

**NEW MEXICO  
DEPARTMENT OF  
WORKFORCE SOLUTIONS  
Financial Statements  
for the Year Ended  
June 30, 2007,  
and Independent  
Auditors' Report**

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS



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NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Official Roster

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Year Ended June 30, 2007

Name	Title
Betty Sparrow Doris	Secretary
Teresa C. Gomez	Deputy Secretary
Lloyd M. Garley	Director, Administrative Services Division
Francie Cordova	Director, Labor and Industrial Division
Francie Cordova	Director, Human Rights Division
Lori Martinez	Director, Employment Security Division
Terry Othick	Director, Information Technology Services Division
Lois Johnson	Director, Workforce Transition Services Division

## INDEPENDENT AUDITORS' REPORT

Ms. Betty Sparrow Doris  
Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities, business-type activities, each major fund and the budgetary comparisons for the divisions of the General Fund and the major special revenue funds of the New Mexico Department of Workforce Solutions (Department) as of and for the year ended June 30, 2007, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements and schedules are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the financial statements of the Department are intended to present the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Department at June 30, 2007, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparisons for the divisions of the General Fund for only that portion of the funds of the Department. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2007, or the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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Ms. Betty Sparrow Doris  
Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund as of June 30, 2007, and the respective changes in financial position and respective cash flows, where applicable, of those activities and funds and the budgetary comparisons for the General Fund thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each division of the General Fund of the Department as of June 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 2, 2009, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

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

Ms. Betty Sparrow Doris  
Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

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

*Meyers + Company, LLC*

June 2, 2009

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Management's Discussion and Analysis  
Year Ended June 30, 2007**

The Management's Discussion and Analysis of the New Mexico Department of Workforce Solutions (the Department), formerly known and operating as the New Mexico Department of Labor during FY2007, is designed to assist the reader in focusing on significant financial issues, provide an overview of the Department's financial activity, identify changes in the Department's financial position (ability to address future year challenges), identify any material deviations from the financial plan, and identify any fund issues of concern.

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

The Department's annual report consists of a series of financial exhibits and accompanying notes. The Statement of Net Assets (Exhibit 1) and the Statement of Activities (Exhibit 2) provide information on the activities of the Department in the aggregate and present a longer-term view of the Department's finances. For governmental activities, these statements describe how services were financed in the short-term and what remains for future spending by the Department. Fund financial statements also report the Department's operations in more detail than the government-wide financial statements by providing additional information about the Department's major funds. A description of the Department's major funds is contained in Note 1 to the financial statements. The remaining statements provide financial information about activities for which the Department acts as an agent, primarily in the collection of funds related to wage claim assignments on employers that the Department's Labor Relations Division makes on behalf of employees and laborers.

### Financial Highlights

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

	<u>FY 2007</u>	<u>FY2006</u>	<u>Amount Change</u>	<u>Total % Change</u>
<b>Assets:</b>				
Current and other assets	\$ 637,174,213	600,775,454	36,398,759	6%
Capital and non-current assets	<u>485,471</u>	<u>719,704</u>	<u>(234,233)</u>	-33%
<b>Total Assets</b>	637,659,684	601,495,158	36,164,526	6%
<b>Liabilities:</b>				
Current liabilities	44,154,301	32,659,700	11,494,601	35%
Long-term obligations	<u>-</u>	<u>5,072</u>	<u>(5,072)</u>	-100%
<b>Total Liabilities</b>	44,154,301	32,664,772	11,489,529	35%



**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued**

**Financial Highlights - continued**

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

	<u>FY 2007</u>	<u>FY2006</u>	<u>Amount Change</u>	<u>Total % Change</u>
<b>Net Assets:</b>				
Invested in capital assets	\$ 485,471	719,704	(234,233)	-33%
Restricted:				
Unemployment insurance trust	587,937,656	566,887,332	21,050,324	4%
Unrestricted	<u>5,082,256</u>	<u>1,223,350</u>	<u>3,858,906</u>	315%
<b>Total Net Assets</b>	\$ 593,505,383	568,830,386	24,674,997	4%

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

	<u>FY 2007</u>	<u>FY2006</u>	<u>Amount Change</u>	<u>Total % Change</u>
<b>Revenue:</b>				
<u>Program Revenues by Major Sources</u>				
Governmental Activities:				
Employment Services:				
Charges for Services	\$ 1,734,685	1,996,644	(261,959)	-13%
Operating Grants	<u>29,390,620</u>	<u>36,921,422</u>	<u>(7,530,802)</u>	-20%
Total Gov. Activities Revenue	31,125,305	38,918,066	(7,792,761)	-20%
Business-type Activities:				
Unemployment Activities:				
Charges for Services	111,552,009	94,289,110	17,262,899	18%
Operating Grants	<u>8,475,237</u>	<u>10,335,818</u>	<u>(1,860,581)</u>	-18%
Total Bus.-type Activities Revenue	<u>120,027,246</u>	<u>104,624,928</u>	<u>15,402,318</u>	15%
Total Program Revenues by Major Sources	151,152,551	143,542,994	7,609,557	5%

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued**

**Financial Highlights - continued**

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

	<u>FY 2007</u>	<u>FY2006</u>	<u>Amount Change</u>	<u>Total % Change</u>
<b>Revenue - continued:</b>				
<u>General Revenues by Major Sources</u>				
Governmental Activities:				
State Appropriations	\$ 3,604,100	1,522,500	2,081,600	137%
PWAT Appropriations	1,554,080	472,412	1,081,668	229%
Investment Earnings	15,468	-	15,468	100%
Other transfers in	847,900	-	847,900	100%
Reversions to State General Fund	<u>(187,926)</u>	<u>(112,762)</u>	<u>(75,164)</u>	67%
Total Gov. Activities Revenue	5,833,622	1,882,150	3,951,472	210%
Business-type Activities:				
Investment earnings	<u>27,306,428</u>	<u>26,012,577</u>	<u>1,293,851</u>	5%
Total Bus.-type Activities Revenue	<u>27,306,428</u>	<u>26,012,577</u>	<u>1,293,851</u>	5%
Total General Revenues by Major Sources	<u>33,140,050</u>	<u>27,894,727</u>	<u>5,245,323</u>	19%
Total Revenues by Major Sources	184,292,601	171,437,721	12,854,880	7%
<b>Expenses:</b>				
<u>Program Expenses by Major Sources</u>				
Governmental Activities:				
General Government	10,762,716	2,707,280	8,055,436	298%
Employment Services	<u>24,219,555</u>	<u>37,799,667</u>	<u>(13,580,112)</u>	-36%
Total Gov. Activities Expenses	34,982,271	40,506,947	(5,524,676)	-14%
Business-type Activities:				
Unemployment Services	<u>126,283,350</u>	<u>109,936,767</u>	<u>16,346,583</u>	15%
Total Bus.-type Activities Expenses	<u>126,283,350</u>	<u>109,936,767</u>	<u>16,346,583</u>	15%
Total Program Expenses by Major Sources	161,265,621	150,443,714	10,821,907	7%

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued**

**Financial Highlights - continued**

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

	<u>FY 2007</u>	<u>FY2006</u>	<u>Amount Change</u>	<u>Total % Change</u>
<b>Change in Net Assets:</b>				
<b>Governmental Activities:</b>				
Beginning Net Assets, restated	\$ 3,591,071	1,649,785	1,941,286	118%
Change in Net Assets	<u>1,976,656</u>	<u>293,269</u>	<u>1,683,387</u>	574%
Ending Net Assets	5,567,727	1,943,054	3,624,673	187%
Restatement	<u>-</u>	<u>1,648,017</u>	<u>1,648,017</u>	-100%
Ending Net Assets, restated	5,567,727	3,591,071	1,976,656	55%
<b>Business-type Activities:</b>				
Beginning Net Assets, restated	566,887,332	546,186,594	20,700,738	4%
Change in Net Assets	<u>21,050,324</u>	<u>20,700,738</u>	<u>349,586</u>	2%
Ending Net Assets	\$ 587,937,656	566,887,332	21,050,324	4%

**Statement of Net Assets**

The total net assets of the Department increased by \$24,674,997, including the restatement of net assets of \$1,648,017, which represents a 4% increase over the prior fiscal year. Net assets attributable to government activities increased by \$1,976,656, for a 55% increase over the prior fiscal year. Net assets attributable to business-type activities increased by \$21,050,324, for a 4% increase over the prior year.

**Change in total Net Assets:**

FY07	\$ 593,505,383
FY06	<u>568,830,386</u>
Net increase	\$ <u>24,674,997</u>

The \$21,050,324 increase in net assets from business-type activities is the result of an increase in investment earnings of \$27,306,428, less the difference between expenses (\$126,283,350) and revenue collected (\$120,027,246).

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued

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**Financial Highlights - continued**

**Statement of Activities**

The cost of business-type activities related to unemployment services increased by \$16,346,583, or 15%. The cause of this was primarily an increase in the amount of state unemployment benefits paid to claimants in FY2007 compared to FY2006.

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

FY07	\$	126,283,350
FY06		<u>109,936,767</u>
Net increase	\$	<u>16,346,583</u>

The cost of the Department's governmental and business-type activities reflected in the Statement of Activities increased by \$10,821,907, or 7%, over the prior year.

Change in total cost reflected in the Statement of Activities:

FY07	\$	161,265,621
FY06		<u>150,443,714</u>
Net increase	\$	<u>10,821,907</u>

This reflects an increase in the overall cost of the operations of the Department's unemployment insurance benefits paid and a reduction in employment services expenses.

Change in the total cost of employment services reflected in the Statement of Activities:

FY07	\$	31,987,249
FY06		<u>37,799,667</u>
Net decrease	\$	<u>5,812,418</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued

**Financial Highlights - continued**

**General Fund**

The Department received increased appropriation from the General Fund in FY2007 for operations and to offset declining federal revenues.

General Fund Appropriations

		FY2007	FY2006
Unemployment insurance	\$	659,800	-
Operations		1,802,000	-
Compliance		1,042,300	831,000
Program support		<u>100,000</u>	<u>-</u>
Total	\$	<u>3,604,100</u>	<u>831,000</u>

In addition to the FY2007 General Fund figures, the Department also received a compensation package in the amount of \$156,400 from the legislature during the fiscal year to supplement shortfalls in federal revenues for compensation increases to employees.

The FY2006 statement of activities shows \$1,522,500 as state appropriations, which includes a \$691,500 transfer from the Workers Compensation Fund. In the FY2007 statement of activities, the Workers Compensation Fund amount is reflected in the Other Transfers In category.

**General Fund Budgetary Highlights**

The Department's overall General Fund Appropriations increased by \$2,773,100 in FY2007 from FY2006. This increase was appropriated by the legislature to offset the Department's declining federal revenues. This was appropriated for personal salaries and benefits. The purpose of the funding included the following: provide workforce development and labor market services to meet the needs of job seekers and employers; monitor and evaluate compliance with labor law, including non-payment of wages, unlawful discrimination, child labor, apprenticeships, and wage rates for public works projects; and provide payment of unemployment insurance benefits to qualified individuals who lost their jobs at no fault of their own and collect unemployment taxes from employers.

In FY2007, like FY2006, the Department received a transfer from the Workers Compensation Fund totaling \$691,500 for its Compliance Program/Labor and Industrial and Human Rights Divisions. This amount is reflected in Other Transfers In for FY2007.

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

**Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued**

### Financial Highlights - continued

#### **Capital Assets**

Capital Asset Additions: Investment in office equipment increased by \$80,204 for information technology equipment for the Unemployment Insurance Program.

#### **Capital Asset Additions**

		<u>FY 2007</u>	<u>FY2006</u>	<u>Amount Change</u>	<u>Total % Change</u>
Office improvements	\$	-	-	-	0%
Office equipment		80,204	131,141	(50,937)	-100%
Furniture		-	-	-	0%
Computer equipment		-	77,057	(77,057)	100%
Accumulated depreciation		<u>(314,437)</u>	<u>(364,474)</u>	<u>50,037</u>	14%
	\$	<u>(234,233)</u>	<u>(156,276)</u>	<u>(77,957)</u>	-50%

### Department Highlights

#### **Declines in Federal Funding**

The Department continues to experience declines in funding from its federal grant awards. The Department experienced an overall decline in federal awards for employment services and unemployment insurance administration from the United States Department of Labor. The declines in these awards in fiscal year 2007 as compared to fiscal year 2006 were as follows:

1. Unemployment Insurance Administration federal program revenues declined from \$10,046.4K to \$9,002.9K
2. Employment Services federal program revenues declined from \$11,142.7K to \$8,855.6K
3. Program Support federal program revenues declined from \$8,091.7K to \$7,888.0K.
4. Human Rights Division federal program revenues increased from \$246.0K to \$303.5K

Although the Schedule of Expenditures of Federal Awards for fiscal year 2007 reflects an increase in spending as compared to fiscal year 2006, the increase is due to increased expenditure of Employment Services, Unemployment Expense/Reed Act, and Veterans Administration.

#### **Reed Act Funding**

The Department continued to supplant funding from contracts and federal grants with appropriations from the March 14, 2002 distribution of Reed Act funds it received from the federal government in its operating budget. Distributions of Reed Act funds are infrequent in occurrence, but are made periodically by the federal

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued

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### **Department Highlights - continued**

#### **Reed Act Funding - continued**

government based on certain national economic indicators. These funds may be used for the payment of unemployment compensation benefits, the administration of the State's unemployment compensation law, or for the operation of public employment service offices. In fiscal year 2007, the Department's operating budget included about \$3,760,600 of Reed Act funds, of which the Department expended \$2,508,877. These funds were budgeted throughout the Department for various operational needs.

#### **Contracts with Local Workforce Investment Act Boards**

##### **Contract with the Workforce Connection of Central New Mexico**

The Department completed the second year of a two-year contract with the Workforce Connection of Central New Mexico (WCCNM) to assist out-of-work adults and individuals losing their jobs to lay-offs or plant closings in finding training in new fields in demand by employers so that they may become employable again. These services are funded through the Workforce Investment Act grant, which the WCCNM receives to provide job training opportunities to eligible individuals through its one-stop centers operations in the central quadrant of the State. The Department contracted to provide services to the WCCNM in FY2006 and 2007.

##### **Contract with the Southwest Area Workforce Development Board**

The Department also contracted with the Southwest Area Workforce Development Board (SAWDB) to assist out-of-work adults and individuals losing their jobs to layoffs and plant closings in finding training in new fields in demand by employers so that they may become employable again. These services are also funded through the Workforce Investment Act grant, which the SAWDB receives to provide job training opportunities to eligible individuals in the southwest quadrant of the State. The Department also contracted with the SAWDB to provide these services in FY2007.

#### **Implementation of the Statewide Human Resource, Accounting, and Management Reporting System (SHARE)**

The State of New Mexico implemented a new central accounting, human resource management and purchasing system titled the Statewide Human Resource, Accounting, and Management Reporting System (SHARE), which all state agencies, including the New Mexico Department of Workforce Solutions, were mandated to convert to beginning July 1, 2006. The Department was legislatively required to voucher through the Department of Finance and Administration's central accounting system (CAS) beginning in FY2005, but continued to operate its internal accounting system for federal accounting and reporting purposes. However, with this new conversion, state agencies are not allowed to maintain other accounting processing systems other than SHARE. Consequently, the Department was challenged with establishing both its federal accounting and reporting processing requirements and state budgetary accounting requirements on the SHARE system in FY2007 and thereafter.

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued

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### **Contracts with Local Workforce Investment Act Boards - continued**

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

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

### **Other Operating Highlights**

#### **State Unemployment Trust Fund Created**

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

#### **Debit Card**

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

#### **Direct Deposit**

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



## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Management's Discussion and Analysis  
Year Ended June 30, 2007 - continued

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### **Other Operating Highlights – continued**

#### **Economic Outlook**

As 2009 has progressed, unemployment in New Mexico has increased from 5.1 percent in January, to 5.4 percent in February and most recently to 5.9 percent in March. Using the most recent numbers available, the rate of over-the-year job growth, comparing March 2009 with March 2008, was negative 1.9 percent, representing an over-the-year loss of 16,400 jobs. The New Mexico economy is doing better than many other states, but recent performance is worse than the state has experienced in decades. Prior to October 2008, the state's job growth had not been negative since June 1991, more than 17 years ago. At that time, job growth turned negative for just one month. The last period of sustained job losses in the state occurred from October 1986 through February 1987. To find job growth that dropped as low as the minus 1.9 percent reported this month requires going back to the mid-1950s. New Mexico's economy entered the current economic downturn a little later than many other states. As measured by the Current Employment Statistics (CES) survey, New Mexico's total nonfarm employment peaked at 855,300 in December 2007, coinciding with what is considered the official start of the current national recession. This turning point marked the end of a nearly 3-year employment expansion totaling about 41,800 jobs. Job growth had slowed during 2007 with the economy adding about 11,500 jobs compared to the 23,500 added in 2006. In 2008, it stalled again, adding only 3,200 jobs and experiencing declines in most industry sectors.

#### **Contacting the Agency's Financial Management**

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

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

**FINANCIAL STATEMENTS**

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Exhibit 1**

**Statement of Net Assets**

**AS OF JUNE 30, 2007**

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<b>ASSETS:</b>			
Cash and cash equivalents	\$ -	69,779	69,779
Cash held with U.S. Treasury	-	584,929,321	584,929,321
Investment in State Treasurer Investment Pool	9,862,062	-	9,862,062
Due from other state agencies	441,585	-	441,585
Due from federal government	133,131	2,939,707	3,072,838
Due from governmental funds	-	36,599	36,599
Due from agency fund	142,553	-	142,553
Due from enterprise fund	2,571,838	-	2,571,838
Accounts receivable, net of allowance for uncollectibles	7,160,894	27,865,628	35,026,522
Other receivables	1,021,116	-	1,021,116
Capital assets, net	<u>485,471</u>	<u>-</u>	<u>485,471</u>
<b>TOTAL ASSETS</b>	\$ <u>21,818,650</u>	<u>615,841,034</u>	<u>637,659,684</u>
<b>LIABILITIES:</b>			
Due to State Treasurer's Office (overdraft)	\$ 7,801,030	588,984	8,390,014
Cash (overdraft)	-	3,985,491	3,985,491
Accounts payable	3,905,383	116,274	4,021,657
Accrued payroll and benefits	967,681	-	967,681
Benefit payables	-	2,817,388	2,817,388
Due to other state agencies	1,328,029	15,985	1,344,014
Due to State General Fund	1,023,178	-	1,023,178
Due to governmental funds	-	2,571,838	2,571,838
Due to enterprise fund	36,599	-	36,599
Employer deposits	-	69,779	69,779
Deferred revenue	109,138	17,737,639	17,846,777
Compensated absences, due within one year	<u>1,079,885</u>	<u>-</u>	<u>1,079,885</u>
<b>TOTAL LIABILITIES</b>	16,250,923	27,903,378	44,154,301
<b>NET ASSETS:</b>			
Invested in capital assets	485,471	-	485,471
Restricted for:			
Unemployment insurance trust	-	587,937,656	587,937,656
Unrestricted	<u>5,082,256</u>	<u>-</u>	<u>5,082,256</u>
<b>TOTAL NET ASSETS</b>	<u>5,567,727</u>	<u>587,937,656</u>	<u>593,505,383</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ <u>21,818,650</u>	<u>615,841,034</u>	<u>637,659,684</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Exhibit 2**

**Statement of Activities**

**YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
				<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES:</b>						
General government	\$ 10,762,716	-		(10,762,716)	-	(10,762,716)
Employment services	<u>24,219,555</u>	<u>1,734,685</u>	<u>29,390,620</u>	<u>6,905,750</u>	-	<u>6,905,750</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>34,982,271</b>	<b>1,734,685</b>	<b>29,390,620</b>	<b>(3,856,966)</b>	-	<b>(3,856,966)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Unemployment services	<u>126,283,350</u>	<u>111,552,009</u>	<u>8,475,237</u>	-	<u>(6,256,104)</u>	<u>(6,256,104)</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>126,283,350</u>	<u>111,552,009</u>	<u>8,475,237</u>	-	<u>(6,256,104)</u>	<u>(6,256,104)</u>
<b>TOTAL ACTIVITIES</b>	<b>161,265,621</b>	<b>113,286,694</b>	<b>37,865,857</b>	<b>(3,856,966)</b>	<b>(6,256,104)</b>	<b>(10,113,070)</b>
<b>GENERAL REVENUES:</b>						
Other revenue				1,554,080	-	1,554,080
Investment earnings				15,468	27,306,428	27,321,896
Transfers in - other				847,900	-	847,900
Transfers in - State appropriations				3,604,100	-	3,604,100
Transfers - Reversions to State General Fund				<u>(187,926)</u>	-	<u>(187,926)</u>
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>				<u>5,833,622</u>	<u>27,306,428</u>	<u>33,140,050</u>
<b>CHANGE IN NET ASSETS</b>				1,976,656	21,050,324	23,026,980
<b>RESTATEMENT OF PRIOR YEAR NET ASSETS</b>				1,648,017	-	1,648,017
<b>BEGINNING NET ASSETS</b>				<u>1,943,054</u>	<u>566,887,332</u>	<u>568,830,386</u>
<b>BEGINNING NET ASSETS, AS RESTATED</b>				<u>3,591,071</u>	<u>566,887,332</u>	<u>570,478,403</u>
<b>NET ASSETS, ENDING</b>				\$ <u>5,567,727</u>	<u>587,937,656</u>	<u>593,505,383</u>

**Exhibit 3****AS OF JUNE 30, 2007**

	<b>33300 &amp; 24100</b>	<b>61300</b>
	<b>General Fund</b>	<b>Penalty and Interest</b>
<b>ASSETS:</b>		
Investment in State Treasurer Investment Pool	\$ 1,266,594	2,410,454
Due from other funds	41,367	432,637
Due from agency funds	129,595	10,607
Due from enterprise fund	-	62,961
Due from other state agencies	-	-
Due from federal government	133,131	-
Accounts receivable, net of allowance for uncollectibles	394,264	-
Other receivables	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,964,951</b>	<b>2,916,659</b>
<b>LIABILITIES:</b>		
Due to State Treasurer's Office (overdraft)	\$	
Accounts payable	485,467	101,322
Accrued payroll and benefits	104,307	-
Due to other funds	381,957	616,941
Due to enterprise fund	-	-
Deferred revenue	103,730	-
Other accrued liabilities	130,363	-
Due to State General Fund	928,078	-
Due to other state agencies	-	-
<b>TOTAL LIABILITIES</b>	<b>2,133,902</b>	<b>718,263</b>
<b>FUND BALANCES:</b>		
Reserved for encumbrances	-	-
Reserved for advances	-	-
Reserved for Public Works Apprenticeship & Training	-	-
Unreserved-undesignated	(168,951)	2,198,396
<b>TOTAL FUND BALANCES</b>	<b>(168,951)</b>	<b>2,198,396</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,964,951</b>	<b>2,916,659</b>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Balance Sheet - Governmental Funds**

<b>Special Revenue Funds</b>				
<b>61400</b>	<b>71100</b>	<b>20400</b>	<b>24000, 24400, 33000-33200</b>	
<b>Public Works Apprenticeship and Training</b>	<b>Labor Enforcement Fund</b>	<b>Workforce Investment Act</b>	<b>Other Grants and Contracts</b>	<b>Total Governmental</b>
642,363	271,655	-	5,270,996	9,862,062
-	63,587	-	2,024,443	2,562,034
-	2,351	-	-	142,553
-	-	-	2,508,877	2,571,838
-	9,753	-	431,832	441,585
-	-	-	-	133,131
-	-	20	6,766,610	7,160,894
-	-	-	1,021,116	1,021,116
<u>642,363</u>	<u>347,346</u>	<u>20</u>	<u>18,023,874</u>	<u>23,895,213</u>
-	-	-	7,801,030	7,801,030
-	-	-	2,476,595	3,063,384
-	-	-	863,374	967,681
-	-	-	1,563,136	2,562,034
-	-	-	36,599	36,599
-	-	-	5,408	109,138
-	-	-	711,636	841,999
-	-	-	95,100	1,023,178
-	-	-	1,328,029	1,328,029
-	-	-	14,880,907	17,733,072
-	-	-	-	-
-	-	-	-	-
642,363	-	-	-	642,363
-	347,346	20	3,142,967	5,519,778
<u>642,363</u>	<u>347,346</u>	<u>20</u>	<u>3,142,967</u>	<u>6,162,141</u>
<u>642,363</u>	<u>347,346</u>	<u>20</u>	<u>18,023,874</u>	<u>23,895,213</u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

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

Exhibit 4

YEAR ENDED JUNE 30, 2007

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

\$ 6,162,141

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

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

The cost of capital assets is	5,781,080
Accumulated depreciation is	<u>(5,295,609)</u>

Total capital assets	485,471
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Long-term assets are not available to pay for current period  
expenditures and therefore are deferred in the funds.

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

Compensated absences payable	(1,079,885)
Due to Grantor recognized in the prior year	<u>-</u>

Total long-term and other liabilities	<u>(1,079,885)</u>
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<b>Net assets of governmental activities (Statement of Net Assets)</b>	<b>\$ <u>5,567,727</u></b>
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Exhibit 5

AS OF JUNE 30, 2007

	33300 & 24100	61300
	General Fund	Penalty and Interest
<b>REVENUES:</b>		
Interest on deposit/investments	\$ -	-
Licenses and permits	-	-
Grants and contracts	133,100	-
Penalties and interest	-	1,375,109
Public Works Apprenticeship and Training	-	-
<b>TOTAL REVENUES</b>	<b>133,100</b>	<b>1,375,109</b>
<b>EXPENDITURES:</b>		
General government - current:		
Personal services and benefits	1,716,185	-
Contractual services	8,450	-
Other costs	782,888	460,818
Employment services	-	-
Capital outlay	-	-
<b>TOTAL EXPENDITURES</b>	<b>2,507,523</b>	<b>460,818</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(2,374,423)</b>	<b>914,291</b>
<b>OTHER FINANCING SOURCES (USES):</b>		
Other Revenue	147,400	-
State General Fund appropriation	1,042,300	-
State other fund appropriation - contractual services	-	-
Reversions to State General Fund, FY2007	(187,926)	-
Transfers in:		
Interfund	675,100	-
Other	743,900	-
Transfers out:		
Interfund	-	(1,258,500)
Other	-	-
<b>NET OTHER FINANCING SOURCES (USES):</b>	<b>2,420,774</b>	<b>(1,258,500)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>46,351</b>	<b>(344,209)</b>
<b>BEGINNING FUND BALANCES</b>	<b>(215,302)</b>	<b>2,542,605</b>
<b>ENDING FUND BALANCES</b>	<b>\$ (168,951)</b>	<b>2,198,396</b>



**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

Special Revenue Funds				
61400 Public Works Apprenticeship and Training	71100 Labor Enforcement Fund	20400 Workforce Investment Act	24000, 24400, 33000-33200 Other Grants and Contracts	Total Governmental
-	15,468	-	-	15,468
-	359,576	-	-	359,576
-	-	-	29,257,520	29,390,620
-	-	-	-	1,375,109
-	-	-	-	-
-	375,044	-	29,257,520	31,140,773
-	-	-	-	1,716,185
-	-	-	2,693,658	2,702,108
-	-	-	5,074,036	6,317,742
-	-	-	23,792,811	23,792,811
-	-	-	80,204	80,204
-	-	-	31,640,709	34,609,050
-	375,044	-	(2,383,189)	(3,468,277)
567,360	3,050	-	836,270	1,554,080
-	-	-	2,561,800	3,604,100
-	-	-	-	-
-	-	-	-	(187,926)
-	-	-	1,355,500	2,030,600
-	-	-	104,000	847,900
(505,100)	(267,000)	-	-	(2,030,600)
-	-	-	-	-
62,260	(263,950)	-	4,857,570	5,818,154
62,260	111,094	-	2,474,381	2,349,877
580,103	236,252	20	668,586	3,812,264
642,363	347,346	20	3,142,967	6,162,141

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

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

Exhibit 6

YEAR ENDED JUNE 30, 2007

**Net Changes in Fund Balances - Total Governmental Funds**  
**(Statement of Revenues, Expenditures, and Changes in Fund Balances)** \$ 2,349,877

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

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

Capital outlay	80,204
Depreciation expense	(314,437)
Deferred revenue from prior year funds recorded as revenue in the current year	(103,730)
Change in compensated absence balance not recorded in governmental funds	<u>(35,258)</u>
<b>Change in net assets of governmental activities</b> <b>(Statement of Activities)</b>	\$ <u><u>1,976,656</u></u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 7**

**YEAR ENDED JUNE 30, 2007**

<b>GENERAL FUND - 33300 - COMPLIANCE</b>				
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance From</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
			<b>(Budgetary Basis)</b>	<b>Positive (Negative)</b>
<b>REVENUES:</b>				
State General Fund	\$ 1,094,700	1,094,700	1,042,300	(52,400)
Other transfers	700,800	700,800	743,900	43,100
Federal Funds	303,500	303,500	133,100	(170,400)
Other program revenues	776,600	776,600	675,100	(101,500)
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	147,400	147,400
<b>TOTAL REVENUES</b>	\$ <u>2,875,600</u>	<u>2,875,600</u>	<u>2,741,800</u>	<u>(133,800)</u>
<b>EXPENDITURES - current:</b>				
Personal services and benefits	\$ 2,071,300	2,071,300	1,716,185	355,115
Contractual services	8,900	8,900	8,450	450
Other costs	795,400	795,400	782,888	12,512
Other financing uses	-	-	-	-
Operating transfer out	-	-	-	-
<b>TOTAL EXPENDITURES</b>	\$ <u>2,875,600</u>	<u>2,875,600</u>	<u>2,507,523</u>	<u>368,077</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>			\$ 234,277	
<b>REVERSIONS TO STATE GENERAL FUND</b>			\$ (187,926)	

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 7 - continued**

**Budget and Actual (Modified Accrual Basis) - continued**

**YEAR ENDED JUNE 30, 2007**

		<b>33000 - PROGRAM SUPPORT</b>			
		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>REVENUES:</b>					
State General Fund	\$	100,000	100,000	100,000	-
Other transfers		722,000	722,000	-	(722,000)
Federal funds		10,806,600	11,618,217	9,801,181	(1,817,036)
Other program revenues		-	-	-	-
Other financing sources		-	-	1,356,760	1,356,760
Miscellaneous revenue		-	-	460,818	460,818
<b>TOTAL REVENUES</b>	\$	<u>11,628,600</u>	<u>12,440,217</u>	<u>11,718,759</u>	<u>(721,458)</u>
<b>EXPENDITURES - current:</b>					
Personal services and benefits	\$	7,665,000	7,157,065	6,662,832	494,233
Contractual services		2,097,600	3,352,279	1,886,203	1,466,076
Other costs		1,866,000	1,930,873	1,572,369	358,504
Other financing uses		-	-	-	-
Operating transfer out		-	-	-	-
<b>TOTAL EXPENDITURES</b>	\$	<u>11,628,600</u>	<u>12,440,217</u>	<u>10,121,404</u>	<u>2,318,813</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>				\$	1,597,355
<b>REVERSIONS TO STATE GENERAL FUND</b>				\$	-

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 7 - continued**

**Budget and Actual (Modified Accrual Basis) - continued**

**YEAR ENDED JUNE 30, 2007**

<b>33200 - OPERATIONS</b>				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>REVENUES:</b>				
State General Fund	\$ 1,880,300	1,880,300	1,802,000	(78,300)
Other transfers	5,485,900	5,485,900	-	(5,485,900)
Federal Funds	8,855,600	5,300,100	10,300,921	5,000,821
Other program revenues	-	-	-	-
Other financing sources	-	-	452,492	452,492
Miscellaneous revenue	-	-	-	-
<b>TOTAL REVENUES</b>	\$ <u>16,221,800</u>	<u>12,666,300</u>	<u>12,555,413</u>	<u>(110,887)</u>
<b>EXPENDITURES - current:</b>				
Personal services and benefits	\$ 12,549,000	9,763,400	9,491,652	271,748
Contractual services	636,200	385,000	303,235	81,765
Other costs	3,036,600	2,517,900	2,244,978	272,922
Other financing uses	-	-	-	-
Operating transfer out	-	-	-	-
<b>TOTAL EXPENDITURES</b>	\$ <u>16,221,800</u>	<u>12,666,300</u>	<u>12,039,865</u>	<u>626,435</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>			\$ 515,548	
<b>REVERSIONS TO STATE GENERAL FUND</b>			\$ -	

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 7 - continued**

**Budget and Actual (Modified Accrual Basis) - continued**

**YEAR ENDED JUNE 30, 2007**

**33100 - UNEMPLOYMENT INSURANCE**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>REVENUES:</b>				
State General Fund	\$ 685,500	685,500	659,800	(25,700)
Other transfers	-	-	-	-
Federal Funds	9,002,900	9,772,645	9,155,418	(617,227)
Other program revenues	-	-	-	-
Other financing sources	-	-	25,700	25,700
Miscellaneous revenue	-	-	-	-
<b>TOTAL REVENUES</b>	<b>\$ <u>9,688,400</u></b>	<b><u>10,458,145</u></b>	<b><u>9,840,918</u></b>	<b><u>(617,227)</u></b>
<b>EXPENDITURES - current:</b>				
Personal services and benefits	\$ 8,171,800	8,171,800	7,718,531	453,269
Contractual services	351,500	900,074	504,220	395,854
Other costs	1,165,100	1,386,271	1,256,689	129,582
Other financing uses	-	-	-	-
Operating transfer out	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ <u>9,688,400</u></b>	<b><u>10,458,145</u></b>	<b><u>9,479,440</u></b>	<b><u>978,705</u></b>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>			<b>\$ 361,478</b>	
<b>REVERSIONS TO STATE GENERAL FUND</b>			<b>\$ -</b>	

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 7 - continued**

**Budget and Actual (Modified Accrual Basis) - continued**

**YEAR ENDED JUNE 30, 2007**

**61300 - PENALTY AND INTEREST**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>REVENUES:</b>				
State General Fund	\$ -	-	-	-
Other transfers	-	-	-	-
Federal Funds	-	-	-	-
Other program revenues	-	1,258,500	1,375,109	116,609
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	-	-
<b>TOTAL REVENUES</b>	\$ -	<u>1,258,500</u>	<u>1,375,109</u>	<u>116,609</u>
<b>EXPENDITURES - current:</b>				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	-	1,258,500	1,258,500	-
Operating transfer out	-	-	-	-
<b>TOTAL EXPENDITURES</b>	\$ -	<u>1,258,500</u>	<u>1,258,500</u>	<u>-</u>
<b>ELIMINATION OF UNCOLLECTIBLE ADVANCE FROM OTHER FUND</b>			\$ (460,818)	
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>			\$ (344,209)	
<b>REVERSIONS TO STATE GENERAL FUND</b>			\$ -	

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 7 - continued**

**Budget and Actual (Modified Accrual Basis) - continued**

**YEAR ENDED JUNE 30, 2007**

**61400 - PUBLIC WORKS APPRENTICESHIP AND TRAINING**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance From</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
			<b>(Budgetary Basis)</b>	<b>Positive (Negative)</b>
<b>REVENUES:</b>				
State General Fund	\$ -	-	-	-
Other transfers	-	-	-	-
Federal Funds	-	-	-	-
Other program revenues	-	505,100	567,360	62,260
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	-	-
<b>TOTAL REVENUES</b>	\$ -	<u>505,100</u>	<u>567,360</u>	<u>62,260</u>
<b>EXPENDITURES - current:</b>				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	-	505,100	505,100	-
Operating transfer out	-	-	-	-
<b>TOTAL EXPENDITURES</b>	\$ -	<u>505,100</u>	<u>505,100</u>	-
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>			\$ 62,260	
<b>REVERSIONS TO STATE GENERAL FUND</b>			\$ -	



**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 7 - continued**

**Budget and Actual (Modified Accrual Basis) - continued**

**YEAR ENDED JUNE 30, 2007**

**71100 - LABOR ENFORCEMENT FUND**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance From</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>REVENUES:</b>				
State General Fund	\$ -	-	-	-
Other transfers	-	-	-	-
Federal Funds	-	-	-	-
Other program revenues	-	250,800	375,044	124,244
Other financing sources	-	-	-	-
Miscellaneous revenue	-	-	3,050	3,050
<b>TOTAL REVENUES</b>	\$ -	<u>250,800</u>	<u>378,094</u>	<u>127,294</u>
<b>EXPENDITURES - current:</b>				
Personal services and benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Other financing uses	-	250,800	267,000	(16,200)
Operating transfer out	-	-	-	-
<b>TOTAL EXPENDITURES</b>	\$ -	<u>250,800</u>	<u>267,000</u>	<u>(16,200)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>			\$ 111,094	
<b>REVERSIONS TO STATE GENERAL FUND</b>			\$ -	

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Exhibit 8**

**Statement of Net Assets - Proprietary Fund**

**AS OF JUNE 30, 2007**

	<b>20020</b>	
	<b>Unemployment Insurance Trust Enterprise Fund</b>	
		<u>          </u>
<b>CURRENT ASSETS:</b>		
Cash on deposit	\$	69,779
Cash held with U.S. Treasury		584,929,321
Due from governmental funds		36,599
Due from federal government		2,939,707
Accounts receivable, net of allowance for uncollectibles		<u>27,865,628</u>
<b>TOTAL CURRENT ASSETS</b>	\$	<u><u>615,841,034</u></u>
<b>CURRENT LIABILITIES:</b>		
Due to State Treasurer's Office (overdraft)	\$	588,984
Cash (overdraft)		3,985,491
Accounts payable		116,274
Benefits payable		2,817,388
Due to governmental funds		2,571,838
Due to other agencies		15,985
Deferred revenue		17,737,639
Employer deposits		<u>69,779</u>
<b>TOTAL CURRENT LIABILITIES</b>		27,903,378
<b>NET ASSETS:</b>		
Restricted for unemployment benefits		587,937,656
Unreserved		<u>          -</u>
<b>TOTAL NET ASSETS</b>		<u><u>587,937,656</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$	<u><u>615,841,034</u></u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Exhibit 9**

**AS OF JUNE 30, 2007**

	<b>Unemployment Insurance Trust Enterprise Fund</b>
<b>OPERATING REVENUES:</b>	
Interest on investments	\$ 27,306,428
Employers taxes and reimbursements	111,552,009
Penalty and interest	<u>-</u>
<b>TOTAL OPERATING REVENUES</b>	<b>138,858,437</b>
<b>OPERATING EXPENSES:</b>	
Unemployment benefits distributed to beneficiaries	<u>126,283,350</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>126,283,350</u>
<b>NET OPERATING GAIN/CHANGE IN NET ASSETS</b>	<b>12,575,087</b>
<b>NON-OPERATING REVENUES:</b>	
Grants, contracts and federal reimbursements	5,851,170
Other miscellaneous revenue	<u>2,624,067</u>
<b>TOTAL NON-OPERATING REVENUES</b>	<u>8,475,237</u>
<b>NET LOSS/CHANGE IN NET ASSETS</b>	<b>21,050,324</b>
<b>BEGINNING NET ASSETS</b>	<u>566,887,332</u>
<b>NET ASSETS, END OF YEAR</b>	\$ <u><u>587,937,656</u></u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Exhibit 10**

**Statement of Cash Flows - Proprietary Fund**

**AS OF JUNE 30, 2007**

	<b>Unemployment Insurance Trust Enterprise Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from employers	\$ 114,529,039
Cash received from interest in investments (trust fund earnings)	27,306,428
Cash paid for unemployment benefits	<u>(126,022,324)</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>15,813,143</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	15,813,143
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>569,185,957</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ <u><u>584,999,100</u></u>
 <b>RECONCILIATION OF NET OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Changes in net assets	\$ 21,050,324
Increase in receivables	(5,498,207)
Increase in cash overdraft	1,017,185
Increase in payables	2,016,941
Decrease in deferred revenue	<u>(2,773,100)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	\$ <u><u>15,813,143</u></u>

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Exhibit 11

Statement of Fiduciary Fund Assets and Liabilities - Agency Fund

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AS OF JUNE 30, 2007

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash on deposit	\$ <u>241,280</u>
<b>TOTAL ASSETS</b>	\$ <u><u>241,280</u></u>
<b>LIABILITIES:</b>	
Due to other funds	\$ 142,553
Amounts held for others	<u>98,727</u>
<b>TOTAL LIABILITIES</b>	\$ <u><u>241,280</u></u>

# NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

## Notes to Financial Statements

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### NATURE OF ORGANIZATION

#### Organization

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

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

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

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

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

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Notes to Financial Statements - continued

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#### NATURE OF ORGANIZATION - continued

##### Organization - continued

tracking system for recording and reporting financial activity associated with the administration of the WIA program. Consequently, the Department's fiscal year 2007 financial statements do not include the operations of the OWTD.

During the 47<sup>th</sup> Legislative Session, House Bill 1280 was passed and signed by Governor Richardson. The bill created the Department of Workforce Solutions in order to establish a single, unified department to administer all laws and exercise all functions administered by the New Mexico Department of Labor and the Governor's Office of Workforce Training and Development. This consolidation was effective July 1, 2007 (FY2008).

In FY2007, 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, data processing, office services and personnel.

**Employment Security Division** - This Division is responsible for employment services, including unemployment benefit administration and workforce training.

**Labor and Industrial Division** - This Division is responsible for, but not limited to, the enforcement of all labor laws and for the administration of the Public Works Apprenticeship Training program in the State of New Mexico.

**Human Rights Division** - This Division is responsible for investigating alleged discrimination against any person because of race, religion, color, national origin, ancestry, age, sex and physical or mental handicap.

**Information Technology Services Division** - This Division is responsible for information technology services and effective management and utilization of the Department's operating systems.

The Department received revenue mainly from the following sources:

- Federal, state and local governments:
  - Grants and contracts for administration of unemployment insurance, employment service and workforce training and development activities

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Notes to Financial Statements - continued

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#### NATURE OF ORGANIZATION - continued

##### Organization - continued

- Reimbursements of benefits paid to federal claimants and for other special benefits applicable to other claimants
- Miscellaneous contracts and matching funds
- State General Fund appropriations
- Transfers from other state funds
- Employers of New Mexico
- Investment Income

The Department expended the money for the following purposes:

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

##### Reporting Entity

The accompanying financial statements of the Department include all funds and activities over which the Department has oversight responsibility. Even though the Governor appoints the Department Secretary, the Secretary has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and is primarily accountable for fiscal matters. The Department is part of the primary government of the State of New Mexico and its financial statement should be included with the financial statements of the State. However, the State of New Mexico does not currently issue an audited Comprehensive Annual Financial Report inclusive of all agencies of the primary government. The Department's financial statements contain no component units.



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

- **Financial Reporting Entity**

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Department includes only one function (general government). Inter-fund balances have been eliminated in the government-wide financial statements.

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

• **Financial Reporting Entity - continued**

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

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

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

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

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

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

• **Basis of Presentation - Fund Accounting**

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

**Governmental Funds** - All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases

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

• **Basis of Presentation - Fund Accounting - continued**

**Governmental Funds - continued**

(revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

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

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

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

General Fund Deficit. The Department incurred a deficit in the General Fund in fiscal year 2006. The deficit continued to be present in FY2007. The Department will meet with the Department of Finance and Administration to address and resolve this issue.

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

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

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

# NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

## Notes to Financial Statements - continued

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

- **Basis of Presentation - Fund Accounting - continued**

#### Special Revenue Funds - continued

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

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

Workforce Investment Act (Fund 20400). This fund is used to account for federal flowthrough funds from the U.S. Department of Labor in accordance with the provisions of the Workforce Investment Act of the United States. The operations of this fund were transferred to the Office of Workforce Training and Development. The balances at June 30, 2007 represent the remaining closeout activity. This fund is non-reverting and is not budgeted; thus, it has no budgetary comparison.

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

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

Unemployment Trust Enterprise Fund (Fund 20020). This fund is used to account for the unemployment insurance services (UI) of the Department. As the unemployment insurance fund of the State of New Mexico, it is required by GASB Statement No. 34 to be classified as an enterprise fund.

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

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

**Fiduciary Funds (Fund 17800)** - Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Department. The Wage Claim Fund is a holding account for wage claim assignments collected by the Department's Labor and Industrial Division (L&ID) from employers, pending the final outcome of wage disputes filed by employees or employer(s). Upon resolution, amounts deposited into the Wage Claim Fund are disbursed to either the employee or employer as determined by the L&ID Director. Only one fiduciary fund existed during the fiscal year.

**• Basis of Accounting**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange 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

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

expenditures of the fiscal period (available meaning collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, typically 60 days).

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

Expenditures, other than vacation, compensatory and sick pay, are recorded when they are incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources. Interest expense is recognized when paid. There was no interest expense incurred during the year ended June 30, 2007.

The proprietary fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The proprietary fund follows accounting principles promulgated by GASB as well as those promulgated by the Financial Accounting Standards Board prior to November 30, 1989, unless they conflict with GASB pronouncements. Interest on investments, employee taxes and reimbursements are considered operating revenues. All other services of revenue, such as grants, contracts and transfers, are considered non-operating revenues.

**• Budgets and Budgetary Accounting**

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

1. No later than September 1<sup>st</sup> of each year, the Department submits to the State Budget Division (SBD) of the New Mexico Department of Finance and Administration (DFA) an appropriation request for the fiscal year commencing the following July 1<sup>st</sup>. This request includes federal revenues, special revenue funds, general fund requests, and other grants/contracts. Copies are also sent to the Legislative Finance Committee (LFC). The appropriation request includes proposed expenditures and the means of funding such requests.
2. The appropriation request is reviewed by SBD and additional information is obtained, if needed. Agency budgets are consolidated, with revisions, and submitted as a tentative budget to the Governor of the State. The Governor's approved appropriation request is then submitted to the Legislature as the recommended appropriation request for the Department.

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Notes to Financial Statements - continued

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

- **Budgets and Budgetary Accounting – continued**

3. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcomes of these hearings are incorporated in the General Appropriations Act.
4. The Governor of the State of New Mexico signs the Act into law within the time limit legally prescribed.
5. The Department submits no later than May 1<sup>st</sup> to SBD an annual operating budget by fund, program, division, expenditure category and line item codes based on appropriations made by the Legislature for the Department's programs. The SBD reviews and approves the operating budget, which becomes effective on July 1<sup>st</sup>. All subsequent budget adjustments must be approved by the Director of SBD and the LFC. The budget for the current year was adjusted in a legal manner.
6. Legal budget control for expenditures and encumbrances is by expenditure category of appropriation unit.
7. The budgets for all divisions are established using the modified accrual basis. These budgets include expenditures to liquidate liabilities identified by the Department prior to the fiscal year cut-off date for paying them, as well as accrued payroll and accounts payable the Department was permitted to record by the DFA.
8. Appropriations of General Fund dollars lapse at the end of the fiscal year, and amounts that are unexpended revert back to the State General Fund. Appropriation of federal grants carry forward into the next appropriation cycle as allowed by the grant provisions.
9. Appropriations from special revenue funds increase or decrease budget availability and are completed through a budget adjustment request (BAR) to DFA based on collections and fund balances.

- **Encumbrances**

The Department uses encumbrances for certain balances that may be carried forward based on the appropriation language from Legislation. Encumbered funds that do not revert at the end of the appropriation period are re-budgeted in the new fiscal year. If the applicable appropriation extends beyond the end of the fiscal year, then the Department is permitted to carry forward the encumbrance into the new fiscal year. Fund balance is designated as either reserved or unreserved in these financial statements in accordance with this criterion. For the fiscal year ended 2007, the Department did not have any encumbrances presented in the financial statements.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Cash and Investments**

Cash includes amounts in the demand deposits.

Investments with the State Treasurer are stated at quoted market prices. Investments with the U.S. Treasury represent the Department's portion of the U.S. Treasury Department Unemployment Trust Fund Investment Pool ("U.S. Treasury Pool").

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

• **Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheets of the fund financial statements.

• **Capital Assets**

Capital assets consist of tangible personal property having a value equal to or greater than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at historical cost. Capital assets are depreciated over their estimated useful life using the straight-line mid-month convention. Salvage value is not included in the depreciation calculation.

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

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

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



# NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

## Notes to Financial Statements - continued

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

- **Fund Balances and Net Assets**

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

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

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

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

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

- **Use of Estimates**

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

### 2. CASH DEPOSIT ACCOUNTS AND INVESTMENTS

The Department has deposits, as defined in the Schedule of Individual Deposit Accounts on page 59, in the Bank of America (BA) and the Wells Fargo Bank of Albuquerque (WFB) of (\$397,914). These deposits represent cash balances associated with agency vouchering activities. FDIC coverage of \$200,000 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 Schedule 3, of \$145,297,323 with the State Treasurer.

Detail of pledged collateral specific to this agency is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the State Treasurer's Office Collateral Bureau

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**2. CASH DEPOSIT ACCOUNTS AND INVESTMENTS - continued**

monitors pledged collateral for all state funds held by state agencies in such “authorized” bank accounts. Refer to the Schedule of Pledged Collateral on page 60.

For a detailed listing of all agency bank accounts and State Treasurer SHARE accounts, refer to the Schedule of Individual Deposit Accounts on page 59.

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

**3. CAPITAL ASSETS**

A summary of changes in capital assets follows:

<u>Governmental Type Activities</u>	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Adjustments/ Deletions</u>	<u>Balance June 30, 2007</u>
Office improvements	\$ 339,164	-	(2,175)	336,989
Office equipment	2,819,943	80,204	(242,108)	2,658,039
Furniture	394,069	-	(3,635)	390,434
Computer equipment	<u>2,622,725</u>	<u>-</u>	<u>(227,107)</u>	<u>2,395,618</u>
Total	6,175,901	80,204	(475,025)	5,781,080
Accumulated depreciation:				
Office improvements	(307,277)	(10,007)	2,175	(315,109)
Office equipment	(2,229,452)	(248,090)	242,108	(2,235,434)
Furniture	(392,480)	(6,342)	3,635	(395,187)
Computer equipment	<u>(2,526,988)</u>	<u>(49,998)</u>	<u>227,107</u>	<u>(2,349,879)</u>
Total accumulated depreciation	<u>(5,456,197)</u>	<u>(314,437)</u>	<u>475,025</u>	<u>(5,295,609)</u>
Net Total	\$ <u>719,704</u>	<u>(234,233)</u>	<u>-</u>	<u>485,471</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**3. CAPITAL ASSETS - continued**

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

Depreciation expense was allocated \$287,756 to the Employment Services function and \$26,681 to the General Government function in the government-wide statement of activities.

Office equipment and computer equipment decreased due to unlocated items. About \$160,000 of the amount shown as adjustments/deletions is due to misclassification of vendor equipment as Department assets in FY2006.

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

A liability has been recorded for benefits claimed prior to but paid subsequent to June 30, 2007, consisting of the following:

Unemployment benefits	\$	2,817,388
Withholding benefits (due to Human Services Dept.)		<u>15,985</u>
	\$	<u><u>2,833,373</u></u>

**5. RECEIVABLES**

Receivables at June 30, 2007, consist of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Total (Memorandum Only)</u>
<b>Receivable:</b>				
Grants and contracts	\$ 394,264	7,787,726	-	8,181,990
Workforce Investment Act	-	20	-	20
Current UI taxes	-	-	27,834,710	27,834,710
Trade readjustment allocation	-	-	4,494	4,494
Benefit overpayments	-	-	5,404,811	5,404,811
Combined wage credits (CWC)	<u>-</u>	<u>-</u>	<u>26,423</u>	<u>26,473</u>
Gross receivables	394,264	7,787,746	33,270,438	41,452,448

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**5. RECEIVABLES - continued**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Total (Memorandum Only)</u>
Less allowance for uncollectibles:				
Benefit overpayments	\$ -	-	<u>(5,404,811)</u>	<u>(5,404,811)</u>
Total allowances	-	-	<u>(5,404,811)</u>	<u>(5,404,811)</u>
Net total receivables – fund level	<u>394,264</u>	<u>7,787,746</u>	<u>27,865,628</u>	<u>36,047,638</u>
Total net receivables	\$ <u>394,264</u>	<u>7,787,746</u>	<u>27,865,628</u>	<u>36,047,638</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, 2007, which were collected after June 30, 2007. This amount is an estimate based upon a review of cash receipts subsequent to the end of the fiscal year.

- **Delinquent P&I and UI Taxes**

This amount represents past due penalty and interest and UI taxes due from employers at June 30, 2007. The allowance for uncollectibles is 100 percent of the total delinquent P&I and delinquent UI taxes receivable at June 30, 2007. Some past due amounts will be collected but no estimate has been made by the Department as to the amount that will be collected.

- **Benefit Overpayments**

This amount represents amounts due from claimants. These are derived from overpayment of benefits established as a result of an adjudicator's decision reversing an earlier award of benefits. An allowance for uncollectibles has been established for an equal amount of accounts receivable. Although some past due accounts will be collected, no estimate has been made by the Department of the amount of collectible receivables.

- **Combined Wage Credits**

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

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**6. OPERATING LEASES**

The Department leases field office space and equipment under operating leases. Rental expenditures for land and buildings for the fiscal year ended June 30, 2007 were \$1,175,431. Rental expenditures for equipment for the fiscal year ended June 30, 2007 were \$268,865. The future minimum rental commitments as of June 30, 2007 were as follows:

<u>Year Ended June 30,</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2008	\$ 559,797	2,109,499	2,669,296
2009	291,398	2,100,859	2,392,257
2010	286,920	2,193,732	2,480,652
2011	294,983	2,107,382	2,402,365
2012 – 2030	<u>3,516,705</u>	<u>3,533,786</u>	<u>7,050,491</u>
Total	\$ <u>4,949,803</u>	<u>12,045,258</u>	<u>16,995,061</u>

**7. COMPENSATED ABSENCES**

The changes to compensated absences are as follows:

<u>Liabilities</u>	<u>Balance June 30, 2006</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance June 30, 2007</u>
Sick and annual leave	\$ <u>1,044,627</u>	<u>1,093,948</u>	<u>(1,058,690)</u>	<u>1,079,885</u>
	\$ <u>1,044,627</u>	<u>1,093,948</u>	<u>(1,058,690)</u>	<u>1,079,885</u>

Approximately \$1,079,885 of the compensated absences is considered due within one year.

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

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**8. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables reflect short term (current) borrowings among the Department's funds in the normal course of business. The Department has the following interfund receivables and payables between its funds at June 30, 2007.

<u>Due From</u>	<u>Due To</u>					<u>Total</u>
	<u>Agency Fund</u>	<u>General Fund</u>	<u>Penalty &amp; Interest Fund</u>	<u>Enterprise Fund</u>	<u>Other Grants &amp; Contracts</u>	
General Fund	\$ 129,595	-	-	-	41,367	170,962
Penalty & Interest Fund	10,607	360,630	-	62,961	72,007	506,205
Enterprise Fund	-	-	-	-	36,599	36,599
Other Grants & Contracts	-	21,327	616,941	2,508,877	1,386,175	4,443,320
Labor Enforcement Fund	<u>2,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,587</u>	<u>65,938</u>
Total	\$ <u>142,553</u>	<u>381,957</u>	<u>616,941</u>	<u>2,571,838</u>	<u>1,599,735</u>	<u>5,313,024</u>

**9. DUE FROM AND DUE TO OTHER AGENCIES**

Transactions that occur among state agencies under legislative mandate, exchange transactions and other situations are accounted for in the financial statements which make up the due from and due to other state agencies. The due from and due to other agencies balances at June 30, 2007 consist of the following:

• **Due From Other State Agencies**

<u>DWS SHARE Fund No.</u>	<u>Agency</u>	<u>Other Agency's Fund No.</u>	<u>Amount</u>
33000	Office of Workforce Training and Development	98400	\$ 431,832
71100	State Treasurer's Office	74100	<u>9,753</u>
	Total All Funds		\$ <u>441,585</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**9. DUE FROM AND DUE TO OTHER AGENCIES - continued**

• **Due To Other State Agencies**

<b>DWS SHARE Fund No.</b>	<b>Agency</b>	<b>Other Agency's Fund No.</b>	<b>Amount</b>
20020	Human Services Department - Child Support Withholding	05200	\$ 15,985
33000	State Treasurer's Office	74100	<u>1,328,029</u>
	Total All Funds		\$ <u>1,344,014</u>

**10. ACCUMULATED UNUSED/UNPAID ANNUAL AND SICK LEAVE**

The Department changed, in a prior year, its method of accumulating annual and sick leave from a day method to an hourly method based on length of civil services. Personnel employed prior to April 14, 1990, accrue annual leave at a different rate than personnel employed on or after April 14, 1990. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January.

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

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

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

**11. SURETY BOND**

Since September 1, 1987 through the present, surety bond coverage for the Department has been provided through the State of New Mexico's self-insured statewide policy, which is administered by the Risk Management Division of the General Services Department. The surety bond covers all officers and

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**11. SURETY BOND - continued**

employees of the State of New Mexico for faithful performance, theft and embezzlement of money. The amount of coverage is \$1,050,000 per occurrence.

**12. PENSION PLAN – PUBLIC EMPLOYEES’ RETIREMENT ASSOCIATION**

• **Plan Description**

Substantially all of the Department’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

• **Funding Policy**

Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2007, 2006 and 2005 were \$2,890,067, \$4,457,537 and \$2,932,104, respectively, which equal the amount of the required contributions for each fiscal year.

**13. REVERSIONS**

Reversions due to the State General Fund at June 30, 2007 are as follows:

<u>Fiscal Year</u>		<u>General Fund</u>	<u>Special Revenue Other Grants and Contracts</u>	<u>Total Reversions Due to State General Fund</u>
2000	\$	-	84,942	84,942
2001		2,322	-	2,322
2003		-	10,158	10,158
2004		-	-	-
2005		625,068	-	625,068
2006		112,762	-	112,762
2007		<u>187,926</u>	<u>-</u>	<u>187,926</u>
Total	\$	<u>928,078</u>	<u>95,100</u>	<u>1,023,178</u>



**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**13. REVERSIONS - continued**

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

**14. TRANSFERS**

Interfund transfers as of June 30, 2007 are as follows:

<u>Fund</u>	<u>Special Revenue Funds</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
33000	Program Support	\$ 1,355,500	-
61300	Penalty & Interest	-	1,258,500
61400	PWAT	-	505,100
71100	Labor Enforcement	<u>-</u>	<u>267,000</u>
	<b>Subtotal</b>	1,355,500	2,030,600
	 <u>General Fund</u>		
33300	Compliance	<u>675,100</u>	<u>-</u>
	<b>Subtotal</b>	<u>675,100</u>	<u>-</u>
	<b>Total Interfund Transfers</b>	<b>\$ <u>2,030,600</u></b>	<b><u>2,030,600</u></b>

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

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**14. TRANSFERS - continued**

Inter-agency transfers consist of the following:

<u>Agency</u>	<u>Fund</u>	<u>Special Revenue Funds</u>		<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
63200	98200	Worker's Compensation Administration	\$	691,500	-
34100	62000	DFA – Compensation Package		<u>156,400</u>	<u>-</u>
<b>Total Inter-Agency Transfers</b>			<b>\$</b>	<b><u>847,900</u></b>	<b><u>-</u></b>

In accordance with the General Appropriations Act in the Laws of 2004, receipts from the Workers' Compensation fund were transferred to the Department's Compliance fund to provide funds to the Department's Labor and Industrial and Human Rights Divisions for expenditure in the conduct of their administrative functions. The Department also recorded an additional \$156,400 for compensation increases for employees.

**15. RELATED PARTIES**

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

The Department had contracts to provide one-stop career services with the Workforce Connection of Central New Mexico and with the Southwest Area Workforce Development Board in FY2007.

**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.

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

• **Plan Description - continued**

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

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the 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](http://www.nmrhca.state.nm.us).

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

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

The Department's contributions to the RHCA for the years ended June 30, 2007, 2006 and 2005 were \$224,424, \$239,196 and \$226,969, respectively, which equal the required contributions for each year.

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Notes to Financial Statements - continued**

**17. CONTINGENT LIABILITIES (CLAIMS AND JUDGMENTS)**

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

**18. RISK MANAGEMENT**

The Department is exposed to various risks of loss for which the Department is insured (auto, employee fidelity bond, general liability, civil rights, foreign jurisdiction, money and securities, property, worker's compensation) with the State of New Mexico's General Services Department/Risk Management Division.

**19. RESTATEMENTS**

The Department had prior period adjustments that consisted of the following:

<u>Fund</u>	<u>Increase/ Decrease in Fund Balance</u>	<u>Description</u>
<b>Governmental Activities</b>	\$ 1,648,017	Settlement of Rapid Response Disallowed Costs
Beginning Net Assets	<u>1,943,054</u>	
Beginning Net Assets, restated	\$ <u>3,591,071</u>	

<u>Amount</u>	<u>Description</u>
\$ 1,648,017	During the 2006 fiscal year, the amount of \$1,648,017 for the settlement of Rapid Response Disallowed Costs was paid and the liability remained on the statement of net assets as of June 30, 2006.

**SUPPLEMENTAL SCHEDULES**

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Individual Deposit Accounts

AS OF JUNE 30, 2007

Account Title	Depository	Balance per Bank	Adjustments/ Reconciling Items	Reconciled Balance per Books
<b>Governmental Funds with State Treasurer (with SHARE fund numbers):</b>				
General Fund - 33300	State Treasurer	1,510,459	(243,865)	1,266,594
Labor Enforcement Fund - 71100	State Treasurer	254,553	17,102	271,655
PWAT - 61400	State Treasurer	248,624	393,739	642,363
Penalty and Interest - 61300	State Treasurer	481,365	1,929,089	2,410,454
Program Support Fund - 33000	State Treasurer	121,726,048	(121,894,554)	(168,506)
Unemployment Comp Admin Fund - 33100	State Treasurer	4,265,641	(3,739,220)	526,421
Labor Market & Research Fund - 33200	State Treasurer	(5,589,210)	2,666,902	(2,922,308)
Other Grants and Contracts - 33100	State Treasurer	<u>34,359</u>	<u>-</u>	<u>34,359</u>
<b>Total Governmental with State Treasurer</b>		122,931,839	(120,870,807)	2,061,032
<b>Proprietary Funds Cash in Banks</b>				
Benefit Account	Bank of America	(467,693)	(3,517,798)	(3,985,491)
Cash Security Deposit Account	Bank of America	2,370	-	2,370
Cash Security Deposit Account	Wells Fargo Bank	<u>67,409</u>	<u>-</u>	<u>67,409</u>
<b>Total Proprietary in Banks</b>		(397,914)	(3,517,798)	(3,915,712)
<b>Proprietary Funds with State Treasurer (with SHARE fund numbers):</b>				
Unemployment Comp Service Fund - 20020	State Treasurer	71,940	(660,924)	(588,984)
NMDL E Warrant Series - 24000	State Treasurer	21,382,465	(21,382,465)	-
NMDL G Warrant Series - 24100	State Treasurer	2,427,903	(2,427,903)	-
NMDL H Warrant Series - 24200	State Treasurer	(1,276,051)	1,276,051	-
NMDL I Warrant Series - 24300	State Treasurer	1,883,852	(1,883,852)	-
NMDL J Warrant Series - 24400	State Treasurer	7,503	(7,503)	-
NMDL V Warrant Series - 24500	State Treasurer	<u>(2,372,052)</u>	<u>2,372,052</u>	<u>-</u>
<b>Total Proprietary with State Treasurer</b>		22,125,560	(22,714,544)	(588,984)
<b>Proprietary Funds Cash - Other</b>				
Unemployment Trust Fund	U.S. Dept. of the Treasury	<u>584,929,321</u>	<u>-</u>	<u>584,929,321</u>
<b>Total Proprietary Other</b>		<u>584,929,321</u>	<u>-</u>	<u>584,929,321</u>
<b>Total Proprietary Funds</b>		606,656,967	(26,232,342)	580,424,625
<b>Trust and Agency Funds with State Treasurer (with SHARE fund numbers):</b>				
Wage Claim - 17800	State Treasurer	<u>239,924</u>	<u>1,356</u>	<u>241,280</u>
<b>Total Trust and Agency with State Treasurer</b>		<u>239,924</u>	<u>1,356</u>	<u>241,280</u>
<b>Department Total - all funds</b>		<u>729,828,730</u>	<u>(147,101,793)</u>	<u>582,726,937</u>

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Schedule of Pledged Collateral**

**AS OF JUNE 30, 2007**

	<u>Bank of America</u>	<u>Wells Fargo Bank</u>	<u>U.S. Department of the Treasury</u>	<u>Accounts at State Treasurer</u>	<u>Total</u>
Total amount of deposit	\$ (465,323)	67,409	584,929,321	145,297,323	729,828,730
Less FDIC	<u>(100,000)</u>	<u>(100,000)</u>	-	-	<u>(200,000)</u>
Total uninsured public money	-	-	584,929,321	145,297,323	729,628,730
50% collateral requirement	-	-	292,464,661	72,648,662	365,113,323
State Agency Collateral Listing:			A	B	A & B
Total pledged	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Over (under) pledged	<u><u>-</u></u>	<u><u>-</u></u>	A	B	<u><u>-</u></u>

A: 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.

B: This amount is held at the Office of the State Treasurer and is detailed in the report of the Office of the State Treasurer, whose audit is covered by a separate report. Detail specific for the collateral is commingled by the Office of the State Treasurer, and they monitor the adequacy of the funds pledged for collateral to ensure they are fully covered as required by the Laws of the State of New Mexico and related statutes.

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

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

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

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

**Schedule 4**

**AS OF JUNE 30, 2007**

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>ASSETS:</b>				
Cash on deposit	<u>108,230</u>	<u>133,050</u>	<u>-</u>	<u>241,280</u>
<b>TOTAL ASSETS</b>	\$ <u>108,230</u>	<u>133,050</u>	<u>-</u>	<u>241,280</u>
<b>LIABILITIES:</b>				
Due to other funds	\$ 10,607	131,946	-	142,553
Amounts held for others	<u>97,623</u>	<u>1,104</u>	<u>-</u>	<u>98,727</u>
<b>TOTAL LIABILITIES</b>	\$ <u>108,230</u>	<u>133,050</u>	<u>-</u>	<u>241,280</u>



**SINGLE AUDIT**

**NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS**

**Schedule 5**

**Supplemental Schedule of Expenditures of Federal Awards**

**AS OF JUNE 30, 2007**

<b>Federal Agency/ Pass-Through Agency</b>	<b>Federal CFDA Number</b>	<b>Federal Participating Expenditures</b>
U.S. Department of Labor:		
Labor Force Statistics	17.002	\$ 856,170
Employment Services	17.207	8,513,840
Unemployment Insurance	17.225	139,803,036
Trade Adjustment Assistance Workers	17.245	232,658
	17.271	6,784
	17.273	28,328
Disabled Veteran's Outreach Program	17.801	405,022
Local Veteran's Employment Representative Program	17.804	<u>893,724</u>
 Total U.S. Department of Labor		 <u>150,739,562</u>
 Total Federal Awards Expended		 \$ <u>150,739,562</u>

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Notes to the Supplemental Schedule of Expenditures of Federal Awards

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#### **GENERAL**

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

#### **BASIS OF ACCOUNTING**

The accompanying Supplemental Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Department's general purpose financial statements.

#### **UNEMPLOYMENT INSURANCE EXPENDITURES FROM STATE UNEMPLOYMENT COMPENSATION**

The unemployment compensation system is a unique federal-state partnership, founded upon federal law but implemented through state law. Expenditures reported for the Unemployment Insurance program (CFDA No. 17.225) include unemployment benefit payments from the State Unemployment Compensation Fund totaling \$125,051,842.

#### **REED ACT APPROPRIATIONS**

The Department receives appropriations under the Reed Act. These monies are to be spent for activities related to the unemployment insurance program. Included in the total expenditures for the unemployment insurance program (CFDA No. 17.225) is \$2,508,877 related to Reed Act expenditures.

#### **RECONCILIATION**

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

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

Ms. Betty Sparrow Doris  
Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the budgetary comparisons of the General Fund and major special revenue funds of the State of New Mexico Department of Workforce Solutions (Department) as of and for the year ended June 30, 2007. We also have audited the financial statements of each of the Department's divisions of the General Fund presented as supplementary information in the combining and individual fund financial statements and schedules as of and for the year ended June 30, 2007, and have issued our report thereon dated June 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. A control deficiency is described in the accompanying schedule of findings and questioned costs as items 00-13, 02-02, 03-05, 04-05, 05-04 and 07-01 through 07-11.

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Ms. Betty Sparrow Doris, Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

### **Internal Control Over Financial Reporting - continued**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that item 07-01 is a material weakness of internal control over financial reporting.

### **Compliance and Other Matters**

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

We noted certain matters that are required to be reported under Government Auditing Standards, January 2007 reversion paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 07-07, 07-09 and 07-11.

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

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

*Meyners + Company, LLC*

June 2, 2009

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

Ms. Betty Sparrow Doris  
Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

**Compliance**

We have audited the compliance of the State of New Mexico Department of Workforce Solutions (Department), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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



Ms. Betty Sparrow Doris  
Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

## **Compliance - continued**

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 00-13, 02-02, 03-05, 04-05, 05-04, 06-01, 07-02 and 07-05.

## **Internal Control over Compliance**

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies are described in the accompanying Schedule of Findings and Questioned Costs as items 00-13, 02-02, 03-05, 04-05, 05-04, 06-01, 07-01, 07-02 and 07-05.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We believe item 07-01 is a material weakness of internal control over compliance.

Ms. Betty Sparrow Doris  
Cabinet Secretary  
New Mexico Department of Workforce Solutions and  
Mr. Hector Balderas  
New Mexico State Auditor

**Internal Control over Compliance - continued**

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

*Meyners + Company, LLC*

June 2, 2009



# NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

## Schedule of Findings and Questioned Costs

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YEAR ENDED JUNE 30, 2007

### A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Department of Workforce Solutions (Department).
2. There was one instance of material weakness of internal control over financial reporting disclosed during the audit of the Department.
3. There were fifteen control deficiencies identified that are not considered to be material to the financial statements of the Department.
4. There were nine significant deficiencies in the internal control over major programs disclosed by the Department.
5. There was one audit finding that the auditor is required to report under 510(a) of Circular A-133.
6. The auditors' report on compliance for the major federal award programs for the Department expresses an unqualified opinion.
7. The programs tested as the major programs included:

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

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT

##### 00-13 EMPLOYER'S QUARTERLY EXCESS WAGES

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

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

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

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

**Questioned Costs:** None.

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

**Management's Response:** The Department considers this finding resolved.

The Tax Unit does not have an automated system to identify inaccurate reporting of excess wages on the employer's quarterly and contribution report (ES-903 A&B). In order to address the audit finding, the Tax Section has implemented manual procedures to identify accounts with inaccurate reporting of excess wage amounts.

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

These manual processes enhance identification of accounts with inaccurate reporting of excess wages until an automated method becomes available. An automated system is part of the UI Tax Project, with an estimated completion in 2010.

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 00-13 EMPLOYER'S QUARTERLY EXCESS WAGES - continued

**Management's Response (2007):** The Department currently does not have an automated system to identify inaccurate excess wages reported on the employer's quarterly wage and contribution reports. However, the Department has implemented manual procedures to identify accounts with inaccurate reporting of excess wage amounts as described below:

- In the first quarter, the Tax Section audits and verifies excess wages when mail is opened during "Task Force";
- The Accounts Unit audits and verifies excess wages when first quarter reports are entered into the system;
- The Accounts Unit examines inaccurate reporting of excess wages during the balancing of Schedule B (wage detail) to Schedule A of the employer's quarterly report (ES-903 A&B).
- The Accounts Unit then verifies excess wage amounts during the validation of warrants issued to employer's as they are reviewing the employer's account.
- The Tax Representatives also routinely identify and correct inaccurate reporting of excess wages when conducting audits.

The manual processes described above enable the Department to identify accounts with inaccurate reporting of excess wages until the implementation of the new UI Tax System scheduled for FY13.

##### 02-02 UNEMPLOYMENT INSURANCE RECONCILIATIONS

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

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

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

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

**Questioned Costs:** None.

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 02-02 UNEMPLOYMENT INSURANCE RECONCILIATIONS - continued

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

**Management's Response:** Staff of the Department's Unemployment Insurance Bureau (UIB), Information Technology Division (ITSD) and Financial Management Bureau (FMB) have worked to correct defects and inaccuracies in financial and program reporting generated from the Unemployment Insurance Claims System (UICS) with limited success. When reporting programs are corrected and then tested, they often result in new errors, which in turn have to be corrected and retested. Reporting programs displaying similar data elements at the same or varying levels of detail produce inconsistent reporting for reasons unexplainable by the technical staff responsible for developing these reports. Additionally, the Department has embarked on other initiatives to enhance the functionality of the UICS, while staff continues to correct problems with the production system. As a result, staff of the FMB, UIB and ITSD has had to allocate their resources to these competing priorities as best they can. The FMB in particular has had difficulty committing its staff to these competing priorities due to a significant loss of experienced staff, which the Bureau has not been able to replace.

The corrective action plan to resolve this finding will continue to be as follows:

1. Identify all payment and payment adjustment related data elements in the new UICS and assess their reporting status in the general ledger.
2. Analyze reports from the UICS that reflect payment and payment adjustment activity.
3. Determine if new reports are needed to capture data elements not available on existing reports.
4. Analyze the functionality of the new UICS to identify all payment and payment adjustment processes and assess their responsiveness to Unemployment Insurance Program reporting requirements.
5. Determine and develop additional system functionality that must be established to address reporting requirements not currently addressed in the new UICS system.
6. Establish a formal process to reconcile this payment activity between the UICS and the Department's general ledger system periodically.

The timeline for completing these actions has yet to be determined.

**Management's Response (2007):** Staff of the Department's Unemployment Insurance Bureau (UIB), Information Technology Division (ITSD) and Financial Management Bureau (FMB) has worked to correct defects and inaccuracies in financial and program reporting generated from the Unemployment Insurance Claims System (UICS) with limited success. When reporting programs are corrected and then

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 02-02 UNEMPLOYMENT INSURANCE RECONCILIATIONS - continued

###### **Management's Response (2007) - continued:**

tested, they often result in new errors, which in turn have to be corrected and retested. Reporting programs displaying similar data elements at the same or varying levels of detail produce inconsistent reporting for reasons unexplainable by the technical staff responsible for developing these reports. Additionally, the Department has embarked on other initiatives to enhance the functionality of the UICS, while staff continues to correct problems with the production system. As a result, staff of the FMB, UIB and ITSD has had to allocate their resources to these competing priorities as best they can.

The corrective action plan to resolve this finding will continue to be as follows:

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

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

##### 03-05 UNEMPLOYMENT INSURANCE QUARTERLY REPORTS

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

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

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 03-05 UNEMPLOYMENT INSURANCE QUARTERLY REPORTS - continued

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

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

**Questioned Costs:** None.

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

**Management's Response:** Management review of financial reports prepared by the Cost Accounting Unit, including confirmation through initialing and dating of reports, has been implemented. Reports are currently being reviewed by a senior financial manager; however, this responsibility will be delegated to the staff manager and unit supervisor levels upon filling vacancies in those positions. Financial reports prepared by the Cost Accounting Unit that are subject to management review include monthly ETA-2112, 8401 and 8405 reports and the quarterly ES-191 report.

The UI Bureau has implemented a process to ensure the timeliness, accuracy and completeness of reports submitted to USDOL. This procedure has corrected the deficiency that resulted in inaccurate and untimely reports. A task force of knowledgeable staff is auditing each individual ETA report for compliance with ETA reporting requirements. Progress has been made in filing timely reports. The only report that is late or missing is ETA 9040, which may not be filed at this time because a year's worth of data is needed prior to filing this report. A log tracks the review process of all reports on an ongoing basis. This procedure has been accepted by USDOL and is in effect at this time.

**Management's Response (2007):** Management review of financial reports prepared by the UI Treasury Unit, including confirmation through initialing and dating of reports, has been implemented. The UI Treasury Financial Manager is currently reviewing reports. The reports included are the monthly ETA-2112, 8401 and 8405 reports and the quarterly ES-191 report. This process will be documented in a formal procedure to be completed by the end of the 2009 fiscal year.

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 03-05 UNEMPLOYMENT INSURANCE QUARTERLY REPORTS - continued

###### **Management's Response (2007) - continued:**

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

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

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

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

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

**Effect:** Contribution Operations Report is not accurate and complete.

**Questioned Costs:** None.

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

**Management's Response:** The Actuarial Research (AR) Unit has established a process for the correction of the 581 report. The 581 has been reviewed thoroughly with the former supervisor of the Accounts Unit and the UI Bureau Chief. An understanding of the information required to prepare the report was obtained from the meeting. Additional work is also being performed in conjunction with the Financial Management Bureau to verify the accuracy of the accounts receivable. AR has requested data from IT that is used to compile the TAC 8042 report. This information will be used to verify the beginning and ending accounts receivable balance.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**

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

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

**05-04 DELINQUENT EMPLOYER CONTRIBUTION REPORT**

**Condition:** The Tax Application Cooperative System (TACS) could not generate accurate and meaningful reports on delinquent employer contribution and related P&I receivables, such as a rollforward or aging report, to support either the receivable balances in general ledger of management's valuation estimate.

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

**Cause:** The current program in TACS is not capturing the correct data, thus producing incorrect reports.

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

**Questioned Costs:** None.

**Auditors' Recommendation:** The Department should devote resources to research and correct the program issues in the TACS system to ensure that correct and sufficient data is captured and reported on the Receivable Summary report.

**Management's Response:** The Department considers this finding still open.

The Unemployment Insurance (UI) Bureau is working on a procedure to ensure accounts receivable balances are accurately reflected in the general ledger as reported by the TACS system. UI has identified the reports that flow into the consolidated receivable summary for contributory, receivable and delinquent receivables. The procedure that will be followed is to obtain an understanding of data flow



## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 05-04 DELINQUENT EMPLOYER CONTRIBUTION REPORT - continued

###### **Management's Response - continued:**

from the summary reports to the consolidated receivable summary. Any discrepancies will be identified and assistance required from the IT staff to run supplemental reports with beginning and ending accounts receivable. The TACS data will then be reconciled to the FMB general ledger account.

**Management's Response (2007):** The Department considers this finding still open.

The Unemployment Insurance (UI) Bureau is working on a procedure to ensure accounts receivable balances are accurately reflected in the general ledger as reported by the TACS system. UI has identified the reports that flow into the consolidated receivable summary for contributory, receivable and delinquent receivables. The procedure that will be followed is to obtain an understanding of data flow from the summary reports to the consolidated receivable summary. Any discrepancies will be identified and assistance required from the IT staff to run supplemental reports with beginning and ending accounts receivable. The TACS data will then be reconciled to the general ledger account.

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

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

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

Timely and accurate financial reporting is critical to the management of the Department. As a result of the lack of procedures, at June 30, 2007 management could not rely on the financial information produced out of the accounting system.

**Criteria:** As a state agency, the Department must follow the existing Manual of Model Accounting Practices' (MAPs) procedures for the items above. MAPs (FIN 2.1) states that state agencies shall log all monies received specifying the amount, date and source of the revenue. Additionally, journal entries

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

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

###### Criteria - continued:

must be authorized by either the Accounting Section or by DFA, as described in MAPs (FIN3.7 - 3.11), authorized by Section 6-5-2, NMSA 1978. Finally, MAPs (Vol. 1, Chapter 8, Section 3.2) requires monthly reconciliations of all accounts. Individual accounts should be reconciled on a monthly basis and any discrepancies or inconsistencies should be investigated as soon as they are discovered.

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

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

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

**Management's Response:** DWS has completed the following actions in the recent months:

- In cooperation with the Department of Finance and Administration and State Treasurer's Office, DWS developed and implemented improved cash disbursement and cash receipt processes and procedures for its unemployment benefit payment issuances and unemployment insurance tax collections.
- Developed and implemented written procedures for the following:
  - Federal Cash Drawdowns
  - Determining accruals For Quarterly Financial Reporting
  - Accounts payable payment processing procedures
  - Monthly closing schedule
- Filled two Accountant and Auditor positions in the Financial Accounting and Reporting Bureau to improve its oversight of the general ledger and improve the timeliness of account reconciliations in the Statewide Human Resources, Accounting and Management Reporting System (SHARE).

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

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

###### Management's Response - continued:

- Continue to develop and implement written policies and procedures for the business processes of the Financial Management Bureau to improve the timeliness of recording and reporting of financial activity in the SHARE.
- FMB has reorganized the structure of its financial management bureau to redefine roles and responsibilities of fiscal staff and managers to improve focus, efficiency and accountability relative to performance and completion of its fiscal obligations and responsibilities.

FMB will develop a detailed work plan that documents key monthly requirements and owners for Journal Entries and review, cash account reconciliations, Account Receivables reconciliations, federal grants reconciliations, and receipts held in suspense. FMB will implement SHARE project improvements in the next year that will eliminate manual work-arounds and leverage the SHARE system capabilities. Staff training on SHARE, Excel, and reconciliations will also be completed to address and resolve this finding. FMB will work to complete monthly reconciliations on the above by September 2009.

##### 07-02 EXPENDITURE RECORDING CUTOFF

**Condition:** During allowed activities/costs testwork for the Employee Services cluster, it was noted that one expenditure transaction was recorded in FY2007 when it should have been recorded in FY2006.

**Criteria:** Expenditures should be recorded at the time the goods and materials are received and accepted as delivered. As described in MAPs (FIN5), authorized by Section 6-5-2, NMSA 1978 state agencies must implement adequate internal controls and procedures for cash disbursements.

**Cause:** Lack of adequate internal controls over cash disbursements to ensure proper cutoff of fiscal year end expenditures.

**Effect:** A material misstatement of expenses could result from not recording expenditures in their proper period.

**Auditors' Recommendation:** The Department should clearly define the procedure for determining proper cutoff of fiscal year end expenditures.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**

**07-02 EXPENDITURE RECORDING CUTOFF - continued**

**Management's Response:** Management agrees that for the particular case cited, this should have been recorded in FY2006. To ensure proper cutoff of fiscal year-end expenditures, the Department has developed and implemented a procurement policy that outlines requirements for proper controls and procedures for encumbering funds. This policy states that a purchase order needs to be in place prior to goods or services being received. Also, the Chief Financial Officer in May or June sends a memorandum to division directors and relevant personnel outlining key purchasing/procurement and payment closeout activities and due dates. This includes for the current year new purchase orders, change orders, invoice submittals, travel, emergency purchase orders and next year purchase orders and travel advances.

**07-03 CASH RECEIPTS SUPPORTING DOCUMENTATION**

**Condition:** During cash receipt testwork, we noted that management was unable to provide supporting documentation for two out of 40 items tested. Additionally, two out of 40 checks were not deposited in a timely manner.

**Criteria:** As described in MAPs (FIN2), authorized by Section 6-5-2, NMSA 1978, management is required to maintain supporting documentation for cash receipts, and as described in MAPs (FIN2) Section 6-10-3, NMSA 1978, all monies collected by agencies shall be deposited with the State Treasurer's Office or with an authorized banking institution by the end of the next business day after receipt, except where otherwise provided by law.

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

**Effect:** Account balances may not properly reflect cash receipts in a timely manner, and misstatements may be difficult to reconcile due to missing support documentation.

**Auditors' Recommendation:** We recommend that management establish effective controls necessary to ensure the maintenance of supporting documentation, and procedures necessary to ensure timely deposit of cash receipts.

**Management's Response:** Due to the full implementation of the SHARE system, there were some timing issues in updating procedures for cash receipts. The newly created UI Treasury Section has established procedures for Cash Receipt and Deposit Processing and Reconciliation.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**

**07-04 PERSONNEL FILES**

**Condition:** During payroll testwork, we noted that management was unable to provide either the W-4 form for one out of ten personnel files reviewed or the I-9 form for one out of ten personnel files reviewed.

**Criteria:** Per MAPS Section 10-9-17, NMSA 1978, management is required to maintain W-4 and I-9 forms, along with the completed employee file for all employees.

**Cause:** Failure or lack of internal controls over personnel files.

**Effect:** The Department does not have the proper information in order to comply with regulations.

**Auditors' Recommendation:** We recommend that management establish effective controls necessary to ensure the maintenance of employee files.

**Management's Response:** The Department merged with the former Office of Workforce Training and Development (OWTD) in July 2007. The files not located were predominately OWTD personnel or retired employees. The Human Resource Bureau has created a separate binder containing I-9 forms for employees. This bureau has also created separate payroll folders that contain W-4 forms of new department employees. The Department's employee orientation process now includes a mandatory receipt of W-4s and I-9s from every new employee.

**07-05 FEDERAL GRANT REPORTS**

**Condition:** During A-133 single audit testwork, we noted that management was unable to provide required financial reports SF 269 and SF 272.

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

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

**Effect:** The Department is in violation of federal requirements.

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**

**07-05 FEDERAL GRANT REPORTS - continued**

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

**07-06 OVER-EXPENDED APPROPRIATION UNIT**

**Condition:** The Department over-expended the appropriation unit on the following fund:

- SHARE fund 71100 – Other Financing Uses appropriation unit by \$16,200.

**Criteria:** The Department's financial system should detect over-expenditures before they occur. Budget limits set by the Legislative Finance Committee for Fund 71100 – Other Financial Uses not to exceed \$250,800.

**Cause:** Non-budgeted expenditures being applied against the final budget and not submitting Budget Adjustment Requests on time.

**Effect:** The appropriation unit described above for fund 71100 was over-expended.

**Auditors' Recommendation:** The Department must track all expenditures and submit Budget Adjustment Requests to ensure compliance with the final budget.

**Management's Response:** The Department's fiscal staff was not familiar with the SHARE system's functionality in its first year of implementation. Further, indirect cost allocations were not fully implemented in SHARE until late in the fiscal year. A category transfer from personal services/personal benefits to the contractual and other cost categories was completed. This caused inadequate budget authority in the personnel services/benefits category.

The budget staff will monitor operating budgets with more timely and complete information from SHARE, and complete necessary Budget Adjustment Requests to align budget to expenditures.

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**

**07-07 DISPOSITION OF PROPERTY**

**Condition:** A written notice to the State Auditor was not sent at least 30 days before the disposition of property. This disposition included 145 computers, for which a sanitization certification was not provided.

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

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

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

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

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

**07-08 PHYSICAL INVENTORY COUNT**

**Condition:** Property, including computers, with a net book value of approximately \$3,472, with an original cost of \$475,024, was unable to be located during the year end physical inventory count. The Department chose to consider these missing assets to be disposed of.

**Criteria:** State Auditor Rule 2.2.2.10, Subsection Y states that each agency shall conduct an annual physical inventory count of all equipment listed on the agency's capital asset listing as of year end. The agency must then certify the correctness of the physical inventory listing after the inventory count. Additionally, in accordance with the Manual of Model Accounting Practices (MAPs) FIN 10, an agency that discovers any significant shortages or overages in its year end inventory count shall determine the cause and augment internal controls as necessary to control and minimize any future occurrences.

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 07-08 PHYSICAL INVENTORY COUNT - continued

**Cause:** Lack of effective internal controls associated with the custody of capital assets.

**Effect:** Not in compliance with the State Auditor Rule 2.2.2.10 requirements pertaining to the correctness of property listed on the financial statements. Furthermore, information stored on missing equipment may compromise the Department.

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

**Management's Response:** A physical inventory will be completed in June 2009 that will identify and reconcile assets. The Department will update its policies and procedures for day to day operations of its tracking, utilization, and reporting of its assets. The Department has purchased fixed assets tracking software (FASGOV) and trained appropriate personnel for tracking of its assets.

##### 07-09 REVERSIONS TO THE STATE GENERAL FUND

**Condition:** The Department had a total of \$1,023,178 in reversions due to the State General Fund. Of this amount, \$835,252 is related to reversions prior to the FY 2007 fiscal year that were never reverted.

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

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

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

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

**Management's Response:** The Department's Compliance Division incurred a deficit in its operations in fiscal year 2006. As a result, the Department may need to adjust the amount of reversion to the State General Fund to rectify this situation. In order to do this, the Department needs the permission of the Department of Finance and Administration (DFA). It plans to meet with DFA to undertake this corrective action.



## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Schedule of Findings and Questioned Costs - continued

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#### B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

##### 07-10 RECONCILIATION OF AGENCY FUND

**Reportable Condition:** The Department is not reconciling the Labor and Industrial Wage Claim Fund. The fund has approximately \$99,000 of amounts held for claimants; however, the Department is uncertain of the claimants for which the funds are being held.

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

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

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

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

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

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

##### 07-11 LATE FILING OF AUDIT REPORT

**Condition:** The audit report for the year ended June 30, 2007 was not submitted by the deadline of December 15, 2007 to the New Mexico State Auditor's Office, and the financial statement reporting packet and data collection form were not filed with the Federal Clearinghouse and federal agencies within nine months after the fiscal year end as required. The report was submitted on June 3, 2009.

**Criteria:** SAO 2.2.2.9(A)(f) requires that State agencies file their annual financial audit with the State Auditor's Office by December 15 each year, while OMB Circular A-133 requires submission of the financial statement reporting packet and the data collection form to the Federal Clearinghouse and federal agencies within nine months after the fiscal year end (A-133.320).

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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**B. FINDINGS - FINANCIAL STATEMENT AUDIT - continued**

**07-11 LATE FILING OF AUDIT REPORT - continued**

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

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

**Auditors' Recommendation:** Based on the size and complexity of the audit, the auditors require at least 60 days to complete the audit. Trial balances and critical supporting schedules should be provided to the auditors no later than mid-October in order to meet the December 15th deadline. In addition, the required documentation should be filed with the Federal Clearinghouse and federal agencies as soon as the final financial statements are available.

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

NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Schedule of Findings and Questioned Costs - continued

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

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

- 07-01 Reliability of Financial Recording, Accounting and Reporting
- 07-05 Federal Grant Reports

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

- 00-13 Employer's Quarterly Excess Wages
- 02-02 Unemployment Insurance Reconciliations
- 03-05 Unemployment Insurance Quarterly Reports
- 04-05 Contribution Operations Report (ETA 581)
- 05-04 Delinquent Employer Contribution Report
- 07-02 Expenditure Recording Cutoff

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

**Reportable Condition:** The Department did not submit the financial statement reporting packet and the data collection form to the Federal Clearinghouse and federal agencies within nine months after the fiscal year end, as required in fiscal years 2006 and 2007.

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

**Cause:** The Department did not complete the audit process and finalize financial statements until June 9, 2007 for fiscal year 2006 and June 2, 2009 for fiscal year 2007.

**Effect:** The Department is not in compliance with the OMB A-133 requirements.

**Questioned Costs:** None.

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

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

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Summary Schedule of Prior Year Audit Findings

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- 00-13 Employer's Quarterly Excess Wages – Repeated
- 02-02 Unemployment Insurance Reconciliations – Repeated
- 03-05 Unemployment Insurance Quarterly Reports – Repeated
- 03-10 Budgetary Comparisons – Resolved
- 04-05 Contribution Operations Report (ETA 581) – Repeated
- 05-01 Financial Accounting and Reporting (Material Weakness) – Modified/Updated as 07-01
- 05-02 Financial Statements at the Individual CAS Fund Level – Resolved
- 05-03 Cash Reconciliation (Material Weakness) – Modified/Updated as 07-01
- 05-04 Delinquent Employer Contribution Report – Repeated
- 06-01 Financial Statement Reporting Packet Submission to the Federal Clearinghouse – Repeated

## NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

### Exit Conference

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An exit conference was held with the Department on June 1, 2009. The conference was held at the Department's offices in Albuquerque, New Mexico. In attendance were:

#### NEW MEXICO DEPARTMENT OF WORKFORCE SOLUTIONS

Betty Sparrow Doris, Cabinet Secretary  
Teresa Gomez, Deputy Secretary  
Ken Ortiz, Deputy Secretary  
Lloyd Garley, ASD Director, CFO  
Jason Lewis, Chief of Staff  
Susan Aragon, Financial Management Bureau Financial Specialist  
Mike Gutierrez, Unemployment Insurance Treasury Manager  
Edwin Jaramillo, Financial Accounting Reporting Manager  
Richard Montes, Financial Management Bureau General Manager  
John Schwartz, Accounts Receivable Manager

#### MEYNNERS + COMPANY, LLC

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

#### PREPARATION OF FINANCIAL STATEMENTS

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