Other Assets	\$ 509,261,038	\$ 482,846,746	\$ 26,414,292	5.5%
Capital and Non-Current Assets	6,724,143	14,720,957	(7,996,814)	-54.3%
Total Assets	<u>\$ 515,985,181</u>	<u>\$ 497,567,703</u>	<u>\$ 18,417,478</u>	3.7%
Liabilities				
Current Liabilities	\$ 23,935,310	\$ 20,322,311	\$ 3,612,999	17.8%
Long-Term Obligations	-	-	-	0.0%
Total Liabilities	<u>\$ 23,935,310</u>	<u>\$ 20,322,311</u>	<u>\$ 3,612,999</u>	17.8%
Net Assets				
Net Investment in Capital Assets	\$ 6,724,143	\$ 14,720,957	\$ (7,996,814)	-54.3%
Restricted	485,733,637	462,779,031	22,954,606	5.0%
Unrestricted	(407,909)	(254,596)	(153,313)	60.2%
Total Net Position	<u>492,049,871</u>	<u>477,245,392</u>	<u>14,804,479</u>	3.1%
Total Liabilities and Net Position	<u>\$ 515,985,181</u>	<u>\$ 497,567,703</u>	<u>\$ 18,417,478</u>	3.7%

**State of New Mexico Workforce Solutions Department
Management's Discussion and Analysis
Year Ended June 30, 2018**

Financial Highlights (continued)

Table A-2
Comparative Statement of Activities

	FY 2018	FY 2017	\$ Change	% Change
REVENUE:				
<u>Program Revenues by Major Sources</u>				
Governmental Activities				
Employment Services				
Charges for Services	\$ 4,136,865	\$ 1,175,016	\$ 2,961,849	252.1%
Operating Grants	52,204,533	46,647,204	5,557,329	11.9%
Total Governmental Activities Revenue	<u>56,341,398</u>	<u>47,822,220</u>	<u>8,519,178</u>	17.8%
Business-Type Activities				
Unemployment Activities				
Charges for Services	171,936,212	210,222,582	(38,286,370)	-18.2%
Operating Grants	4,545,211	4,322,130	223,081	5.2%
Total Business-Type Activities Revenue	<u>176,481,423</u>	<u>214,544,712</u>	<u>(38,063,289)</u>	-17.7%
Total Program Revenues by Major Sources	232,822,821	262,366,932	(29,544,111)	-11.3%
<u>General Revenues by Major Source</u>				
Governmental Activities				
State Appropriations	8,832,600	8,976,600	(144,000)	-1.6%
Reversions	8,143	(1,000,000)	1,008,143	100.0%
Investment Earnings /Miscellaneous	-	9,899	(9,899)	-100.0%
Other-Transfers In	1,506,790	1,637,300	(130,510)	-8.0%
Total Governmental Activities Revenue	<u>10,347,533</u>	<u>9,623,799</u>	<u>723,734</u>	7.5%
Business-Type Activities				
Other Revenue				
Other-Transfers Out	-	-	-	0.0%
Investment Earnings	-	9,028,560	(9,028,560)	-100.0%
Total Business-Type Activities Revenues	<u>-</u>	<u>9,028,560</u>	<u>(9,028,560)</u>	-100.0%
Total General Revenues by Major Sources	<u>10,347,533</u>	<u>18,652,359</u>	<u>(8,304,826)</u>	-44.5%
Total Revenues by Major Sources	<u>\$ 243,170,354</u>	<u>\$ 281,019,291</u>	<u>\$ (37,848,937)</u>	-13.5%

Revenue

- The Unemployment Trust Fund experienced a decrease in revenue which coincides with a legislative approved employer tax rate reduction. Unemployment claims for fiscal year 2018 were approximately 35,989 weekly claims, down from unemployment claims of approximately 42,797 weekly claims during fiscal year 2017. Federal funds for administering unemployment activities slightly decreased from \$13,778,625 in fiscal year 2017 to \$13,506,470 in fiscal year 2018.
- Appropriations from the State General Fund decreased from \$8,976,600 to \$8,832,600, as mandated to alleviate the state budget deficit.
- Revenue from operating grants increased primarily by drawing down Unemployment Insurance balances to maximize the Resource Justification Model expenditures.

**State of New Mexico Workforce Solutions Department
Management's Discussion and Analysis
Year Ended June 30, 2018**

Financial Highlights (continued)

Table A-2b
Comparative Statement of Activities

	FY 2018	FY 2017	\$ Change	% Change
EXPENSES:				
<u>Program Expenses by Major Sources</u>				
Governmental Activities				
Governmental	\$ 72,125,751	\$ 71,318,351	\$ 807,400	1.1%
Total Governmental Activities Expenses	<u>72,125,751</u>	<u>71,318,351</u>	<u>807,400</u>	
Business-Type Activities				
Unemployment Services	166,039,745	178,334,072	(12,294,327)	-6.9%
Total Business-Type Activities Expenses	<u>166,039,745</u>	<u>178,334,072</u>	<u>(12,294,327)</u>	-6.9%
Total Program Expenses by Major Sources	<u>\$ 238,165,496</u>	<u>\$ 249,652,423</u>	<u>\$ (11,486,927)</u>	-4.6%

Expenses

The cost of business-type activities related to unemployment services increased in fiscal year 2018. Unemployment Benefit expense decreased by 6.9% from fiscal year 2018 to 2017. Overall claimant payments decreased for the fiscal year. For further information regarding the decrease in paid unemployment services see the Economic Outlook. The total costs for operations increased overall from \$71,318,351 to \$72,125,750, or about 1.1%. This small increase was due to healthcare and miscellaneous operational general expenditures.

Table A-2c
Comparative Statement of Activities

	FY 2018	FY 2017	\$ Change	% Change
<u>Change in Net Position</u>				
Governmental Activities				
Beginning Net Position	\$ 22,914,434	\$ 36,786,766	\$ (13,872,332)	-37.7%
Change in Net Position	<u>(5,436,820)</u>	<u>(13,872,332)</u>	<u>8,435,512</u>	-60.8%
Ending Net Position	<u>17,477,614</u>	<u>22,914,434</u>	<u>(5,436,820)</u>	-23.7%
Business-type Activities				
Beginning Net Position	454,330,958	409,091,758	45,239,200	11.1%
Change in Net Position	<u>20,241,299</u>	<u>45,239,200</u>	<u>(24,997,901)</u>	-55.3%
Ending Net Position	<u>474,572,257</u>	<u>454,330,958</u>	<u>20,241,299</u>	4.5%
Ending Net Position	<u>\$ 492,049,871</u>	<u>\$ 477,245,392</u>	<u>\$ 14,804,479</u>	3.1%

Total Net Position

The Department's total ending net position increase of \$14,804,479 was driven primarily by an increase in the State Trust Fund balance – due to decreased claim activity. Net position attributable to government activities decreased by \$5,436,820, or a 23.7% decrease over the prior fiscal year. Net position attributable to business-type activities increased by \$20,241,299, or a 4.5% increase over the prior fiscal year.

**State of New Mexico Workforce Solutions Department
Management's Discussion and Analysis
Year Ended June 30, 2018**

Financial Highlights (continued)

Financial Analysis at the Fund Level

Governmental Funds

General Fund – Overall revenues and expenditures remained relatively consistent with prior year with an increase in federal funding. Fund balance increased by \$992,514 from the prior fiscal year due to the non reversion of General Funds. This was a special one-time provision by the Legislature to offset not receiving any increase in the fiscal year 2019 Appropriation.

Penalty and Interest Fund – The revenues increased by approximately \$2,538,770 in the current year compared to prior year due to an adjustment to the Allowance for Uncollectible.

Public Works Apprenticeship Training – Program overall revenues increased by approximately \$2,100 compared with prior year. Revenue fluctuates from year to year based on construction activity and contractor participation.

Labor Enforcement Fund – Program had a decrease in revenue of approximately \$141,000 compared to prior year revenue. This revenue fluctuates from year to year based on construction activity.

Capital Assets

Table A-3
Capital Assets

	<u>6/30/2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2018</u>
Assets				
Office Improvements	\$ 3,257,234	.	\$ -	\$ 3,257,234
Vehicles	302,074	-	-	302,074
Office Equipment	2,081,301	-	(1,932,249)	149,052
Furniture and Fixtures	862,683	-	-	862,683
Computer Equipment	49,250,290	181,565	(1,370,487)	48,061,368
Total Acquired Value	<u>55,753,582</u>	<u>181,565</u>	<u>(3,302,736)</u>	<u>52,632,411</u>
Accumulated depreciation				
Office Improvements	(1,866,647)	(243,551)	-	(2,110,198)
Vehicles	(196,348)	(30,207)	-	(226,555)
Office Equipment	(2,022,972)	(5,645)	1,932,249	(96,368)
Furniture and Fixtures	(643,984)	(59,031)	-	(703,015)
Computer Equipment	(36,302,677)	(7,839,942)	1,370,487	(42,772,132)
Total Accumulated Depreciation	<u>(41,032,628)</u>	<u>(8,178,376)</u>	<u>3,302,736</u>	<u>(45,908,268)</u>
	<u>\$ 14,720,954</u>	<u>\$ (7,996,811)</u>	<u>\$ -</u>	<u>\$ 6,724,143</u>

During fiscal year 2018, the Department had purchases in computer equipment and disposals in office equipment and computer equipment.

State of New Mexico Workforce Solutions Department

Management's Discussion and Analysis

Year Ended June 30, 2018

Financial Highlights (continued)

Debt

The Department has no long-term debt.

General Fund Budgetary Highlights

The Department's overall General Fund Appropriations decreased by \$144,000 during fiscal year 2018, in order to help the projected fiscal year 2018 state budget deficit. The Department planned on utilizing all general fund appropriations and other state funding for fiscal year 2018, and was able to draw grant balances to offset this decrease.

In fiscal year 2018, the Department received a transfer in the amount of \$1,500,000 from the Worker's Compensation Administration Department for the Labor Relations Division and Unemployment Insurance Division.

Changes in Federal Funding

As referenced previously, by utilizing grant balances, expenditure of federal awards experienced a \$5 million increase, federal grant awards overall continued to experience decreases. The decline in federal awards was focused in Employment Services, and Unemployment Insurance, and Unemployment Insurance Administration Base from the United States Department of Labor, as well as most other grantors. The Workforce Innovation and Opportunity Act grant award realized a 22% increase in the amount of funding available.

Other Operating Highlights

Unemployment Insurance Compensation Fund

According to the Department's current projections, the Unemployment Trust Fund, held with the U.S. Treasury, is projected to be solvent through 2020. Unemployment Compensation (UC) is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the Unemployment Compensation Law. States levy their own payroll taxes on employers to fund regular UC benefits from the Unemployment Trust Fund and, if applicable, the states' share of the Extended Benefit (EB) program.

Temporary Assistance for Needy Families

During fiscal year 2018, the Department continued the partnership with the State of New Mexico Human Services Department for the Temporary Assistance for Needy Families grant. This program had a favorable outcome for the fiscal year. 274 individuals were enrolled at one of sixteen colleges around the State of New Mexico. Of the 274 enrolled, 128 have completed a certificate/degree program and 58 have obtained employment. The remaining individuals are continuing their studies and/or working closely with their Job Development Career Coach stationed at the college campus.

**State of New Mexico Workforce Solutions Department
Management's Discussion and Analysis
Year Ended June 30, 2018**

Other Operating Highlights (continued)

Economic Outlook

New Mexico's seasonally adjusted unemployment rate was 4.7% in July 2018, down from 4.9% in June 2018 and down from 6.1% a year ago. Total nonagricultural payroll employment grew by 2.2%, between July 2018 and July 2017. Overall, the state added 17,900 jobs between July 2017 and July 2018. The August 2018 increase came entirely from the private sector, which grew by 18,300 jobs, or 2.8 percent. The goods-producing industries were up 4,700 jobs, representing a gain of 5.0%. Seven private supersector-level industries added jobs and two lost jobs.

For the fiscal year 2020 appropriation request, the Department will request an increase of approximately \$2.5 million, \$1.6 million in general funding and the remaining amount in federal funding. For fiscal year 2018, the Department's Executive Management team collaborated to reduce fiscal year expenditures to preserve the penalty and interest fund balance as well as the general fund appropriation. Per fiscal year 2018 House Bill 2, the Department was allowed general fund monies to be non-reverting. Thus, creating a positive fund balance carryforward into fiscal year 2019 of approximately \$992,500 and penalty and interest fund balance increase of approximately was \$2,900,000 more than expected. The fiscal year 2019 budget will be adjusted accordingly as the Department faced a general fund decrease of \$4.6 million.

Contacting the Agency's Financial Management

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

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

State of New Mexico Workforce Solutions Department
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash Held with U.S. Treasury	\$ -	\$ 447,798,100	\$ 447,798,100
Investment in State General Fund Investment Pool	11,124,018	-	11,124,018
Petty Cash	100	-	100
Due from Federal Government	118,476	-	118,476
Accounts Receivable, Net of Allowance for Uncollectibles	5,711,982	44,507,695	50,219,677
Internal Balances	11,026	(11,026)	-
Prepaid Expenses	667	-	667
Capital Assets, Net Total Assets	6,724,143	-	6,724,143
Total Assets	<u>\$ 23,690,412</u>	<u>\$ 492,294,769</u>	<u>\$ 515,985,181</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Investment in State General Fund Investment Pool Overdraft	\$ -	\$ 17,815	\$ 17,815
Accounts Payable	3,095,426	-	3,095,426
Accrued Payroll and Benefits	946,548	-	946,548
Benefits Payable	-	6,184,623	6,184,623
Other Accrued Liabilities	20,332	-	20,332
Unearned Revenue	-	11,520,074	11,520,074
Compensated Absences, Due Within One Year	2,150,492	-	2,150,492
Total Liabilities	<u>6,212,798</u>	<u>17,722,512</u>	<u>23,935,310</u>
NET POSITION			
Net Investment in Capital Assets	6,724,143	-	6,724,143
Restricted for:			
Unemployment Insurance Trust	-	474,572,257	474,572,257
Special Revenue Funds	11,161,380	-	11,161,380
Unrestricted	(407,909)	-	(407,909)
Total Net Position	<u>17,477,614</u>	<u>474,572,257</u>	<u>492,049,871</u>
Total Liabilities and Net Position	<u>\$ 23,690,412</u>	<u>\$ 492,294,769</u>	<u>\$ 515,985,181</u>

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State of New Mexico Workforce Solutions Department
Statement of Activities
Year Ended June 30, 2018

	Expenses	Program Revenues	
		Charges for Services	Operating Grants
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
Workforce Transition Services	\$ 8,693,514	\$ -	\$ 6,947,486
Labor Relations	11,855,207	325,206	4,637,543
Workforce Technology	14,133,413	-	11,527,026
Business Services	13,709,873	-	10,911,481
Program Support	23,733,744	3,811,659	18,180,998
Total Governmental Activities	<u>72,125,751</u>	<u>4,136,865</u>	<u>52,204,533</u>
BUSINESS-TYPE ACTIVITIES			
Unemployment Services	<u>166,039,745</u>	<u>171,936,212</u>	<u>4,545,211</u>
Total Business-Type Activities	<u>166,039,745</u>	<u>171,936,212</u>	<u>4,545,211</u>
Total Primary Government	<u>\$ 238,165,496</u>	<u>\$ 176,073,077</u>	<u>\$ 56,749,744</u>

State of New Mexico Workforce Solutions Department
Statement of Activities (continued)
Year Ended June 30, 2018

	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
	\$ (1,746,028)	\$ -	\$ (1,746,028)
	(6,892,458)	-	(6,892,458)
	(2,606,387)	-	(2,606,387)
	(2,798,392)	-	(2,798,392)
	(1,741,087)	-	(1,741,087)
	<u>(15,784,353)</u>	<u>-</u>	<u>(15,784,353)</u>
	-	10,441,678	10,441,678
	<u>-</u>	<u>10,441,678</u>	<u>10,441,678</u>
	<u>\$ (15,784,353)</u>	<u>\$ 10,441,678</u>	<u>\$ (5,342,675)</u>
General Revenues:			
Investment Earnings	\$ 8,143	\$ 9,799,621	\$ 9,807,764
Transfers In - State General Fund Appropriations	8,832,600	-	8,832,600
Transfers In - Other	1,506,790	-	1,506,790
Total General Revenues and Transfers	<u>10,347,533</u>	<u>9,799,621</u>	<u>20,147,154</u>
CHANGE IN NET POSITION	(5,436,820)	20,241,299	14,804,479
NET POSITION - BEGINNING OF YEAR	22,914,434	454,330,958	477,245,392
NET POSITION - END OF YEAR	<u>\$ 17,477,614</u>	<u>\$ 474,572,257</u>	<u>\$ 492,049,871</u>

State of New Mexico Workforce Solutions Department
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund (SHARE 32900)	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Investment in State General Fund Investment Pool	\$ 1,636,238	\$ 9,487,880	\$ 11,124,118
Due from Enterprise Funds	-	11,026	11,026
Due from Federal Government	118,476	-	118,476
Accounts Receivable, Net of Allowance for Uncollectibles	4,049,508	1,662,474	5,711,982
Prepaid Expenses	667	-	667
Total Assets	<u>\$ 5,804,889</u>	<u>\$ 11,161,380</u>	<u>\$ 16,966,269</u>
LIABILITIES			
Accounts Payable	\$ 3,095,426	\$ -	\$ 3,095,426
Accrued Payroll and Benefits	946,548	-	946,548
Unearned Revenue	-	-	-
Other Accrued Liabilities	20,332	-	20,332
Total Liabilities	<u>4,062,306</u>	<u>-</u>	<u>4,062,306</u>
FUND BALANCES			
Restricted (see Note 18)	-	11,161,380	11,161,380
Assigned	1,742,583	-	1,742,583
Total Fund Balances	<u>1,742,583</u>	<u>11,161,380</u>	<u>12,903,963</u>
Total Liabilities and Fund Balance	<u>\$ 5,804,889</u>	<u>\$ 11,161,380</u>	<u>\$ 16,966,269</u>

State of New Mexico Workforce Solutions Department
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
June 30, 2018

Total Fund Balance - Governmental Funds		
(Governmental Fund Balance Sheet)	\$	12,903,963
 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.		
Capital assets, at cost		52,632,411
Accumulated depreciation		<u>(45,908,268)</u>
Net capital assets		<u>6,724,143</u>
 Long-term and other liabilities consist of:		
Compensated absences payable		<u>(2,150,492)</u>
 Net Position of Governmental Activities (Statement of Net Position)	 \$	 <u><u>17,477,614</u></u>

State of New Mexico Workforce Solutions Department
Statement of Revenues Expenditures and Changes in Fund Balances
– Governmental Funds
Year Ended June 30, 2018

	General Fund (SHARE 32900)	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Interest on Deposit/Investments	\$ -	\$ 8,143	\$ 8,143
Licenses and Permits	-	325,206	325,206
Federal Grant Revenue	50,876,336	-	50,876,336
Penalties and Interest	-	3,811,659	3,811,659
Public Works Apprenticeship and Training	-	1,328,197	1,328,197
Total Revenues	<u>50,876,336</u>	<u>5,473,205</u>	<u>56,349,541</u>
EXPENDITURES			
Current:			
Workforce Transition Services	8,600,742	-	8,600,742
Labor Relations	4,096,853	-	4,096,853
Workforce Technology	14,088,487	-	14,088,487
Business Services	13,508,028	-	13,508,028
Program Support	22,507,434	-	22,507,434
Capital Outlay	181,565	-	181,565
Total Expenditures	<u>62,983,109</u>	<u>-</u>	<u>62,983,109</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,106,773)	5,473,205	(6,633,568)
OTHER FINANCING SOURCES (USES)			
State General Fund Appropriation	8,832,600	-	8,832,600
Transfers In:			
Interfund	2,765,693	-	2,765,693
Other	1,500,994	5,795	1,506,789
Transfers Out:			
Interfund	-	(2,765,693)	(2,765,693)
Other	-	-	-
Total Other Financing Sources (Uses)	<u>13,099,287</u>	<u>(2,759,898)</u>	<u>10,339,389</u>
NET CHANGES IN FUND BALANCES	992,514	2,713,307	3,705,821
FUND BALANCES - BEGINNING OF YEAR	<u>750,069</u>	<u>8,448,073</u>	<u>9,198,142</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,742,583</u>	<u>\$ 11,161,380</u>	<u>\$ 12,903,963</u>

**State of New Mexico Workforce Solutions Department
Statement of Revenues and Expenditures – Major Governmental Funds –
Budget and Actual (Budgetary Basis)
Year Ended June 30, 2018**

	General Fund - Total			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Funds	\$ 47,071,600	\$ 53,574,400	\$ 50,877,330	\$ 2,697,070
General Funds	8,832,600	8,286,600	8,832,600	(546,000)
Other State Funds	1,500,000	1,500,000	1,500,000	-
Inter-Agency Transfers	7,350,000	4,004,000	2,765,693	1,238,307
Total Revenues	64,754,200	67,365,000	63,975,623	3,389,377
P-775 WORKFORCE TRANSITION SERVICES EXPENDITURES				
Personal Services and Benefits	7,981,000	7,861,000	6,964,512	896,488
Contractual Services	354,800	474,800	389,442	85,358
Other Costs	1,386,400	1,386,400	1,246,788	139,612
Other Financing Uses	-	-	-	-
Total P-775 Expenditures	9,722,200	9,722,200	8,600,742	1,121,458
P-776 LABOR RELATIONS EXPENDITURES				
Personal Services and Benefits	2,028,900	1,892,500	1,744,166	148,334
Contractual Services	33,400	33,400	22,633	10,767
Other Costs	1,924,700	2,704,700	2,330,054	374,646
Other Financing Uses	-	-	-	-
Total P-776 Expenditures	3,987,000	4,630,600	4,096,853	533,747
P-777 WORKFORCE TECHNOLOGY EXPENDITURES				
Personal Services and Benefits	3,735,700	3,845,500	3,623,234	222,266
Contractual Services	8,597,800	8,522,800	8,366,830	155,970
Other Costs	2,221,200	2,296,200	2,279,988	16,212
Other Financing Uses	-	-	-	-
Total P-777 Expenditures	14,554,700	14,664,500	14,270,052	394,448
P-778 BUSINESS SERVICES EXPENDITURES				
Personal Services and Benefits	7,190,100	6,950,100	6,532,525	417,575
Contractual Services	2,900,300	2,900,300	2,361,605	538,695
Other Costs	3,551,400	3,791,400	3,382,617	408,783
Other Financing Uses	-	-	-	-
Total P-778 Expenditures	13,641,800	13,641,800	12,276,747	1,365,053
P-779 PROGRAM SUPPORT EXPENDITURES				
Personal Services and Benefits	6,533,400	6,680,000	6,016,725	663,275
Contractual Services	777,800	777,800	708,303	69,497
Other Costs	15,537,300	17,248,100	17,013,687	234,413
Other Financing Uses	-	-	-	-
Total P-779 Expenditures	22,848,500	24,705,900	23,738,715	967,185

State of New Mexico Workforce Solutions Department
Statement of Revenues and Expenditures – Major Governmental Funds –
Budget and Actual (Budgetary Basis)
Year Ended June 30, 2018

	General Fund - Total (Continued)			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
ALL EXPENDITURES				
Personal Services and Benefits	\$ 27,469,100	\$ 27,229,100	\$ 24,881,162	\$ 2,347,938
Contractual Services	12,664,100	12,709,100	11,848,813	860,287
Other Costs	24,621,000	27,426,800	26,253,134	1,173,666
Other Financing Uses	-	-	-	-
Total All Expenditures	<u>\$ 64,754,200</u>	<u>\$ 67,365,000</u>	<u>\$ 62,983,109</u>	<u>\$ 4,381,891</u>
NET CHANGE IN FUND BALANCE			<u>\$ 992,514</u>	

Note: There were no reconciling items required to get to the GAAP basis.

State of New Mexico Workforce Solutions Department
Statement of Net Position
Proprietary Fund
June 30, 2018

	Unemployment Insurance Trust Fund
ASSETS	
Cash Held with U.S. Treasury	\$ 447,798,100
Accounts Receivable, Net of Allowance for Uncollectibles	44,507,695
Total Assets	<u>\$ 492,305,795</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION	
CURRENT LIABILITIES	
Investment in State General Fund Investment Pool Overdraft	\$ 17,815
Benefits Payable	6,184,623
Due to Governmental Funds	11,026
Unearned Revenue	11,520,074
Total Liabilities	<u>17,733,538</u>
NET POSITION	
Restricted for:	
Unemployment Insurance Trust	<u>474,572,257</u>
Total Net Position	<u>474,572,257</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 492,305,795</u>

State of New Mexico Workforce Solutions Department
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2018

	Unemployment Insurance Trust Fund
OPERATING REVENUES	
Interest on Investments	\$ 9,799,621
Employers Taxes and Reimbursements	167,974,867
Combined Wage Claims Reimbursements	3,716,801
Miscellaneous Revenue	244,544
Total Operating Revenues	181,735,833
OPERATING EXPENSES	
Unemployment Benefits Distributed to Beneficiaries	166,039,745
Total Operating Expenses	166,039,745
OPERATING INCOME	15,696,088
NON-OPERATING REVENUES	
Grants, Contracts and Federal Reimbursements	4,545,211
Total Non-Operating Revenues	4,545,211
CHANGE IN NET POSITION	20,241,299
TOTAL NET POSITION - BEGINNING OF YEAR	454,330,958
TOTAL NET POSITION - END OF YEAR	\$ 474,572,257

State of New Mexico Workforce Solutions Department
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2018

	<u>Unemployment Insurance Trust Fund</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	
Cash Received from Employers and Combined Wage Claim Reimbursements	\$ 175,140,076
Cash Received from Interest and Principal in Investments (Trust Fund Earnings)	9,799,621
Cash Paid for Unemployment Benefits	(164,405,972)
Net Cash Provided by Operating Activities	<u>20,533,725</u>
CASH FLOWS PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	
Cash Received from Federal Government	<u>4,653,092</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,186,817
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>422,593,468</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 447,780,285</u>
RECONCILIATION OF NET OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Income	\$ 15,696,088
Change in Receivables	3,331,997
Change in Payables/Unearned Revenue	<u>1,505,640</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 20,533,725</u>

State of New Mexico Workforce Solutions Department
Statement of Fiduciary Net Position
June 30, 2018

	Agency Fund <u>(SHARE 17800)</u>
ASSETS	
Investment in State General Fund Investment Pool	<u>\$ 77,216</u>
Total Assets	<u><u>\$ 77,216</u></u>
LIABILITIES	
Amounts Held for Others	\$ 73,132
Accounts Payable	<u>4,084</u>
Total Liabilities	<u><u>\$ 77,216</u></u>

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 1 – Nature of Organization

Organization

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

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

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

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 1 – Nature of Organization (continued)

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

In fiscal year 2018, the Department was comprised of the following:

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

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

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

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

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

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

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 1 – Nature of Organization (continued)

The Department expended the money for the following purposes:

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

Reporting Entity

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. Even though the Governor appoints the Department Secretary, the Secretary has decision-making authority, the power to designate management, the responsibility to significantly influence operations and is primarily accountable for fiscal matters. The Department is part of the primary government of the State of New Mexico and its financial statement should be included with the financial statements of the State. The Department's financial statements contain no component units.

Note 2 – Summary of Significant Accounting Policies

The financial statements for the Department have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

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

Financial Reporting Entity

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

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

Basis of Presentation – Fund Accounting

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

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

For fiscal year 2018, the General Fund (SHARE Fund 32900) is the only required major fund. The major governmental fund of the Department are as follows:

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

For fiscal year 2018, the nonmajor governmental funds of the Department are as follows:

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

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

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

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

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Basis of Accounting

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

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

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

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

Expenditures, other than vacation, compensatory and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. There was no interest expense incurred during the year ended June 30, 2019.

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

Budgets and Budgetary Accounting

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

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

Encumbrances

The Department uses encumbrances for certain balances that may be carried forward based on the appropriation language from Legislation. Encumbered funds that do not revert at the end of the appropriation period are re-budgeted in the new fiscal year. If the applicable appropriation extends beyond the end of the fiscal year, then the Department is permitted to carry forward the encumbrance into the new fiscal year. For the fiscal year ended June 30, 2018, the Department did not have any encumbrances presented in the financial statements.

Net Position/Fund Balance

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

Cash and Investments

Cash includes amounts in the demand deposits.

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Receivables/Payables

– During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheets of the fund financial statements. Internal activity is eliminated at the government-wide statement of activities. The amount is attributable to assessed penalty and interest on delinquent employer tax payments.

Capital Assets

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

Salvage value is not included in the depreciation calculation.

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

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

Pensions

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

Other Postemployment Benefits

Compliant with the requirements of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple-employer defined benefit postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico. Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2018 and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

Use of Estimates

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 3 – State General Fund Investment Pool

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

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Department of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been applied to fiscal year-end 2014 and the months from January 2015 through June 2015.

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

The Department has established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, the Department of Finance and Administration Financial Control Division is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

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, 2018, the Department had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool - General Fund	\$	1,636,238
State General Fund Investment Pool - Non-Major Governmental Funds		9,487,880
Total State General Fund Investment Pool - Governmental Funds		<u>11,124,118</u>
State General Fund Investment Pool - Agency Fund		77,216
Total State General Fund Investment Pool	\$	<u>11,201,334</u>

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the year ended June 30, 2018.

State of New Mexico Workforce Solutions Department Notes to Financial Statements

Note 5 – Cash Deposit Accounts and Investments

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts, at Wells Fargo Bank (WF) of \$392,188. 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 \$11,201,334 with the State Treasurer in the State General Fund Investment Pool. In addition, the Department has deposits held within the U.S. Treasury pool in the amount of \$447,798,100.

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

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

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

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 6 – Capital Assets

A summary of changes in capital assets follows:

	June 30, 2017	Additions	Disposals	June 30, 2018
Assets:				
Office Improvements	\$ 3,257,234	.	\$ -	\$ 3,257,234
Vehicles	302,074	-	-	302,074
Office Equipment	2,081,301	-	(1,932,249)	149,052
Furniture and Fixtures	862,683	-	-	862,683
Computer Equipment	49,250,290	181,565	(1,370,487)	48,061,368
Total Cost of Capital Assets	55,753,582	181,565	(3,302,736)	52,632,411
Accumulated Depreciation:				
Office Improvements	(1,866,647)	(243,551)	-	(2,110,198)
Vehicles	(196,348)	(30,207)	-	(226,555)
Office Equipment	(2,022,972)	(5,645)	1,932,249	(96,368)
Furniture and Fixtures	(643,984)	(59,031)	-	(703,015)
Computer Equipment	(36,302,677)	(7,839,942)	1,370,487	(42,772,132)
Total Accumulated Depreciation	(41,032,628)	(8,178,376)	3,302,736	(45,908,268)
Net Book Value	\$ 14,720,954	\$ (7,996,811)	\$ -	\$ 6,724,143

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	\$ 92,772
Workforce Technology	7,758,354
Business Services	44,926
Program Support	201,845
Labor Relations	80,479
	\$ 8,178,376

State of New Mexico Workforce Solutions Department
Notes to Financial Statements

Note 7 – Unemployment Insurance Fund – Receivables

Receivable:		
Unemployment Insurance Taxes	\$	48,725,356
Benefit Overpayments		72,047,610
Combined Wage Claims		1,018,475
Gross Receivables		<u>121,791,441</u>
Less: Allowance for Uncollectibles:		
Unemployment Insurance Taxes		(10,695,220)
Benefit Overpayments		<u>(66,588,528)</u>
Net Total Receivables - Unemployment Insurance Trust		<u>(77,283,748)</u>
Total	\$	<u>44,507,693</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, 2018, which were collected subsequently. This amount is an estimate based upon a three year historical average 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. The Department has made an estimate based upon a three-year historical average review of cash receipts subsequent to the end of the fiscal year.

Combined Wage Claimants

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

Note 8 – Operating Leases

The Department leases field office space and equipment under operating leases. Rental expenditures for land and buildings for the fiscal year ended June 30, 2018 were \$424,268. Rental expenditures for equipment for the fiscal year ended June 30, 2018 were \$407,079. The future minimum rental commitments as of June 30, 2018 were as follows:

Year Ending June 30,	Office Space	Equipment	Total
2019	\$ 385,751	\$ 429,978	\$ 815,729
2020	316,026	195,942	511,968
2021	143,269	74,505	217,774
2011	145,538	71,562	217,100
2023	147,876	34,522	182,398
2024 and Thereafter	499,582	-	499,582
Net Total	<u>\$ 1,638,042</u>	<u>\$ 806,509</u>	<u>\$ 2,444,551</u>

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 9 – Compensated Absences

The changes to compensated absences are as follows:

	Balance, June 30, 2017	Increase	(Decrease)	Balance, June 30, 2018	Due Within One Year
Sick and Annual Leave	\$ 1,004,665	\$ 1,569,499	\$ (423,672)	\$ 2,150,492	\$ 2,150,492
Net Total	<u>\$ 1,004,665</u>	<u>\$ 1,569,499</u>	<u>\$ (423,672)</u>	<u>\$ 2,150,492</u>	<u>\$ 2,150,492</u>

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

Note 10 – Interfund Receivables and Payables

Interfund receivables and payables reflect short-term (current) borrowings among the Department's funds in the normal course of business. The Department has the following Interfund receivables and payables between its funds at June 30, 2018.

Due to Other Funds		
Fund Name	Penalty & Interest (SHARE 61300)	Total
Unemployment Insurance Trust Fund	\$ 11,026	\$ 11,026
Total	<u>\$ 11,026</u>	<u>\$ 11,026</u>

Note 11 – Accumulated Unused/Unpaid Annual and Sick Leave

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

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

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

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

State of New Mexico Workforce Solutions Department
Notes to Financial Statements

Note 12 – Reversions

As of June 30, 2018, the Department was not required to revert money to the State of New Mexico general fund.

Note 13 – Unearned Revenue

The Department's unearned revenue in the Unemployment Insurance Trust Fund as of June 30, 2018 consisted of the following:

Reed Act/UI Mod	\$ 3,066,802
Employer Prepayments	8,453,272
Total	<u>\$ 11,520,074</u>

Note 14 – Transfers

Transfers occurring during fiscal year ended June 30, 2018 are as follows:

Inter-fund transfers consist of the following:

Fund	Governmental Funds	Operating Transfers In	Operating Transfers Out
32900	General Fund	\$ 2,765,693	\$ -
61300	Penalty and Interest	-	863,654
61400	Public Work Apprenticeship and Training	-	1,402,039
71100	Labor Enforcement Fund	-	500,000
Total Inter-Fund Transfers		<u>\$ 2,765,693</u>	<u>\$ 2,765,693</u>

The inter-fund transfers that occurred during fiscal year ended June 30, 2018 represent transfers from Special Revenue Funds for FY18 appropriations.

Inter-agency transfers consist of the following:

To Agency	To Fund	Governmental Funds	From Agency	From Fund	Operating Transfers In	Operating Transfers Out
\$63,100	\$32,900	Department of Finance and Administration	\$34,101	\$85,300	\$ 8,832,600	\$ -
\$63,100	\$61,300	General Services Department	\$35,000	\$97,000	5,795	-
\$63,100	\$32,900	New Mexico Human Services Department	\$63,000	\$97,500	555,296	-
\$63,100	\$32,900	Worker's Compensation Administration	\$63,200	\$98,200	1,500,000	-
\$63,100	\$32,900	Division of Vocational Rehabilitation	\$64,400	\$50,002	994	-
Total Inter-Agency Transfers					<u>\$ 10,894,685</u>	<u>\$ -</u>

The inter-agency transfer from Worker's Compensation Administration is an appropriation. The amount transferred in from the New Mexico Human Services Department is reported on the Statement of Activities in Operating Grants.

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

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.

TIER I

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

TIER II

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

Funding Policy

The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2018, 2017 and 2016 were \$2,874,861, \$3,088,373, and \$3,018,441, respectively, which equal the amount of the required contributions for each fiscal year. For employees with annual salary less than \$20,000, their required annual plan contribution is 7.42%. For employees with annual salary greater than \$20,000, their required annual plan contribution is 8.92%. The employer required annual plan contribution is 16.99%.

State of New Mexico Workforce Solutions Department Notes to Financial Statements

Note 16 – Post-Employment Benefits – State Retiree Health Care Plan

Plan Description

The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit 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.

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.

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 16 – Post-Employment Benefits – State Retiree Health Care Plan (continued)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the Legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2018, 2017 and 2016 were \$338,420, \$363,193, and \$355,327, respectively, which equal the required contributions for each year. The employee required annual plan contribution is 1.0%. The employer required annual plan contribution is 2.0%.

Note 17 – Risk Management

The Department is exposed to various risks of loss for which the Department is insured (auto, employee fidelity bond, general liability, civil rights, foreign jurisdiction, money and securities, property, worker's compensation) with the State of New Mexico's General Services Department/Risk Management Division. The Department is charged by State of New Mexico's General Services Department/Risk Management Division for coverage. For the past several fiscal years, claims have not exceeded the coverage provided.

Note 18 – Fund Balance Classifications

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

State of New Mexico Workforce Solutions Department
Notes to Financial Statements

Note 18 – Fund Balance Classifications (continued)

A summary of the nature and purpose of these reserves by fund type at June 30, 2018 follows:

	Major Fund	Special Revenue Fund	Special Revenue Fund	Special Revenue Fund
	General Fund (SHARE 32900)	Penalty & Interest Fund (SHARE 61300)	Public Works Apprenticeship & Training Fund (SHARE 61400)	Labor Enforcement Fund (SHARE 71100)
Fund Balances:				
Restricted for:				
Special Revenue Funds,				
per Section 51-1-34 NMSA 1978	\$ -	\$ 8,895,731	\$ -	\$ -
per Section 13-4-14.1 NMSA 1978	-	-	-	750,480
Public Works Apprenticeship & Training per Section 13-4D-2	-	-	1,515,169	-
Assigned	1,742,583	-	-	-
Total Fund Balances	<u>\$ 1,742,583</u>	<u>\$ 8,895,731</u>	<u>\$ 1,515,169</u>	<u>\$ 750,480</u>

Note 19 – Subsequent Accounting Pronouncements

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

GASB Statement No. 83

Certain Asset Retirement Obligations

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

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

GASB Statement No. 84

Fiduciary Activities

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

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on:

1. Whether a government is controlling the assets of the fiduciary activity and
2. The beneficiaries with whom a fiduciary relationship exists.

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 19 – Subsequent Accounting Pronouncements (continued)

This Statement describes four fiduciary funds that should be reported, if applicable:

1. Pension (and other employee benefit) trust funds,
2. Investment trust funds,
3. Private-purpose trust funds, and
4. Custodial funds.

Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

GASB Statement No. 85

Omnibus 2017

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

This Statement addresses the following topics:

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

GASB Statement No. 86

Certain Debt Extinguishment Issues

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

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

State of New Mexico Workforce Solutions Department

Notes to Financial Statements

Note 19 – Subsequent Accounting Pronouncements (continued)

GASB Statement No. 87

Leases

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

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 88

Certain Disclosures Related to debt, including Direct Borrowings and Direct Placements

Effective Date: The provisions in Statement 87 are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Additional essential information related to debt for required disclosures include unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance related consequences, significant termination events with finance related consequences, and significant subjective acceleration clauses.

GASB Statement No. 89

Accounting for Interest Cost Incurred before the End of a Construction Period

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

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of capital asset reported in a business-type activity or enterprise fund.

Supplementary Information

State of New Mexico Workforce Solutions Department
Schedule 1 – Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Penalty and Interest (SHARE 61300)	Public Works Apprenticeship and Training (SHARE 61400)	Labor Enforcement (SHARE 71100)	Total Nonmajor Governmental Funds
ASSETS				
Investment in State General				
Fund Investment Pool	\$ 7,222,231	\$ 1,515,169	\$ 750,480	\$ 9,487,880
Due from Enterprise Funds	11,026	-	-	11,026
Due from Other State Agencies	-	-	-	-
Due from Federal Government	-	-	-	-
Accounts Receivable, net of Allowance for Uncollectibles	1,662,474	-	-	1,662,474
	<u>8,895,731</u>	<u>1,515,169</u>	<u>750,480</u>	<u>11,161,380</u>
Total Assets				
	<u>\$ 8,895,731</u>	<u>\$ 1,515,169</u>	<u>\$ 750,480</u>	<u>\$ 11,161,380</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Payroll and Benefits	-	-	-	-
Due to Other Funds	-	-	-	-
Other Accrued Liabilities	-	-	-	-
Due to Other State Agencies	-	-	-	-
Total Liabilities	-	-	-	-
FUND BALANCES				
Restricted (see Note 20)	8,895,731	1,515,169	750,480	11,161,380
Assigned	-	-	-	-
Total Fund Balances	<u>8,895,731</u>	<u>1,515,169</u>	<u>750,480</u>	<u>11,161,380</u>
Total Liabilities and Fund Balance	<u>\$ 8,895,731</u>	<u>\$ 1,515,169</u>	<u>\$ 750,480</u>	<u>\$ 11,161,380</u>

State of New Mexico Workforce Solutions Department
Schedule 2 – Combining Statement of Revenues, Expenditures and
Changes in Fund Balances Nonmajor Governmental Funds
Year Ended June 30, 2018

	Penalty and Interest (SHARE 61300)	Public Works Apprenticeship and Training (SHARE 61400)	Labor Enforcement (SHARE 71100)	Total Nonmajor Governmental Funds
REVENUES				
Interest on Deposit/Investments	\$ -	\$ -	\$ 8,143	\$ 8,143
Licenses and Permits	-	-	325,206	325,206
Federal Grant Revenue	-	-	-	-
Penalties and Interest	3,811,659	-	-	3,811,659
Public Works Apprenticeship and Training	-	1,328,197	-	1,328,197
Total Revenues	<u>3,811,659</u>	<u>1,328,197</u>	<u>333,349</u>	<u>5,473,205</u>
EXPENDITURES				
Current				
Workforce Transition Services	-	-	-	-
Labor Relations	-	-	-	-
Workforce Technology	-	-	-	-
Business Services	-	-	-	-
Program Support	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,811,659	1,328,197	333,349	5,473,205
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriation	-	-	-	-
Transfers In				
Interfund	-	-	-	-
Other	5,795	-	-	5,795
Transfers Out				
Interfund	(863,654)	(1,402,039)	(500,000)	(2,765,693)
Other	-	-	-	-
Total Other Financing Sources (Uses)	<u>(857,859)</u>	<u>(1,402,039)</u>	<u>(500,000)</u>	<u>(2,759,898)</u>
NET CHANGES IN FUND BALANCES	2,953,800	(73,842)	(166,651)	2,713,307
FUND BALANCES - BEGINNING OF YEAR	<u>5,941,931</u>	<u>1,589,011</u>	<u>917,131</u>	<u>8,448,073</u>
FUND BALANCES - END OF YEAR	<u>\$ 8,895,731</u>	<u>\$ 1,515,169</u>	<u>\$ 750,480</u>	<u>\$ 11,161,380</u>

State of New Mexico Workforce Solutions Department
Schedule 3 – Combining Statement of Net Position
Proprietary Funds
June 30, 2018

	Unemployment Insurance Trust (SHARE 20020)	Unemployment Insurance Trust (SHARE 20060)	Total Unemployment Insurance Trust Fund
ASSETS			
Cash Held with U.S. Treasury	\$ 752,489,557	\$ (304,691,457)	\$ 447,798,100
Accounts Receivable, Net of Allowance for Uncollectibles	38,030,137	6,477,558	44,507,695
Total Assets	<u>\$ 790,519,694</u>	<u>\$ (298,213,899)</u>	<u>\$ 492,305,795</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
CURRENT LIABILITIES			
Investment in State General Fund Investment Pool Overdra	\$ (76,500)	\$ 94,315	\$ 17,815
Benefits Payable	60,454	6,124,169	6,184,623
Due to Governmental Funds	11,026	-	11,026
Unearned Revenue	8,441,372	3,078,702	11,520,074
Total Liabilities	<u>8,436,352</u>	<u>9,297,186</u>	<u>17,733,538</u>
NET POSITION			
Restricted for:			
Unemployment Insurance Trust	782,083,342	(307,511,085)	474,572,257
Total Net Position	<u>782,083,342</u>	<u>(307,511,085)</u>	<u>474,572,257</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 790,519,694</u>	<u>\$ (298,213,899)</u>	<u>\$ 492,305,795</u>

State of New Mexico Workforce Solutions Department
Schedule 4 – Combining Statement of Revenues, Expenditures and
Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2018

	Unemployment Insurance Trust (SHARE 20020)	Unemployment Insurance Trust (SHARE 20060)	Total Unemployment Insurance Trust Fund
OPERATING REVENUES			
Interest on Investments	\$ -	\$ 9,799,621	\$ 9,799,621
Employers Taxes and Reimbursements	167,974,867	-	167,974,867
Combined Wage Claims Reimbursements	-	3,716,801	3,716,801
Miscellaneous Revenue	-	244,544	244,544
Total Operating Revenues	<u>167,974,867</u>	<u>13,760,966</u>	<u>181,735,833</u>
OPERATING EXPENSES			
Unemployment Benefits Distributed to Beneficiaries	-	166,039,745	166,039,745
Total Operating Expenses	<u>-</u>	<u>166,039,745</u>	<u>166,039,745</u>
OPERATING INCOME	<u>167,974,867</u>	<u>(152,278,779)</u>	<u>15,696,088</u>
NON-OPERATING REVENUES			
Grants, Contracts and Federal Reimbursements	-	4,545,211	4,545,211
Total Non-Operating Revenues	<u>-</u>	<u>4,545,211</u>	<u>4,545,211</u>
CHANGE IN NET POSITION	167,974,867	(147,733,568)	20,241,299
TOTAL NET POSITION - BEGINNING OF YEAR	<u>614,108,475</u>	<u>(159,777,517)</u>	<u>454,330,958</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 782,083,342</u>	<u>\$ (307,511,085)</u>	<u>\$ 474,572,257</u>

State of New Mexico Workforce Solutions Department
Schedule 5 – Schedule of Individual Deposit Accounts
June 30, 2018

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	\$ 1,636,238	\$ -	\$ 1,636,238
Penalty and Interest - 61300	State Treasurer	7,222,231	-	7,222,231
Public Works Apprenticeship & Training - 61400	State Treasurer	1,515,169	-	1,515,169
Labor Enforcement Fund - 71100	State Treasurer	750,480	-	750,480
Total Governmental Funds with State Treasurer		11,124,118	-	11,124,118
Proprietary Funds Cash in Banks				
Benefit Account - 20060	Wells Fargo	13,679	-	13,679
H Warrant Account - 20020	Wells Fargo	-	(218,419)	(218,419)
Clearing Account - 20020	Wells Fargo	297,771	-	297,771
V Warrant Account - 20060	Wells Fargo	-	(191,584)	(191,584)
Cash Security Deposit Account - 20020	Wells Fargo	80,738	-	80,738
Total Proprietary Cash in Banks		392,188	(410,003)	(17,815)
Proprietary Funds Cash - Other				
Unemployment Trust Fund - 20020	U.S. Dept. of Treasury	447,798,100	-	447,798,100
Total Proprietary Funds Cash - Other		447,798,100	-	447,798,100
Total Funds (Excluding Agency Fund)		459,314,406	(410,003)	458,904,403
Trust and Agency Funds with State Treasurer				
(with SHARE Fund Numbers)				
Wage Claim - 17800	State Treasurer	77,216	-	77,216
Total Trust & Agency Funds with State Treasurer		77,216	-	77,216
Department Total - All Funds		\$ 459,391,622	\$ (410,003)	\$ 458,981,619

State of New Mexico Workforce Solutions Department
Schedule 6 – Schedule of Pledged Collateral
June 30, 2018

	Wells Fargo	U.S. Department of the Treasury	State Treasurer Accounts	Total
Total Amount of Deposit	\$ 392,188	\$ 447,798,100	\$ 11,201,334	\$ 459,391,622
Less FDIC	(250,000)	-	-	(250,000)
Total Uninsured Public Money	142,188	447,798,100	11,201,334	459,141,622
50% Collateral Requirement	71,094	223,899,050	5,600,667	229,570,811
State Agency Collateral Listing	A	B	C	A&B&C
Total Pledged	-	-	-	-
Over (Under) Pledged	A	B	C	A&B&C

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

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

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

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

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

State of New Mexico Workforce Solutions Department
Schedule 7 – Schedule of Changes in Fiduciary Assets and Liabilities
Year Ended June 30, 2018

	Balance, June 30, 2017	Additions	Deletions	Balance, June 30, 2018
ASSETS				
Investment in State General				
Fund Investment Pool	\$ 40,852	\$ 60,485	\$ (24,121)	\$ 77,216
Total Assets	<u>\$ 40,852</u>	<u>\$ 60,485</u>	<u>\$ (24,121)</u>	<u>\$ 77,216</u>
LIABILITIES				
Amounts Held for Others	\$ 36,652	\$ 60,646	\$ (24,166)	\$ 73,132
Accounts Payable	4,200	22,517	(22,633)	4,084
Total Liabilities	<u>\$ 40,852</u>	<u>\$ 83,163</u>	<u>\$ (46,799)</u>	<u>\$ 77,216</u>

**State of New Mexico Workforce Solutions Department
 Schedule 8 – Joint Powers Agreement
 Year Ended June 30, 2018**

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

State of New Mexico Workforce Solutions Department
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Amount Passed Through to Subrecipients	Federal Participating Expenditures
U.S. Department of Labor:			
Labor Force Statistics	17.002	\$ -	\$ 874,363
Unemployment Insurance	17.225	-	206,031,077
Trade Adjustment Assistance Workers	17.245	-	2,476,636
Work Opportunity Tax Credit Program	17.271	-	24,806
Temporary Labor Certification for Foreign Workers	17.273	-	62,430
Workforce Investment Act National Dislocated Workers	17.277	-	85,062
Trade Adjustment Assistance Community College and Career Training Grant Program	17.282	-	578,800
Apprenticeship USA	17.285	-	602,289
Employment Service Cluster:			
Employment Services	17.207	-	4,449,364
Disabled Veteran's Outreach Program	17.801	-	796,595
Local Veteran's Employment Representative Program	17.804	-	475,804
Total Employer Service Cluster		-	5,721,763
Workforce Investment Act Cluster:			
Workforce Investment Act Adult Program	17.258	5,858,408	6,133,570
Workforce Investment Act Youth Activities	17.259	4,639,991	5,486,443
Workforce Investment Act Dislocated Workers	17.278	5,597,001	7,708,549
Total Workforce Investment Cluster		16,095,400	19,328,561
Total U.S. Department of Labor		16,095,400	235,785,787
U.S. Equal Employment Opportunity Commission:			
Employment Discrimination Title VII of the Civil Rights Act of 1964	30.001	-	261,716
Total U.S. Equal Employment Opportunity Commission		-	261,716
U.S. Department of Health and Human Services			
Temporary Assistance for Needy Families	93.558	-	555,296
Total U.S. Department of Health and Human Services		-	555,296
U.S. Corporation for National and Community Service:			
State Commissions	94.003	-	141,163
AmeriCorps	94.006	1,367,290	1,460,553
Total U.S. Corporation for National and Community Service		1,367,290	1,601,716
Total Federal Awards Expended		\$ 17,462,690	\$ 238,204,515

State of New Mexico Workforce Solutions Department
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Amount Passed Through To Subrecipients	Federal Participating Expenditures
Reconciliation to the Financial Statements			
Governmental Funds - Federal Revenue			\$ 50,876,336
Proprietary Funds - Federal Revenue			4,545,211
Total Federal Revenue			<u>55,421,547</u>
Unemployment Benefit Distributions from State Trust Fund			182,782,968
Total			<u>\$ 238,204,515</u>
Reconciliation of Unemployment Benefit Distributions to the Financial Statements			
Unemployment Benefit Distributions from State Trust Fund			\$ 182,782,968
Unemployment Benefit Distributions from Federal Program Accounts			4,545,211
Total Unemployment Benefit Distributions			<u>\$ 187,328,179</u>

State of New Mexico Workforce Solutions Department
Notes to Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2018

GENERAL

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

BASIS OF ACCOUNTING

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

NON-CASH ASSISTANCE

The Department did not receive any federal non-cash assistance during the year ended June 30, 2018.

LOANS

The Department does not have any loans outstanding with the Federal government as of June 30, 2018.

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 \$186,901,366.

REED ACT APPROPRIATIONS

The Department receives appropriations under the Reed Act. These monies are to be spent for activities related to the unemployment insurance program. During the year ended June 30, 2018, the Department did not have any expenditures related to the Reed Act.

EMPLOYMENT SERVICE (ES) CLUSTER – US DEPARTMENT OF LABOR

ES Cluster includes:

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

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

WIOA Cluster includes:

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

State of New Mexico Workforce Solutions Department
Notes to Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2018

SUBRECIPIENTS

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

1. The Northern Area Local Workforce Development Board (NALWDB/53895) is one of four regional workforce boards established in compliance with the Workforce Innovation and Opportunity Act (WIOA) of 1999 and certified by the New Mexico Governor. WIOA funds are allocated in three subparts: Adult, Dislocated Worker and Youth. The board received the following Federal support through the Department in fiscal year 2018:

WIOA-Adult	\$1,574,272
WIOA-Youth	\$644,786
WIOA-Dislocated	\$1,046,823

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 2018:

WIOA-Adult	\$1,018,977
WIOA-Youth	\$545,429
WIOA-Dislocated	\$855,533

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 2018:

WIOA-Adult	\$2,188,332
WIOA-Youth	\$1,854,416
WIOA-Dislocated	\$2,593,135

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 2018:

WIOA-Adult	\$1,146,826
WIOA-Youth	\$1,595,204
WIOA-Dislocated	\$1,101,510

State of New Mexico Workforce Solutions Department
Notes to Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2018

5. The subrecipients of AmeriCorps received the following Federal support through the Department in fiscal year 2018:

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

AmeriCorps Formula \$16,248

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

AmeriCorps Formula \$281,667

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

AmeriCorps Formula \$258,677

Mandy's Special Farm (100735) Mandy's Farm provides high-quality 24-hour community living services for adults with intellectual and development disabilities.

AmeriCorps Formula \$19,658

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

AmeriCorps Formula \$114,223

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

AmeriCorps Formula \$34,758

Not Forgotten Outreach (132713) Not Forgotten Outreach is dedicated to motivating Military, Veterans and their Families, and Gold Star families of fallen heroes to participate in recreational and/or therapeutic activities in order to facilitate the healing process.

AmeriCorps Formula \$4,606

State of New Mexico Workforce Solutions Department
Notes to Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2018

Roadrunner Food Bank (47610) The mission of the Roadrunner Food Bank is feed every hungry person today, seed partnerships that build self-sufficiency for tomorrow, lead to achieve our vision of permanently ending hunger in New Mexico.

AmeriCorps Formula \$17,291

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

AmeriCorps Formula \$558,980

Santa Fe Botanical Garden (128635) The Santa Fe Botanical Garden celebrates, cultivates and conserves the rich botanical heritage and biodiversity of our region.

AmeriCorps Formula \$21,182

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

AmeriCorps Formula \$40,000

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

Ms. Erin Thompson, Acting Cabinet Secretary
New Mexico Workforce Solutions Department
Mr. Wayne Johnson
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, and the budgetary comparisons of the general fund and each major special revenue fund of New Mexico Workforce Solutions Department (the Department), a department of the State of New Mexico, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 26, 2018.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's Response to Findings

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

Purpose of this Report

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

Mess Adams LLP

Albuquerque, New Mexico
October 26, 2018

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

Ms. Erin Thompson, Acting Cabinet Secretary
New Mexico Workforce Solutions Department
Mr. Wayne Johnson
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited New Mexico Workforce Solutions Department (the Department), a department of the State of New Mexico, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2018. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-003 that we consider to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
October 26, 2018

State of New Mexico Workforce Solutions Department
Schedule of Findings and Questioned Costs
June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for Major Federal Programs</i>
17.225	Unemployment Insurance	Unmodified
17.207/17.801/17.804	Employment Service Cluster	Unmodified
17.258/17.259/17.278	Workforce Investment Act Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

State of New Mexico Workforce Solutions Department
Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section II - Financial Statement Findings

**FINDING 2018-001 – (Original Finding 2014-002) UI Financial Reporting and Accounting
(Significant Deficiency) REPEATED AND MODIFIED FROM MATERIAL WEAKNESS**

Condition:

During 2013, the Department implemented a new UI Tax and Claims System (uFACTS), a significant upgrade to the legacy systems previously used by the Department for calculating employer taxes and processing unemployment claims. Since the Department implemented the uFACTS system, the Department continues to test the various transaction processing of the system and, as a result, has identified system deficiencies, which the Department continues to address. The Department has implemented procedures to reconcile activity and balances of the UI fund as reported in SHARE on a monthly basis, but still lacks adequate procedures to ensure all balances are reconciled properly. As a result, certain audit and client identified adjustments were required as of June 30, 2018 relating to employer taxes receivable, claim overpayments receivable, and the estimate of the collectability of those receivables. However, we note that significant improvements have been made to the Department's reporting procedures.

Criteria:

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

Effect:

Misstatements to the financial statements, possible misappropriation of assets.

Cause:

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

Recommendation:

The Department should continue to test the system and make it a priority to resolve system deficiencies as identified by the Department through their system review process. The Department should make it a high priority to develop and adequately test the necessary monthly and financial reports generated from the system and develop processes to reconcile all activity and balances within the UI fund on a monthly basis.

Views of responsible officials and planned corrective actions:

Management is in agreement with this finding. The Financial Accounting and Reporting Manager and the Unemployment Insurance Treasury Manager are responsible for ensuring timely reconciliations of all financial statement items between uFACTS and SHARE. As stated above Management has implemented monthly reconciliations of uFACTS to SHARE. During fiscal year 2019, Management, specifically the Financial Management Bureau and the Workforce Technology Division, will implement a comprehensive unearned revenue report as recommended.

State of New Mexico Workforce Solutions Department
Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Section III - Federal Award Findings and Questioned Costs

Finding 2018-002 (Original Finding 2017-001) Reporting (Other Matter in Internal Controls over Compliance, Non-Compliance) REPEATED AND MODIFIED FROM MATERIAL WEAKNESS

Federal Agency - Department of Labor

Federal Program -

17.225 – Unemployment Insurance

Award Number/Award Year -

UI-31308-18-55-A-35 – 2018

UI-29858-17-55-A-35 – 2017

Criteria:

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

Condition/Context:

The required quarterly Trade Act Participant Reports were filed during the year but the Department identified an issue with missing Unemployment Insurance data elements for Trade Readjustment Allowance (TRA) participants. The Department submitted a service ticket with their IT system vendor to improve the data import capabilities for TRA data from their Unemployment Insurance application and is working with the trade program specialist at the United States Department of Labor (USDOL) to ensure that reports are submitted accurately and timely in fiscal year 2019.

Questioned costs:

None.

Effect:

The Department is not in compliance with reporting requirements.

Cause:

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

Recommendation:

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

Views of responsible officials and planned corrective actions:

Management is in agreement with this finding. The Department, specifically the Unemployment Insurance Division, has consistently submitted the required Trade Act Participant Report (TAPR)/ Participant Individual Record Layout Report (PIRL) every quarter. The Department identified an issue with missing Unemployment Insurance data elements for Trade Readjustment Allowance (TRA) participants. The Department has been working closely with trade program specialist at the United States Department of Labor (USDOL) to ensure the accuracy of the report's submission. The most recent data will be submitted by November 15, 2018 and Management will anticipate a response from USDOL on whether the data submitted is within the permissible variances.

State of New Mexico Workforce Solutions Department
Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Finding 2018-003 (Original Finding 2017-004) – Subrecipient Monitoring (Significant Deficiency in Internal Controls over Compliance, Non-Compliance) REPEATED AND MODIFIED

Federal Agency - Department of Labor

Federal Program -

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

CFDA 17.207 – Wagner-Peyser Act

Criteria:

All pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Condition/Context:

The Department did not perform monitoring for two of the four local boards at the time of the audit. 2 CFR 683.410(a) provides that each recipient and subrecipient of funds under title I of WIOA and under the Wagner-Peyser Act must conduct regular oversight and monitoring of its WIOA and Wagner-Peyser Act program(s) and those of its subrecipients and contractors as required under title I of WIOA and the Wagner-Peyser Act, as well as under 2 CFR part 200, including 2 CFR 200.327, 200.328, 200.330, 200.331, and Department exceptions at 2 CFR part 2900.

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

The Department implemented a monitoring plan during October 2017 that incorporates procedures to follow all program guidelines required by the DOL. The Department believes that they will be in compliance with subrecipient monitoring requirements for fiscal year 2019.

Questioned costs:

None.

Effect:

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

Cause:

Lack of oversight of Federal Requirements to sub recipient monitoring resulted in the lack of compliance with reporting requirements.

Recommendation:

The Department should establish a control system to ensure subrecipient monitoring is performed for all Local Area Boards.

State of New Mexico Workforce Solutions Department
Schedule of Findings and Questioned Costs (continued)
June 30, 2018

Finding 2018-003 (Original Finding 2017-004) – Subrecipient Monitoring (Significant Deficiency in Internal Controls over Compliance, Non-Compliance) REPEATED AND MODIFIED (Continued)

Views of responsible officials and planned corrective actions:

Management is in agreement with this finding. As of October 2017, the Department, specifically the State Administrative Entity, instituted a monitoring plan for the Local Workforce Boards fiscal and programmatic reviews. The Department is following the schedule outlined in the monitoring plan which will bring the Department's subrecipient monitoring within compliance during fiscal year 2019.

State of New Mexico Workforce Solutions Department
Summary Schedule of Prior Year Audit Findings
June 30, 2018

2017-001 – Reporting (Material Weakness in Internal Controls over Compliance, Non-Compliance) – REPEATED AND MODIFIED AS AN OTHER MATTER (2018-002)

Federal Agency – Department of Labor

Federal Program –
17.225 – Unemployment Insurance

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

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

2017-002 – Payroll Charges to Federal Grants (Material Weakness in Internal Controls over Compliance, Non-Compliance) – RESOLVED

Federal Agency – Department of Labor

Federal Programs –
17.225 – Unemployment Insurance
17.245 – Trade Adjustment Assistance

Award Number/Award Year –
UI-29858-17-55-A-35 – 2017
UI-27993-16-55-A-35 – 2016
TA-26740-15-55-A-35 – 2015
TA-25304-14-55-A-35 – 2014

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

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

State of New Mexico Workforce Solutions Department
Summary Schedule of Prior Year Audit Findings (continued)
June 30, 2018

2017-003 – Written Policies and Procedures (Significant Deficiency in Internal Controls over Compliance, Non-Compliance) – RESOLVED

Federal Agency – Department of Labor

Federal Programs –

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

CFDA 17.281 – Workforce Investment Act

CFDA 17.207 – Wagner-Peyser Act

CFDA 17.225 – Unemployment Insurance Program

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

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

2017-004 – Risk Assessment Tool and Monitoring Plan (Significant Deficiency in Internal Controls over Compliance, Non-Compliance) – REPEATED AND MODIFIED (2018-003)

Federal Agency – Department of Labor

Federal Programs –

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

CFDA 17.207 – Wagner-Peyser Act

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

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

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

State of New Mexico Workforce Solutions Department
Summary Schedule of Prior Year Audit Findings (continued)
June 30, 2018

2017-005 – Physical Inventory (Significant Deficiency in Internal Controls over Compliance, Non-Compliance) – RESOLVED

Federal Agency – Department of Labor

Federal Programs –

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

CFDA 17.281 – Workforce Investment Act

CFDA 17.207 – Wagner-Peyser Act

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

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

2017-006 – One Stop Operator (Significant Deficiency in Internal Controls over Compliance, Non-Compliance) – RESOLVED

Federal Agency – Department of Labor

Federal Programs –

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

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

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

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

**State of New Mexico Workforce Solutions Department
Summary Schedule of Prior Year Audit Findings (continued)
June 30, 2018**

2017-007 – Program Income (Significant Deficiency in Internal Controls over Compliance, Non-Compliance) – RESOLVED

Federal Agency – Department of Labor

Federal Programs –
CFDA 17.225 – Unemployment Insurance Program

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

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

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

2017-008 (Original Finding 2014-002) Unemployment Insurance Financial Reporting and Accounting (Material Weakness) – REPEATED AND MODIFIED AS A SIGNIFICANT DEFICIENCY (2018-001)

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

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

State of New Mexico Workforce Solutions Department
Summary Schedule of Prior Year Audit Findings (continued)
June 30, 2018

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

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

- The Department lacked procedures to ensure the activity and balances of all funds of the Department were reconciled on a monthly basis during the fiscal year. While we did note that there was significant improvement during the year there was still certain auditor-identified adjustments required.

The Department's schedule for the accounts receivable in the general fund has an unsupported variance compared to the trial balance in the amount of approximately \$293,833. This is considered an uncorrected misstatement in the Department's financial statements.

2017-010 – Procurement (Other Matter) – RESOLVED

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

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

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

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

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

State of New Mexico Workforce Solutions Department

Exit Conference

June 30, 2018

The State of New Mexico Workforce Solutions Department staff prepared the Management's Discussion and Analysis, financial statements, notes to the financial statements, supplementary information and schedules for the fiscal year ended June 30, 2018.

The contents of this report were discussed during an exit conference with the Department on October 26, 2018. The conference was held at the Department's offices in Albuquerque, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

STATE OF NEW MEXICO WORKFORCE SOLUTIONS DEPARTMENT

Leslie A. Porter, Cabinet Director & Federal Affairs Director, Office of Governor Susana Martinez
David Robbins, Administrative Services Division Director and Chief Financial Officer
Sara Brownstein, Financial Accounting and Reporting Manager

MOSS ADAMS LLP

Kory Hoggan, Partner
Lauren Kistin, Manager
Samantha Hairston, Senior Auditor

**MICHELLE LUJAN GRISHAM
GOVERNOR**



**BILL McCAMLEY
SECRETARY DESIGNATE**

**HOWIE MORALES
LT. GOVERNOR**

**STATE OF NEW MEXICO
DEPARTMENT OF WORKFORCE SOLUTIONS
401 Broadway, NE
PO Box 1928
Albuquerque, NM 87103
(505) 841-8405/ FAX (505) 841-8491**

FY18 Corrective Action Plan			
Finding Number	Fiscal Year	Finding Title	Corrective Action Planned
2018-001	2014	UI Financial Reporting and Accounting	Management has implemented monthly reconciliations of uFACTS to SHARE. During fiscal year 2019, Management, specifically the Financial Management Bureau and the Workforce Technology Division, will implement a comprehensive unearned revenue report as recommended.
2018-002	2017	Reporting	The Department has been working closely with trade program specialist at the United States Department of Labor (USDOL) to ensure the accuracy of the report's submission. The most recent data was submitted on November 15, 2018 and Management is continuing to work with USDOL on the data submitted and permissible variances.
2018-003	2017	Risk Assessment Tool and Monitoring Plan	As of October 2017, the Department, specifically the State Administrative Entity, instituted a monitoring plan for the Local Workforce Boards fiscal and programmatic reviews. The Department is following the schedule outlined in the monitoring plan which will bring the Department's subrecipient monitoring within compliance during fiscal year 2019.

FY18 Corrective Action Plan		
Individual Responsible	Contact Information	Aniticipated Completion Date
Sara Brownstein, Financial Accounting and Reporting Manager Audrey Beck, UI Treasury Manager	sara.brownstein@state.nm.us audrey.beck@state.nm.us	6/30/2019
Roy Padilla, UI Deputy Director	roy.padilla@state.nm.us	11/30/2018
Yolanda Montoya-Cordova, State Administrative Entity	yolanda.montoya-cor@state.nm.us	6/30/2019