

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Financial Statements
June 30, 2018**



**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES**

Table of Contents

Official Roster.....	1
Independent Auditor's Report	2-4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	5
Statement of Activities	6
Governmental Funds Financial Statements	
Balance Sheet.....	7
Reconciliation of the Governmental Activities Balance Sheet to the Government-Wide Statement of Net Position - Governmental Funds	8
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	9
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statement of Activities	10
Statement of Revenues, Expenditures and Encumbrances - Budget and Actual – Major Governmental Funds - General Fund (Fund 06500)	11
Statement of Revenues, Expenditures and Encumbrances - Budget and Actual – Major Governmental Funds – New Mexico Veterans’ Home Fund (Fund 50460)	12
Statement of Revenues, Expenditures and Encumbrances - Budget and Actual – Major Governmental Funds -Veterans' Enterprise Special Revenue Fund (Fund 20490)	13
Fiduciary Funds Financial Statements	
Statement of Fiduciary Assets and Liabilities -Agency Funds	14
Notes to Financial Statements	15-33
Supplemental Information	
Description of Nonmajor Governmental Funds	34
Combining Balance Sheet -Nonmajor Governmental Funds	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balance -Nonmajor Governmental Funds	36
Statement of Revenues, Expenditures and Encumbrances Multi-Year – Budget and Actual -Capital Projects Fund -Cemetery Construction Fund	37
Fiduciary Funds	
Combining Statement of Fiduciary Net Assets -Agency Funds.....	38
Combining Schedule of Changes in Fiduciary Assets and Liabilities – Agency Funds.....	39
Schedule of Cash and Investment Accounts.....	40
Other Information	
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of Expenditures of Federal Awards	42

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES**

Table of Contents

Compliance Section

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-44
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance	45-46
Schedule of Findings and Questioned Costs.....	47-57
Status of Prior Years Findings	58
Exit Conference.....	59

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES**

Official Roster

Advisory Board Members

<u>Name</u>	<u>Region</u>
Billy Armijo	Southern Region
Christin Barden	Central Region
Michael Kozeliski	Western Region
Donald Reid	Eastern Region
Ralph Laughlin	Northern Region

Administration

Jack R. Fox	Cabinet Secretary
Alan Martinez	Deputy Secretary
Sal Soto	Director
Christina Baca	Chief Financial Officer

Independent Auditor's Report

Mr. Jack R. Fox, Cabinet Secretary
Department of Veterans' Services and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of a Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State of New Mexico that are attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the Department understated due from federal and related revenue during the fiscal year ended June 30, 2017. The beginning balance of net position and fund balance of Department have been restated for the correction of this misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying *Schedule of Expenditures of Federal Awards as required by Title 2 Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the budget comparison schedule, the combining and individual nonmajor fund financial statements and other schedules required by Section 2.2.2.NMAC* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards, the budget comparison schedule, the combining and individual nonmajor fund financial statements and other schedules required by Section 2.2.2.NMAC* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *Schedule of Expenditures of Federal Awards, the budget comparison schedule, the combining and individual nonmajor fund financial statements and other schedules required by Section 2.2.2.NMAC* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2018, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



Albuquerque, New Mexico
November 1, 2018

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Investment in State Treasurer General Fund Investment Pool	\$ 1,512,957
Cash	538
Receivables	1,584,242
Due from Federal government	1,572,525
Prepaid	1,462
Inventory	<u>273,260</u>
Total current assets	4,944,984
Capital assets, net	<u>1,582,325</u>
Total Assets	<u>6,527,309</u>
LIABILITIES	
Current Liabilities	
Investment in State Treasurer General Fund Investment Pool - deficit	3,151,389
Accounts payable	555,193
Accrued salaries payable	264,331
Payroll taxes and benefits payable	304,246
Held for others	508
Other liabilities	14,353
Compensated absences payable	<u>436,979</u>
Total current liabilities	4,726,999
Long-Term Liabilities	
Compensated absences payable, net of current portion	<u>145,655</u>
Total Liabilities	<u>4,872,654</u>
NET POSITION	
Net investment in capital assets	1,582,325
Restricted	654,964
Unrestricted (deficit)	<u>(582,634)</u>
Total net position	\$ <u><u>1,654,655</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Primary government:					
Governmental activities:					
Personal services and employee benefits	\$ 14,502,581	14,621,684	3,980,216	-	4,099,319
Contractual services	3,847,168	180,352	-	-	(3,666,816)
Other costs	3,816,014	-	-	-	(3,816,014)
<i>Total primary government</i>	<u>\$ 22,165,763</u>	<u>14,802,036</u>	<u>3,980,216</u>	<u>-</u>	<u>(3,383,511)</u>
General Revenues and Transfers					
					4,095,400
					85,000
					10,221
					(83,934)
					25,051
					(34,477)
					76,267
					<u>4,173,528</u>
					790,017
					441,331
					267,101
					156,206
					<u>864,638</u>
					Ending net position
					<u>\$ 1,654,655</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Balance Sheet – Governmental Funds
June 30, 2018**

	General Fund 06500	New Mexico Veterans' Home Fund 50460	Special Revenue Funds	Capital Project Funds		Non-major Funds	Total
			Veterans' Enterprise Fund 20490	Cemetery Construction Fund 50280	Cemetery Construction Fund 50420		
ASSETS							
Investment in State Treasurer General Fund Investment Pool	\$ 287,541	-	349,399	-	609,384	266,633	1,512,957
Cash	-	538	-	-	-	-	538
Accounts receivables, net	-	1,584,242	-	-	-	-	1,584,242
Due from federal government	-	-	-	1,394,787	37,454	140,284	1,572,525
Prepaid	950	512	-	-	-	-	1,462
Inventory	-	273,260	-	-	-	-	273,260
Total assets	\$ 288,491	1,858,552	349,399	1,394,787	646,838	406,917	4,944,984
LIABILITIES AND FUND BALANCE							
Liabilities							
Investment in State Treasurer General Fund Investment Pool - deficit	\$ -	1,440,442	-	1,603,319	-	107,628	3,151,389
Accounts payable	93,009	337,760	-	-	54,267	70,157	555,193
Accrued salaries payable	63,050	197,588	-	-	-	3,693	264,331
Payroll taxes and benefits payable	62,432	238,702	-	-	-	3,112	304,246
Held for others	-	508	-	-	-	-	508
Other liabilities	-	14,353	-	-	-	-	14,353
Total liabilities	218,491	2,229,353	-	1,603,319	54,267	184,590	4,290,020
Fund Balance							
Restricted							
Special purposes	70,000	-	349,399	-	592,571	-	1,011,970
Unassigned	-	(370,801)	-	(208,532)	-	222,327	(357,006)
Total fund balance	70,000	(370,801)	349,399	(208,532)	592,571	222,327	654,964
Total liabilities and fund balance	\$ 288,491	1,858,552	349,399	1,394,787	646,838	406,917	4,944,984

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Reconciliation of the Governmental Activities Balance Sheet
to the Government-Wide Statement of Net Position – Governmental Funds
June 30, 2018

Total fund balance for the Governmental fund (Balance Sheet)

Amounts reported for governmental activities in the Statement of Net Position are different because:	\$	654,964
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
The cost of capital assets		1,697,786
Accumulated depreciation		(115,461)
Long-term liabilities, including both current and long-term compensated absences payable, are not due and payable in the current period and, therefore are not reported in the funds.		<u>(582,634)</u>
Net position of governmental activities (Statement of Net Position)	\$	<u><u>1,654,655</u></u>

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds
Year Ended June 30, 2018

	General Fund 06500	New Mexico Veterans' Home Fund 50460	Revenue Funds		Non-major Funds	Total	
			Veterans' Enterprise Fund 20490	Capital Project Funds Cemetery Construction Fund 50280			Cemetery Construction Fund 50420
Revenues							
Charges for services	\$ -	-	117,354	-	-	62,998	180,352
Intergovernmental - federal grant revenue	-	-	-	2,721,514	684,292	574,410	3,980,216
Payments for care	-	14,621,684	-	-	-	-	14,621,684
Miscellaneous	6,088	8,982	4,876	-	-	5,105	25,051
Total revenues	6,088	14,630,666	122,230	2,721,514	684,292	642,513	18,807,303
Expenditures							
Welfare and assistance							
Current:							
Personal services and employee benefits	2,764,050	10,851,513	-	-	-	464,260	14,079,823
Contractual services	339,937	1,288,962	-	2,025,159	91,721	101,389	3,847,168
Other costs	461,567	2,261,089	-	584,895	-	393,002	3,700,553
Capital outlay	-	1,336,004	-	319,992	-	-	1,655,996
Total expenditures	3,565,554	15,737,568	-	2,930,046	91,721	958,651	23,283,540
Excess (deficiency) of revenues over expenditures	(3,559,466)	(1,106,902)	122,230	(208,532)	592,571	(316,138)	(4,476,237)
Other Financing Sources (Uses)							
Transfer in: State General Fund Appropriation	3,643,400	452,000	-	-	-	-	4,095,400
Transfer in: Special Appropriation	85,000	-	-	-	-	-	85,000
Transfer in: Severance Tax Bond Proceeds	-	-	-	-	-	10,221	10,221
Transfer in: other fund	-	17,000	-	-	-	(17,000)	-
Other financing sources							
Reversions to the State General Fund	(83,934)	-	-	-	-	-	(83,934)
Total other financing sources	3,644,466	469,000	-	-	-	(6,779)	4,106,687
Net change in fund balances	85,000	(637,902)	122,230	(208,532)	592,571	(322,917)	(369,550)
Other agency fund balance transfer in (note 16)	-	267,101	-	-	-	-	267,101
Fund balance, beginning of year, as previously reported	-	-	227,169	-	-	374,038	601,207
Restatement (note 17)	(15,000)	-	-	-	-	171,206	156,206
Fund balance, beginning of year, as restated	(15,000)	-	227,169	-	-	545,244	757,413
Fund balance, end of year	\$ 70,000	(370,801)	349,399	(208,532)	592,571	222,327	654,964

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Changes in Fund Balance
to the Government-Wide Statement of Activities
Year Ended June 30, 2018**

Net change in fund balance – Governmental Fund
(Statement of Revenues, Expenditures and Changes in Fund Balance) \$ (369,550)

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:

Operating transfer	76,267
Capital outlay	1,655,996
Depreciation expense	(115,461)
Loss on capital assets	(34,477)

Some items reported in the Statement of Activities do not require the
use of current financial resources and therefore are not reported
as expenditures in governmental funds.

Change in compensated absences	<u>(422,758)</u>
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Change in net position of governmental activities (Statement of Activities)	\$ <u><u>790,017</u></u>
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See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual – Major Governmental Funds
General Fund (Fund 06500)
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund Appropriations	\$ 3,776,400	3,776,400	3,728,400	(48,000)
Federal grants - operating	-	-	-	-
Miscellaneous	4,300	4,300	6,088	1,788
Total revenues	\$ 3,780,700	3,780,700	3,734,488	(46,212)
Expenditures				
Current:				
Personal services and employee benefits	\$ 2,922,800	2,798,800	2,764,050	34,750
Contractual services	510,000	389,849	339,937	49,912
Other costs	347,900	478,051	461,567	16,484
Total expenditures	\$ 3,780,700	3,666,700	3,565,554	101,146
Other Financing Sources				
Interagency transfers in	\$ -	-	-	-
Total other financing sources	\$ -	-	-	-
Items not included in budget schedule:				
Reversions fiscal year 2018			\$ (83,934)	
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			<u>\$ 85,000</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual – Major Governmental Funds
New Mexico Veterans' Home Fund (Fund 50460)
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
State General Fund Appropriations	\$ 300,000	300,000	452,000	152,000
Payments for care	5,580,400	5,580,400	14,621,684	9,041,284
Federal grants - operating	-	-	-	-
Miscellaneous	23,000	23,000	8,982	(14,018)
Total revenues	\$ 5,903,400	5,903,400	15,082,666	9,179,266
Expenditures				
Current:				
Personal services and employee benefits	\$ 7,105,300	7,105,300	10,851,513	(3,746,213)
Contractual services	1,476,300	1,797,180	1,288,962	508,218
Other costs	2,742,100	2,742,100	3,597,093	(854,993)
Total expenditures	\$ 11,323,700	11,644,580	15,737,568	(4,092,988)
Other Financing Sources				
Interagency transfers in	\$ -	-	17,000	17,000
Total other financing sources	\$ -	-	17,000	17,000
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			\$ <u>(637,902)</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Budget and Actual – Major Governmental Funds
Veterans' Enterprise Special Revenue Fund (Fund 20490)
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues				
Federal grants - operating	\$ -	-	117,354	-
Miscellaneous	-	-	4,876	-
Total revenues	\$ -	-	122,230	-
Expenditures				
Current:				
Personal services and employee benefits	\$ -	-	-	-
Contractual services	-	-	-	-
Other costs	-	-	-	-
Total expenditures	\$ -	-	-	-
Other Financing Uses				
Interagency transfers out	\$ -	-	-	-
Total other financing uses	\$ -	-	-	-
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds			\$ <u>122,230</u>	

See Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2018

Assets

Investment in the State Treasurer General Fund		
Investment pool	\$	11,940
Cash on deposit in banks		334,298
Investments and other property		<u>1,364,354</u>
Total assets	\$	<u><u>1,710,592</u></u>

Liabilities

Assets held for others	\$	<u>1,710,592</u>
Total liabilities	\$	<u><u>1,710,592</u></u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 1. ORGANIZATION

History and Functions

The Department of Veterans' Services (the Department) is a cabinet-level department created by the Laws 2003, Ch.403 and is governed by Section 9-22-1 through 9-22-20, NMSA 1978. The mission of the Department of Veterans' Services is to assist veterans, widows, and children of veterans in establishing the privileges to which they are entitled.

The Department is responsible for:

- A. assisting veterans, their surviving spouses and their children in the preparation, presentation, and prosecution of claims against the United States arising by reason of military or naval service;
- B. assisting veterans, their surviving spouses, and their children in establishing the rights and the procurement of benefits that have accrued or may accrue to them pursuant to state law;
- C. disseminating information regarding laws beneficial to veterans, their surviving spouses, and their children, and
- D. cooperating with agencies of the United States that are or may be established for the beneficial interest of veterans, to which end the Department may enter into agreements or contracts with the United States for the purpose of protecting rights or benefits of veterans.

The Department includes the following divisions:

- 1) Administrative Services Division;
- 2) Field Services Division;
- 3) State Benefits Division, and
- 4) Health Care Coordination Division

Effective July 1, 2017, the 2017 Legislative session Senate Bill 204 was enacted transferring oversight of the New Mexico State Veterans' Home (VA Home) located in Truth or Consequences, New Mexico from the New Mexico Department of Health (DOH) to the New Mexico Veterans' Services Department creating the Health Care Coordination Division of the Veterans' Services Department. The transfer of the State Veterans' Home to the Veterans' Services Department will have a significant impact on the Department's mission and fiscal year 2018 operations by increasing the Department's operating budget by approximately \$14.6 million and 212 Full-Time Equivalent positions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Department of Veterans' Service (Department) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Department's accounting policies are described below:

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity and Component Units

The Department is a department of the primary government, of the State of New Mexico. These financial statements present the financial position and results of operations of only those *Statewide Human Resources, Accounting and Management Reporting System Accounting System (SHARE)* funds for which the Department has oversight responsibility. The District is a user organization of the SHARE system. The service organization is the Department of Finance and Administration (DFA).

The Department has decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR).

In evaluating how to define the Department for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the government body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Department is able to exercise oversight responsibilities. Based upon the application of these criteria, the Department does not have any component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements, statement of net position, and statement of activities report information on all of the non-fiduciary activities. The Department also has fiduciary activities. When applicable, the effect of inter-fund activity is eliminated from the statement of net position and the statement of activities in order to avoid a grossing-up effect on the assets and liabilities within the statement of net position and the "doubling-up" effect on the statement of activities. The Department does not have any business-type activities; therefore, only government activities are shown. Governmental activities are normally supported by taxes and intergovernmental revenues.

The fund financial statements, the balance sheet, and the statement of revenues, expenditures and changes in fund balances are presented to report additional and detailed information about the Department. Emphasis is on the major funds of the governmental category. The General Fund, New Mexico Veterans' Home Fund, Veterans' Enterprise Fund, and the Cemetery construction Funds have been classified as major funds. The General Fund is the Department's operating fund and includes all financial transactions conducted to fulfill its general government function. It accounts for all financial resources of the Department. The Angel Fire Memorial Fund, Veterans' Approval Fund, Armed Forces Veteran's License Fund, and Veterans' Cemetery STB Proceeds Fund have been classified as nonmajor funds.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (continued)

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

The focus is on the Department as a whole and the fund financial statements, including the major individual funds of the governmental category, as well as the fiduciary fund by category.

The financial transactions of the Department are recorded in individual 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, expenditures or expenses and other financing sources or uses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by spending activities are controlled.

The new model sets forth the minimum criteria (percentage of the assets, liabilities, revenues, or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds.

The following fund types are used by the Department:

Governmental Fund Types

All governmental fund types are accounted for on a spending or financial measurement focus. Only current assets and liabilities are generally included on their balance sheets. Their reported fund balance (net current position) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current position. 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 position, such long-term amounts are not recognized as governmental fund type expenditures.

General Fund – The General Fund is the general operating fund of the Department and a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is made up of the following Statewide Human Resources, Accounting, and Management Reporting System Accounts System (SHARE) fund.

06500 General Operating – The operating account for the Department. This is a reverting fund.

50460 New Mexico Veterans' Home – The operating account for the Veterans' home. This is a reverting fund.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Department's Special Revenue Funds are as follows:

20490 Veterans' Enterprise Special Revenue Fund – Enacted by the Legislature of the State of New Mexico under Chapter 9, Article 22 NMSA 1978. This fund consists of appropriations, gifts, grants, donations, bequests, proceeds from the sale of publications produced by the Department, fees collected by the department, and public or private funds applied for and received by the department to carry out its programs, duties or services. This fund is non-reverting to the State General Fund per Section 9-22-1, NMSA 1978.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (continued)

Capital Project Funds – Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Department's major Capital Project Funds are as follows:

50280 Cemetery Construction Capital Project Fund – This fund disburses grant funds received from the U.S. Department of Veterans Affairs for the construction of regional Veterans' National Cemeteries within the State. This fund is non-reverting to the State General Fund.

50420 Cemetery Construction Capital Project Fund – This fund disburses grant funds received from the U.S. Department of Veterans Affairs for the pre-construction of regional Veterans' National Cemeteries within the State. This fund is non-reverting to the State General Fund.

Fiduciary Fund Types

Fiduciary fund types include trust and agency funds, which are used to account for assets held by the Department in the capacity of trustee or agent.

Agency Funds – Agency funds are used to account for assets held as an agent for other governmental units, individual and other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds of the Department are used to account for the proceeds of settlement and court decisions until the proceeds may be distributed to the proper recipients. The Department's agency funds are as follows:

11240 Veterans' Trust Fund – This fund is used to account for the estates of veterans and minor children of veterans where the Department is appointed guardian or conservator. The funds come from the Veterans Administration, Social Security, Railroad Retirement, Civil Service Annuity, and other sources such as rent, royalties, insurance payments, and inheritance funds. Disbursements are for support and maintenance, clothing, dental, medical and school expenses for the wards and other dependents. Also involved are other types of transactions such as purchases and selling real estate, buying furniture and automobiles and renting housing. All funds are deposited to the wards' accounts at the First National Bank of Santa Fe. Funds are invested and disbursed by the Trustee Bank.

12300 Cemetery Fund – This fund is administered by the New Mexico Department of Veterans' Services. Effective February 9, 2015, Senate Bill 368 was passed relating to this fund which, changed the name from the Veterans' National Cemetery Fund to the Veterans' State Cemetery Fund, removed a requirement that certain excess amounts in the fund be distributed to the substance abuse education fund, and repealed Section 7-2-27 NMSA 1978 to increase the size of the national veterans cemetery in Santa Fe. Donations come from citizens and via designation on their New Mexico income tax returns.

50490 Veterans' Home Fiduciary Fund – The fund consists of general accounts for residents, residents trust accounts, and burial fund accounts held on behalf of all Veterans of the New Mexico State Veterans Home located in Truth or Consequence.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements and the fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, and assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33. The Department's program revenues consist of federal grants and charges for services. Revenue from federal grants is recognized when all eligibility requirements have been met on a "reimbursement basis." Charges for services consists of fees collected from sales of license plates. All other revenues are considered general revenues. Capital assets are reported at historical cost and depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the balance sheet. The reported fund balance is considered a measure of available spendable resources.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of spendable resources during a period. Revenues are available if collectible within the current period or soon enough afterwards to pay liabilities of the current period. The Department considers revenues to be available if collected within sixty days of the end of the fiscal year. Expenditures are recorded when a liability is incurred, as under accrual accounting. The Department does not have any debt service expenditures. The current portion of the compensated absences liability is not included in the fund financial statements because the State of New Mexico does not budget for any compensated absences in the current year.

C. Receivables and Payables

When applicable, amounts "due to/from other funds" between the two SHARE funds are netted for financial statement presentation when they are combined into the General Fund. Any amounts "due to/from other agencies" shown in the General Fund reflect outstanding balances of the receivables and payables between the Department and other departments of the State of New Mexico. Amounts shown as "due to the State General Fund" reflect current year reversions for unexpended appropriations for the current fiscal year.

Balances to which a fiduciary fund is a party are treated as "external" receivables and payables.

D. Capital Assets

The Department does not own any Capital assets. The Department utilizes facilities and buildings that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Capital Assets (continued)

Capital assets are defined in Section 12-6-10 NMSA 1978. Section 12-6-10 NMSA 1978 was amended effective June 19, 2005 changing the capitalization threshold of movable chattels and equipment from items costing more than \$1,000 to items costing more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Computer software which is purchased with computer equipment is included as part of the capitalized computer equipment in accordance with 2.20.1.9 C (5) NMAC. The Department does not develop computer software. The cost of maintenance and repairs that do not add to the asset value or materially extend assets lives are not capitalized. The Department does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to the capital assets. Capital assets of the Department are depreciated using zero salvage value and the straight-line method over the following estimated useful lives:

Building and improvement	5-40 years
Machinery and equipment	5-20 years
Vehicles and Automotive	5-10 years
Furniture and equipment	7-10 years

E. Patient Service Revenue and Contractual Adjustments

Patient services revenue is recorded at the established rates of the medical facility but is reduced by “contractual adjustments” to recognize allowances for charity services, provisions for uncollectible accounts, and charges that otherwise exceed payments from Medicare, Medicaid, private or other resources. Amounts receivable and payable under reimbursement from “third-party payor” agreements, primarily Medicare and Medicaid, are subject to examination and retroactive adjustment by a third-party payor. Provisions for estimated retroactive adjustments by third-party payors are provided in the period the related services are rendered. Any difference between the amounts accrued and settled is reflected in operations in the year of settlement. The facilities are paid for substantially all inpatient services rendered to Medicaid and/or Medicare program beneficiaries under prospectively determined rates per client. Accordingly, to the extent that costs incurred (exclusive of other defined capital costs and certain education costs of the rehabilitation centers which continue to be paid on the basis of reasonable costs) for services rendered to Medicare and Medicaid patients exceed the determined payment rates, those costs are not recoverable from the Medicare and Medicaid programs or their beneficiaries.

F. Budgets and Budgetary Accounting

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

1. No later than September 1, the Department prepares a budget request by appropriation unit to be presented to the next Legislature.
2. The appropriation request is submitted to the Department of Finance and Administrations Budget Division (DFA) and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (continued)

5. Both the DFA and LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised by the Department at the appropriation unit level. Budget Adjustment Requests (BARs) are approved by the DFA Budget Division.
7. The budget for the General Fund and all Special Revenue Funds is adopted on a modified accrual basis of accounting. Per the General Appropriations Act, Laws of 2008, Chapter 109, Section 3, Subsections N and O, the budgetary basis is modified accrual. However, there is a statutory exception. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable require approval to pay prior year bills out of the current budget.
8. The original budget differs from the final budget presented in the budget comparison statements by amendments made during the fiscal year.
9. Appropriations lapse at the end of the fiscal year.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

In accordance with the requirements of Section 2.2.2. 10.A(2) (b) of 2.2.2 N MAC *Requirements for Contracting and Conducting Audits of Agencies* and the allowance made by GASB 34 footnote 53, the budgetary comparison statement for the General Fund and for each major special revenue fund have been included as part of the basic financial statements.

G. Accrued Compensated Absences

Annual leave and other compensated absences with similar characteristics are accrued as a liability as benefits are earned by employees if: the employees' right to receive compensation is attributable to services already rendered; and it is probable that the employer will compensate employees for benefits through paid time off or some other means such as cash payments at termination or retirement.

Where applicable, the compensated absence liability is presented in two parts in the government-wide financial statements, a current portion and long-term portion. The current portion is the amount expected to be expended within one year of fiscal year end. It is an estimate management determined by comparing the amount actually paid out during the current fiscal year compared to the liability balance at year end.

Employees accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum 240 hours.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accrued Compensated Absences (continued)

Employees accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave that an employee may accumulate. State agencies are allowed to pay fifty percent of each employee's hourly rate for accumulated sick leave over 600 hours, up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July. Additionally, upon retirement those employees with over 600 hours accumulated sick leave have the option to convert 400 hours of such leave to cash at one half of their hourly rate.

Fair Labor Standards Act (FLSA) states that nonexempt employees accumulate compensation time at a rate of 1.5 times the number of hours worked, in excess of forty hours per week, based on their regular hourly rate. Exempt and classified employees who are FLSA exempt accumulate compensation time at the same rate as the number of hours worked.

Exempt employees cannot carry forward unused compensation time into January of the subsequent calendar year. Overtime must be preapproved by management. Payment of this liability can be made by compensated leave time or cash payment.

Accrued compensated absences consist of accumulated annual leave, sick leave between 600 and 720 hours, compensatory leave for employees, including the related employers' matching FICA and Medicare payroll taxes.

H. Reversions

Any unexpended balance remaining in SHARE Fund #06500 is generally reverted to the State General Fund. The General Appropriations Act of 2004, Section 3, Subsection N, states that "for the purpose of administration of the General Appropriations Act of 2005, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." In accordance with the Department of Finance and Administration's "Basis of Accounting-Modified Accrual and the Budgetary Basis," the Office has accrued as payables amounts owed for goods and services received by year end. Any remaining SHARE Fund 06500 fund balance not specifically reserved for prepaid postage or federal grant funds accounted for separately is being reverted to the State General Fund in accordance with Section 6-5-10, NMSA 1978. Fund 78400, Armed Forces Veterans' License Fund is non-reverting per Section 66-3-419F, NMSA 1978. Fund 89600 Veterans' Approval Fund is non-reverting per 38 USC Section 1771, Article 13, Section 28-13-1 3 of the U.S. Code.

In addition, unexpended balances of special appropriations are reverted when required by law.

I. Federal Grants Receivable (Unearned Revenue)

Reimbursement procedures are used for federal awards received by the Department. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances and fiscal balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Conversely, deferred revenue balances represent an over draw of cash (advances) in excess of modified accrual basis expenditures. Generally, receivable or unearned revenue balances caused by differences in the timing of cash reimbursements and expenditures are returned to the grantor in the remaining grant period.

Determining the amount of expenditures reimbursable by the federal government, in some cases, requires management to estimate allowable costs to be charged to the federal government. As a result of this and other issues, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Net Position/Fund Balance

In the government-wide financial statements, net position consists of two components: restricted; and unrestricted. The government-wide statement of net position reports \$285,925 of restricted net position as stipulated by resource providers (grantor, contributor, other government enabling legislation) that the funds would be used for a specific purpose. Generally, the Department would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Fund balance amounts are reported within one of the fund balance categories list below:

1. *Nonspendable* – includes amounts that cannot be spent because (1) they are either not in spendable form or (2) they are legally or contractually required to be maintained intact.
2. *Restricted* – fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* – fund balance classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government's highest level of decision-making authority removes or changes the specified use by taking the same action it employed to previously commit those amounts.
4. *Assigned* – fund balance constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
5. *Unassigned* – fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Department has reviewed each of the classifications and has determined that the Armed Forces Veterans' License fund balance is restricted for the purpose of expanding services to rural areas of the State, including Native American communities and senior citizen centers in compliance with 66- 3-419.F, NMSA 1978; The Veterans Approval fund is restricted for administrative costs of the Veterans' Approval Agency to carry out the state obligation under provision of 38 USC Section 1771, Article 13 Section 28-13-13 ; and the Veterans' Enterprise Fund is restricted to carry out the Department programs, duties or services, or as restricted by donors or grant agreements. Balances held in the Armed Forces License fund and the Veterans Enterprise fund, totaling \$541,483 are restricted by enabling legislation.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Department considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Department considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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.

L. Inventories

Inventories are stated at lower cost or market (first in, first out method) and consist primarily of medical, surgical, and maintenance supplies, and pharmaceuticals.

M. Accounts Receivables Allowances

Contractual allowances represent the amounts which reduce patient accounts receivable to amounts that are considered to be due from third-party payors based on existing contracts VA Home has with these payors. The contractual allowance percentages are updated periodically by payor class and line of business.

The allowance for doubtful accounts is that amount which, in management's judgment, is considered adequate to reduce patient accounts receivable to an amount that is considered to be ultimately collectible. VA Home calculates its allowance for doubtful accounts based on management's estimate of historical write-offs by major payor categories over the past several years.

Management believes that the allowances for doubtful accounts and contractual allowances are adequate. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that recorded estimates of the allowance for doubtful accounts and contractual allowances will change by a material amount in the near term.

N. Prepaid

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

O. Subsequent Events

Subsequent events through November 1, 2018, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2018, financial statements.

NOTE 3. CASH – INVESTMENTS AND COLLATERAL

A. Interest (deficit) in the General Fund Investment Pool

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

A. Interest (deficit) in the General Fund Investment Pool (continued)

Section 8-6-3 NMSA 1978 NMSA, requires that all money of the state except when otherwise specially provided, be kept by the State Treasurer. Cash of the Board is maintained on deposit with State Treasurer in the State General Fund Investment Pool (SGFIP). The State Treasurer, with the advice and consent of the state board of finance, may invest money held in demand deposits and not immediately needed for operations, in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended.

For additional disclosure information regarding the investment in the State Treasurer's SGFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2018, review the State Treasurer's Investment Policy at http://www.nmsto.gov/investment_policy_1 and review Sections 2.60.4.1 through 2.60.4.1 5 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

At June 30, 2018, the Department had the following invested in the General Fund Investment Pool:

Account Name	Agency Number	SHARE Fund	Balance Per SHARE
NM Veterans' Service	67000	06500	\$ 287,541
New Mexico Veterans' Home Fund	67000	50460	(1,440,442)
Veterans' Approval Fund	67000	89600	(107,628)
Armed Forces Veterans' License Fund	67000	78400	224,074
Veterans' Enterprise Fund	67000	20490	349,399
Veterans' National Cemetery Fund	67000	50240	609,384
Cemetery Construction Fund	67000	50280	(1,603,319)
Angel Fire Memorial Fund	67000	67920	5,105
Veterans' Cemetery Severance Tax Bond Proceeds Fund	67000	89200	<u>37,454</u>
Total government funds			<u>(1,638,432)</u>
Cemetery Agency Fund	67000	12300	<u>11,940</u>
Total cash and investments in SGFIP			\$ <u>(1,626,492)</u>

B. Investments (First National Bank of Santa Fe Trust Department)

Credit Risk, Custodial Credit Risk and Interest Rate Risk

The First National Bank of Santa Fe Trust Department (Trustee) invests veterans' benefits in the Veterans' Trust Fund under a trust agreement with the Department. The Department is the conservator or personal representative of the estates of certain wards pursuant to Section 28-13-9, NMSA 1978. The trustee holds, manages, invests, and receives the trust-estate, collects income and disposes of the net income and principal in accordance with the trust agreement. The trustee is specifically authorized and empowered to "invest and reinvest any funds of the trust estate in deposits, assets, or other, securities, or property insured by an agency of the federal government, such as, but not limited to the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation or obligation issued by the United States Government or its agencies, or money market funds limited to investment in obligations of the United States Government or its agencies or other legal investments as in its discretion it shall deem advisable."

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 3. CASH – INVESTMENTS AND COLLATERAL (CONTINUED)

B. Investments (First National Bank of Santa Fe Trust Department) (Continued)

Credit Risk, Custodial Credit Risk and Interest Rate Risk (Continued)

The trustee shall develop a general plan or plans for investment, not less than once a year. The trustee shall invest property and income in accordance with the plan. The compensation to the trustee is 1% per annum of the total value of the managed trust estate and the trustee shall create and manage an "individual account" on behalf of each of the wards for whom the granter has been appointed conservator by a court of competent jurisdiction.

The Department's investments in the Veterans' Trust Fund at June 30, 2018 included the following:

Investment	Maturities	Carrying Amount	Fair Value
Federal Government – Money market fund	N/A	1,364,354	1,364,354
Total investments		1,364,354	1,364,354

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Department has the following recurring fair value measurements as of June 30, 2017:

- Federal Government Money Market Funds \$1,364,354, valued using quoted market prices (Level 1 inputs).

The Department also has nonrecurring fair value measurements as of June 30, 2018, for other property and real estate held by the trust department on behalf of beneficiaries for which cost is deemed to represent the fair market value. The Department is not aware of any impairments to these investments (Level 3 inputs).

Credit Risk

All investments are insured by an agency of the federal government or registered or securities held by the trustee or its agent in the name of the Department. Investments are in accordance with the "general plan." Investments are in legal investments which have safety, assured income, stability of principal and ready convertibility. Investments in Mutual funds are subject to market fluctuations.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counter-party, the Department will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

All investment securities are insured and registered in the name of the Department or are held by either the counter-party or counter-party's trust department.

Interest Rate Risk

In accordance with its investment policy, the Department and trustee manages its exposure to declines in fair values and losses arising from increasing interest rates by limiting the modified duration of its investments to short periods of up to five years.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 4. ACCOUNTS RECEIVABLE

The Department accounts receivables and related allowances for uncollectible accounts for the VA Home as of June 30, 2018 are as follows:

New Mexico Veterans' Home Fund - 50460	
Accounts Receivable	\$ 1,782,999
Allowance for Uncollectible	(198,757)
Net Accounts Receivables	<u>\$ 1,584,242</u>

NOTE 5. CAPITAL ASSETS

Summaries of changes in capital assets and related depreciation for the year ended June 30, 2018, follows:

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
Capital assets being depreciated:				
Machinery and equipment	\$ -	1,693,238	(34,477)	1,658,761
Vehicles and automotive	-	39,025	-	39,025
Total capital assets	<u>-</u>	<u>1,732,263</u>	<u>(34,477)</u>	<u>1,697,786</u>
Accumulated depreciation				
Machinery and equipment	-	(108,698)	-	(108,698)
Vehicles and automotive	-	(6,763)	-	(6,763)
Total accumulated depreciation	<u>-</u>	<u>(115,461)</u>	<u>-</u>	<u>(115,461)</u>
Net capital assets, net of accumulated depreciation	<u>\$ -</u>	<u>1,616,802</u>	<u>(34,477)</u>	<u>1,582,325</u>

The Department does not have any debt related to capital assets. Depreciation expense for the year ended June 30, 2018 was \$115,461.

Capital Asset Transfers: In accordance with Senate Bill 320, the New Mexico Energy, Minerals and Natural Resources (EMNRD) was required to transfer the real property of the Vietnam Veterans' Memorial State Park in Colfax County to the General Services Department (GSD). Upon ratification of the transfer of the real property from the Department to GSD, all programs, functions, personnel, appropriations, money, records, furniture, equipment, supplies, and other property belonging to the EMNRD pertaining to Vietnam Veterans' Memorial State Park in Colfax County was transferred to GSD. The total amount of property, plant and equipment transferred on January 1, 2018 from EMNRD to GSD had a net value of \$1,769,858.

In addition, Legislative session Senate Bill 204 was enacted required New Mexico Department of Health (DOH) to transfer all capital assets of New Mexico State Veterans' Home to Department of Veterans' Services. The transfer included all assets with a net value of capital assets in the amount of \$76,267.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 6. COMPENSATED ABSENCES PAYABLE

The Department has recognized a liability of \$582,634 in the statement of net position for annual leave and compensated absences based on current pay rates and hours accumulated at June 30, 2018. Compensated absences are paid with General Fund appropriations out of SHARE Fund 06500.

	Balance 6/30/17	Transfer	Increase	Decrease	Balance 6/30/18	Due Within One Year
Compensated absences	\$ 159,876	364,382	818,403	760,027	582,634	436,979
Total compensated absences	<u>\$ 159,876</u>	<u>364,382</u>	<u>818,403</u>	<u>760,027</u>	<u>582,634</u>	<u>436,979</u>

NOTE 7. REVERSIONS

Reversions to State General Fund

The General Fund receives a State General Fund appropriation annually. Any unexpended funds at the end of the year revert to the State General Fund. In addition, any other revenue received in the fund which is not specifically appropriated by the Legislature also reverts to the State General Fund. Federal grant funds which are commingled in the Department's General Fund, are accounted for separately, and do not revert to the State General Fund. The Department of Veterans' Services was appropriated \$3,728,400 for fiscal year 2018.

General Fund

Fund balance, July 1, 2017	\$ -
Revenue	3,734,488
FY2019 Special Appropriation	(85,000)
Expenditures	(3,565,554)
Reversions	<u>(83,934)</u>
Fund balance, June 30, 2018	<u>\$ -</u>

NOTE 8. ASSETS HELD IN CUSTODY FOR OTHERS

Assets held in trust consist of cash, investments, real property and miscellaneous property held in trust for veterans. All real property is reported on the financial statements at acquisition cost of the items or an estimate of what acquisition cost was for items transferred into the Department of Veterans' Services guardianship. As of 2016, the Department has been the process to close out this program. Fiduciary responsible has been transferred to Guardianships of New Mexico, LLC, some of the funds were directly transferred back to veterans' family members.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018

NOTE 9. PERA PENSION PLAN

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 I 1, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Department is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article I 1, 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, 2018, 2017, and 2016 were \$1,401,554, \$366,620, and \$338,871, respectively, which equal the amount of the required contributions for each fiscal year.

The Department, as a part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

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

NOTE 10. POST-EMPLOYMENT BENEFITS-STATE RETIREE HEALTH CARE PLAN

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

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

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 10. POST-EMPLOYMENT BENEFITS-STATE RETIREE HEALTH CARE PLAN (CONTINUED)

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

NOTE 11. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Department of Veterans' Services is committed under several leases for Department office space, grounds, vehicles, and various equipment. These leases are considered for accounting purposes to be operating leases and are not reflected in the Department of Veterans' Services long-term liabilities. Rent and lease expenditures for the year ended June 30, 2018 amounted to \$124,301. As of fiscal year 2018, all leases are on a month-to-month basis.

Federal Grants

The Department of Veterans' Services receives federal grants which may be refundable in the event that all terms of the grants are not complied with. In the opinion of management, no material refunds will occur.

Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the government carries commercial insurance. The Department maintains commercial insurance through the Risk Management Division for coverage for workers compensation, auto liability, general liability, civil rights, property and contents, and fidelity bonds. Management believes that any potential loss would be adequately covered by insurance and would not result in any material adverse effect on the financial condition of the Department. During the past three years, the Department has not had any significant reduction in insurance coverage of settlements exceeding insurance coverage.

Receivables

The VA Home grants credit without collateral to patients, most are local residents and uninsured under third-party payor agreements. Management believes that estimates made for the allowance for doubtful accounts are adequate.

Because of the uncertainty regarding the ultimate collectivity of patient accounts receivable, there is at least a reasonable possibility that recorded estimates of the allowance accounts will change by material amount in the near term.

The VA Home recognizes that revenue and receivables from government agencies are significant to its operations, however does not believe that there are any significant credit risks associated with these governmental agencies. The mix of receivables from patients and third-party payors at June 30 was as follows:

Commercial Insurance	43%
Private Payor	25%
Veterans Administration	14%
Federal Per Diem	12%
Medicare	6%

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Compliance with Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the VA Home is in compliance with fraud and abuse laws and regulations as well as other applicable government regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE 12. TRANSFERS TO/FROM OTHER STATE AGENCIES

The Department receives and makes operating transfers for various reasons as described below:

	Transfer From	Transfer To
Department of Finance & Administration (Agency No. 34100)	\$ 3,728,400	
Department's General Fund (Agency No. 67000, Fund No. 06500) Purpose: General fund appropriation FY 2018		3,728,400
Department of Finance & Administration (Agency No. 34100)	\$ 452,000	
Department's New Mexico Veterans' Home Fund (Agency No. 67000, Fund No. 50460) Purpose: General fund appropriation FY 2018		452,000
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 62,998	
Department's Armed Forces Veterans' License Fund (Agency No. 67000, Fund No. 78400) Purpose: MVD distributions, Sec. 66-6-23		62,998
State of New Mexico, Taxation and Revenue Department (Agency No. 82600)	\$ 117,354	
Department's Veterans' Enterprise Special Revenue Fund (Agency No. 67000, Fund No. 20490) Purpose: MVD distributions, Sec 9-22-1		117,354

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018**

NOTE 13. STATE GENERAL FUND APPROPRIATIONS

	Revenues to Date	Appropriation Period	Expenditures & Reversions to Date	Balance of Appropriation	
				Designated for Subsequent Year Expenditure	Due to State General Fund
General Fund - 06500					
Appropriation Laws 2017	\$ 3,643,400	7/1/2017 to 6/30/2018	-	-	-
Special Appropriation Laws 2018	85,000		-	-	-
	<u>3,728,400</u>		<u>3,565,554</u>	<u>-</u>	<u>83,934</u>
New Mexico Veterans' Home Fund - 50460					
Appropriation Laws 2017	152,000	7/1/2017 to 6/30/2018	-	-	-
Special Appropriation Laws 2018	300,000		-	-	-
	<u>452,000</u>		<u>15,737,568</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,180,400</u>		<u>19,303,122</u>	<u>-</u>	<u>83,934</u>

NOTE 14. SEVERANCE TAX BOND APPROPRIATIONS

	Original Appropriation	Appropriation Period	Expenditures to Date	Outstanding Encumbrances	Reversions	Unencumbered Balance
Severance Tax Bonds, 2016 Senate Bill 172 Chap. 83, Sec 95	\$ <u>600,000</u>	7/1/2016 to 6/30/2024	<u>588,904</u>	<u>-</u>	<u>-</u>	<u>11,096</u>

NOTE 15. DEFICIT NET POSITION

GASB statement No. 34 requires capitalized assets, net of accumulated depreciation and the inclusion of long term debt to be discretely presented in the statement of net position which has resulted in an unrestricted net position deficit of (\$582,634). This deficit is created by compensated absences liabilities which will be paid from subsequent years State General Fund Appropriations.

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

Deficit Fund balance. The following fund maintained a deficit fund balance at June 30, 2018:

	Due From
Major Funds:	
New Mexico Veterans' Home Fund (50460)	\$ 370,801
Cemetery Construction Fund (50280)	208,532

The Department incurred more expenditures than revenue received in these funds in the current year.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to Financial Statements
June 30, 2018

NOTE 16. DEPARTMENT OF HEALTH TRANSFERS

During the fiscal year ended June 30, 2018, the Department of Health transferred fund balance for New Mexico Veterans Home general fund (New Mexico Veterans' Home) to Department of Veterans Services in the amount of \$267,101.

NOTE 17. RESTATEMENT

During the fiscal year ended June 30, 2018, the Department discovered that it had improperly recorded due from other agencies and the related revenue in the wrong fund in the amounts of \$171,206 during the fiscal year. In addition, they discovered that the prior year due from other agencies in the General Fund of \$15,000 was received in fiscal year 2017, however it was incorrectly credited to an expenditure account.

To correct this, the beginning fund balance of the Veterans' Cemetery STB proceeds fund and net position of governmental activities was increased by \$171,206 and due from other state agencies of the cemetery construction fund was decreased by \$171,206. The beginning fund balance and the due from other state agencies in the General Fund was decreased by \$15,000. This misstatement caused ending net position to be overstated by \$15,000 for the year ended June 30, 2017.

SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Description of Nonmajor Governmental Funds
June 30, 2018**

SPECIAL REVENUE FUNDS

Angel Fire Memorial (Fund 67920). This fund was set up to receive the individuals' donations to the Angel Fire Memorial for Veterans.

Veterans' Approval Special Revenue (Fund 89600). This is created within the New Mexico Veterans' Service Department the Veterans Approval Agency to carry out the state obligation under provision of 38 USC Section 1771, Article 13 Section 28-13-13. (Former Sub-chapter VII of Chapter 17 was renumbered Sub-chapter IV of Chapter 20. Section 1771 was renumbered Section 3671.) The purpose of this fund is to collect administrative monies from the U.S. Department of Veterans' Affairs. These monies are used for administrative costs of the Veterans' Approval Agency which is now supervised by the director of the New Mexico Department of Veterans' Services. The fund is non-reverting to the State General Fund pursuant to the above cited sections of the U .S. Code.

Armed Forces Veterans' License Special Revenue (Fund 78400). The purpose of providing special registration plates for veterans. A portion of the fee collected shall be credited to the fund. Expenditures are for the purpose of expanding services to rural areas of the State including Native American communities and senior citizen centers. This fund is non-reverting to the State General Fund as per Section 66-3-419.F, NMSA 1978.

CAPITAL PROJECT FUND

Severance Tax Bond Capital Projects Fund (Fund 89200). This fund receives capital projects funds as authorized by the State Legislature for the acquisition of property and preparation for construction of regional Veterans' National Cemeteries within the State. Funds are administered by the State Board of Finance and are obtained by the issuance of bonds which are secured by collections of severance tax revenues. This is a multi-year appropriation, and funds not expended at the end of the appropriation period revert to the State Board of Finance.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue Funds			Capital Project Funds	
	Angel Fire Memorial Fund 67920	Veterans' Approval 89600	Armed Forces Veterans' License 78400	Veterans' Cemetery STB Proceeds 89200	Total
ASSETS					
Investment in State Treasurer General Fund					
Investment Pool	\$ 5,105	-	224,074	37,454	266,633
Due from Federal government	-	140,284	-	-	140,284
Due from other state agencies	-	-	-	-	-
Total assets	\$ 5,105	140,284	224,074	37,454	406,917
LIABILITIES AND FUND BALANCE					
Liabilities					
Investment in State Treasurer General Fund					
Investment Pool - deficit	\$ -	107,628	-	-	107,628
Accounts payable	-	713	31,990	37,454	70,157
Accrued payroll	-	3,693	-	-	3,693
Payroll taxes and benefits payable	-	3,112	-	-	3,112
Total liabilities	-	115,146	31,990	37,454	184,590
Fund Balance					
Restricted					
Special purposes	5,105	25,138	192,084	-	222,327
Unassigned	-	-	-	-	-
Total fund balance	5,105	25,138	192,084	-	222,327
Total liabilities and fund balance	\$ 5,105	140,284	224,074	37,454	406,917

See Independent Auditor's Report.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2018**

	Special Revenue Funds			Capital Project Funds	Total
	Angel Fire Memorial Fund 67920	Veterans' Approval 89600	Armed Forces Veterans' License 78400	Veterans' Cemetery STB Proceeds 89200	
Revenues					
Charges for services	\$ -	-	62,998	-	62,998
Intergovernmental - federal grant revenue	-	574,410	-	-	574,410
Miscellaneous	5,105	-	-	-	5,105
Total revenues	5,105	574,410	62,998	-	642,513
Expenditures					
Welfare and assistance					
Current:					
Personal services and employee benefits	-	282,833	-	181,427	464,260
Contractual services	-	101,389	-	-	101,389
Other costs	-	190,188	202,814	-	393,002
Total expenditures	-	574,410	202,814	181,427	958,651
Excess (deficiency) of revenues over expenditures	5,105	-	(139,816)	(181,427)	(316,138)
Other Financing Sources (Uses)					
Transfer in: bond proceeds	-	-	-	10,221	10,221
Transfer in: other fund	-	-	(17,000)	-	(17,000)
Total other financing sources	-	-	(17,000)	10,221	(6,779)
Net change in fund balances	5,105	-	(156,816)	(171,206)	(322,917)
Fund balance, beginning of year, as previously reported	-	25,138	348,900	-	374,038
Restatement (note 17)	-	-	-	171,206	171,206
Fund balance, beginning of year, as restated	-	25,138	348,900	171,206	545,244
Fund balance, end of year	\$ 5,105	25,138	192,084	-	222,327

See Independent Auditor's Report.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Statement of Revenues, Expenditures and Encumbrances
Multi-Year Budget and Actual – Capital Projects Fund
Cemetery Construction Fund (Fund 50280)
Year Ended June 30, 2018

	Original Budget	Final Budget	Prior Year Actual Budget Basis	Current Year Actual Budget Basis	LTD Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues						
Federal grants - operating	\$ 5,338,308	6,209,104	2,065,906	2,721,514	4,787,420	(1,421,684)
Transfer in: Severance Tax Appropriation	-	-	171,206	-	-	-
Total revenues	<u>\$ 5,338,308</u>	<u>6,209,104</u>	<u>2,237,112</u>	<u>2,721,514</u>	<u>4,787,420</u>	<u>(1,421,684)</u>
Expenditures						
Current:						
Contractual services	400,000	400,000	-	2,025,159	2,025,159	(1,625,159)
Other costs	4,938,308	5,809,104	2,237,112	904,887	3,141,999	2,667,105
Total expenditures	<u>\$ 5,338,308</u>	<u>6,209,104</u>	<u>2,237,112</u>	<u>2,930,046</u>	<u>5,167,158</u>	<u>1,041,946</u>
Fund Balance Statement of Revenues and Expenditures and changes in Fund Balance - Governmental Funds				<u>\$ (208,532)</u>		

See Independent Auditor's Report.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2018

	Veterans' Trust Fund 11240	Cemetery Fund 12300	Veterans' Home Fiduciary Fund 50490	Total Agency Funds
ASSETS				
Investment in State Treasurer General Fund Investment Pool	\$ -	11,940	-	11,940
Cash on deposit in banks	-	-	334,298	334,298
Investments and other property	1,364,354	-	-	1,364,354
Total assets	\$ 1,364,354	11,940	334,298	1,710,592
LIABILITIES				
Assets held for others	\$ 1,364,354	11,940	334,298	1,710,592
Due to governmental funds	-	-	-	-
Total liabilities	\$ 1,364,354	11,940	334,298	1,710,592

See Independent's Auditor's Report.

STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
June 30, 2018

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
<u>Veterans' Trust Fund (11240)</u>				
ASSETS				
Investments and other property	\$ 4,366,857	73,979	(3,076,482)	1,364,354
Total assets	\$ 4,366,857	73,979	(3,076,482)	1,364,354
LIABILITIES				
Assets held for others	4,366,857	73,979	(3,076,482)	1,364,354
Total liabilities	\$ 4,366,857	73,979	(3,076,482)	1,364,354
<u>Cemetery Fund (12300)</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 10,186	1,754	-	11,940
Total assets	\$ 10,186	1,754	-	11,940
LIABILITIES				
Assets held for others	\$ 10,186	1,754	-	11,940
Total liabilities	\$ 10,186	1,754	-	11,940
<u>Veterans' Home Fiduciary Fund (50490)</u>				
ASSETS				
Cash on deposit in banks	\$ -	334,298	-	334,298
Total assets	\$ -	334,298	-	334,298
LIABILITIES				
Assets held for others	\$ -	334,298	-	334,298
Total liabilities	\$ -	334,298	-	334,298
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Investment in the State Treasurer General Fund Investment Pool	\$ 10,186	1,754	-	11,940
Cash on deposit in banks	-	334,298	-	334,298
Investments and other property	4,366,857	73,979	(3,076,482)	1,364,354
Total assets	\$ 4,377,043	410,031	(3,076,482)	1,710,592
LIABILITIES				
Assets held for others	\$ 4,377,043	410,031	(3,076,482)	1,710,592
Total liabilities	\$ 4,377,043	410,031	(3,076,482)	1,710,592

See Independent Auditor's Report.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Cash and Investment Accounts
June 30, 2018**

<u>Account Name</u>	SHARE Fund No. Account Number	Balance Per Depository	Reconciling Items Outstanding Warrants	Reconciled Balance June 30, 2018
Cash:				
Investment in the State Treasurer General				
Fund Investment Pool				
General Fund	06500	\$ 287,541	-	287,541
New Mexico Veterans' Home Fund	50460	(1,440,442)	-	(1,440,442)
Total general funds		(1,152,901)	-	(1,152,901)
Special Revenue Funds				
Veterans' Approval Fund	89600	(107,628)	-	(107,628)
Armed Forces Veterans' License	78400	224,074	-	224,074
Veterans' Enterprise Fund	20490	349,399	-	349,399
Angel Fire Memorial Fund	20490	5,105	-	5,105
Total special revenue funds		470,950	-	470,950
Capital Project Funds				
Veterans' National Cemetery Fund	50240	609,384	-	609,384
Cemetery Construction Fund	50280	(1,603,319)	-	(1,603,319)
Veterans' Cemetery STB Proceeds Fund	67920	37,454	-	37,454
Total capital project funds		(956,481)	-	(956,481)
Total governmental funds		(1,638,432)	-	(1,638,432)
Agency Funds				
Cemetery Fund	12300	11,940	-	11,940
Total State Treasurer cash accounts		(1,626,492)	-	(1,626,492)
First National Bank of Santa Fe:				
Agency Funds				
Veterans' Trust Funds	N/A	1,364,354	-	1,364,354
Bank of the Southwest:				
Government Funds				
New Mexico Veterans' Home Fund	N/A	26,475	(25,937)	538
Agency Funds				
Veterans' Home Fiduciary Funds	N/A	355,483	(21,185)	334,298
Total Cash on deposit		\$ 119,820	(47,122)	72,698
			Book Carrying Value	Market Value
Investments:				
First National Bank of Santa Fe				
Agency Funds - Veterans' Trust Fund:				
Money market funds				
			\$ 1,364,354	1,364,354
Total investments			\$ 1,364,354	1,364,354

See Independent Auditor's Report.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying	Total Federal Expenditures
US Small Business Administration Veterans Outreach Program	59.044	N/A	\$ <u>296,625</u>
US Department of Veteran's Affairs Rural Veterans Coordination Pilot	64.038	N/A	231,771
Veterans Cemetery Grants Program Fund 50280 Fund 50420	64.203	N/A	2,930,046 91,721
Education Service (SAA)	64.U01	N/A	<u>46,015</u>
Total US Department of Veterans Affairs			<u>3,299,553</u>
Total Expenditures of Federal Awards			\$ <u><u>3,596,178</u></u>

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the State of New Mexico Department of Veterans' Services under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Department.

Note 2. Summary of Significant Accounting Policies

Expenditures shown in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.

Note 3. Indirect Cost Rate

The Department has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Mr. Jack R. Fox, Cabinet Secretary
Department of Veterans' Services and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the fiduciary activities, each major fund, the aggregate remaining fund information and the budgetary comparisons of the general fund and major special revenue funds of the Department of Veterans' Services (the Department) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated November 1, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-004.

Department's Response to Findings

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

Purpose of this Report

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



Albuquerque, New Mexico
November 1, 2018

**Independent Auditor's Report on Compliance for Each Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance**

Mr. Jack R. Fox, Cabinet Secretary
Department of Veterans Services and
Mr. Wayne Johnson
New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Albuquerque, New Mexico
November 1, 2018

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION I - SUMMARY OF AUDITOR' S RESULTS

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ X Yes _____ None Reported

Non-compliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es) _____ Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of Major Program

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
64.203	Veterans Cemetery Grants Program

Type of Opinion

Unmodified

Dollar threshold used to distinguish between Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 Travel & Per Diem – (Other Non-Compliance)

Condition: During our testwork, we noted that the amount on the ACH remittance for \$142.49 did not match the provided support by \$47.41.

Criteria: Per NMAC 2.42.2.9 (B)(3) Reimbursement of Actual Expenses in Lieu of Per Diem Rates – Receipts Required, an “employee must submit receipts for the actual meal and lodging expenses incurred. Under circumstances where the loss of receipts would create a hardship, an affidavit from the officer or employee attesting to the expenses may be substituted for actual receipts. The affidavit must accompany the travel voucher and include the signature of the agency head or governing board.” The Department’s travel and per diem policy required a reimbursement request and receipts for all travel.

Effect: The Department is in violation of New Mexico Statutes and their own travel and per diem policy.

Cause: Department personnel did not follow established procurement policies of the State.

Auditor’s Recommendation: We recommend that the Department establish procedures to ensure personnel are aware of the current per diem available per NMAC.

Management’s Response: The administrator for the Veterans Service Officer (VSO) who process travel is at an offsite location and as the paperwork came across on the approval page, the error was overlooked. A review of this particular sample was performed with a complete audit of the per diem and indeed the calculation was incorrect.

Current status/Plan of Action: A new process has been implemented as the administrator for the VSO’s will now be required to submit all advances to the Santa Fe location prior to the final approval in SHARE. A complete audit will be conducted by either the procurement section or finance section to ensure compliance rules and regulations are met. Any under or overpayments will be reflected at that time. Additional and regular trainings will be arranged to provide proper guidance and resources. Implementation will occur before the end of fiscal 2019.

Person Responsible: Christine Baca, CFO will be initially responsible to arrange trainings and will be the final approval in SHARE. The supervisors will be assigned the task of auditing the per diem transactions that the administrator is processing.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-002 Financial Close and Reporting – (Significant Deficiency)

Condition: During our testwork over the financial close and reporting process it was noted that the Department has not implemented an effective financial close and reporting process for the year ended June 30, 2018. We noted multiple accounts within the trial balance were not reconciled prior to the beginning of the audit, which required significant modifications by management.

- The Department had several VA home bank accounts that were not reconciled to the general ledger at year end, in the amount of \$37,180.
- During our revenue walkthroughs at the VA home that there is no review of the input of services into Point Click Care to ensure each transaction is coded correctly.
- The VA Home Administrator stated that she signs off on the bank reconciliations but does not perform any review of the actual contents of the bank reconciliation.
- The Department failed to reconcile grant revenue with expenses in the correct year which led to an adjustment of \$384,039, unrecorded accounts receivables.
- The Department of Veterans Services does not have any formal accounting policies and procedures specific to the Finance Department at the VA home.
- Fixed asset listing is being maintained, however, capital assets were noted to have inconsistent useful lives.
- Annual Inventory for the VA home was not reconciled to the general ledger by year end.

Criteria: 6-5-2C NMSA 1978 states that an entity shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect: Lack of proper financial close can lead to unreliable account balances and material misstatement to the financial statements. In addition, inadequate segregation of duties increases the risk that errors or fraud could occur and not be discovered timely.

Cause: Management has not completed a basic risk assessment to identify critical duties that should be segregated to reduce the risk of errors and fraud

Auditor's Recommendation: Management should review the current assignment of accounting functions and where feasible, duties should be segregated or mitigating controls implemented that will reduce the risk of errors or fraud. We recommend that the Department develop and implement policies and procedures to ensure that all reconciliations are completed in a timely matter of bank accounts, inventory, and federal drawdowns Other review procedures should be implemented to strengthen the Department's internal control.

Management's Response:

- 1.) During the transition between the Department of Health "DOH" and Department of Veterans' Service "DVS", we recognized many accounting processes and procedures in question. During the first 6 months of this undertaking, DVS was diligent in understanding the operations and accounting processes to then implement the proper changes. A health care facility was a new program and scope of expertise therefore we experienced a learning curve. DVS was aware of the discrepancy between the general ledger and the bank accounts, prior to posting adjusting entries in the general ledger a consultant was contracted with health care expertise to assist with the corrective actions which is currently being implemented and corrected.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-002 Financial Close and Reporting – (Significant Deficiency) (continued)

- 2.) Management was not aware of this lack of control and the management team will respond accordingly to correct this issue.
- 3.) DVS has initiated training and education to our Hospital Administrator and will offer continuous training for her and her staff.
- 4.) The correct process for the federal grant reconciliations were not initially implemented properly therefore, a complete audit for every federal grant was performed in FY18 which identified the expenditures from prior years that had not been drawn against the federal grants. With the agreeance of the Federal Government, we received all revenue owed from the federal grant for work completed, it was necessary to include in the FY 18 drawdown; this action caused the adjusting entry.
- 5.) Accounting policies are in the process of being revised to follow DVS main office in lieu of the DOH policies. Due to the transition timeline and lack of having knowledge and understanding of processes at the facility, DVS functioned under DOH's policies and procedures to allow for proper evaluation and to align the facilities policies with existing DVS management goals and objectives. Legal counsel was involved to ensure all changes and/or deletions followed the proper legal authority. Again, this is a work in progress as NMVH has a multitude of unique situations that must be properly addressed.
- 6.) Fixed assets were noted by DVS in the initial transition between DVS and DOH however during the stage in which this was identified, DVS was understaffed and unable to obtain complete inventory records to complete the fixed asset reconciliation to completion. DVS has deployed an asset management software system that will ensure the uniformity of depreciation across all DVS assets enabling real-time factual inventory values.
- 7.) Management is working with a consultant on monthly approached to correct this action. The reconciliation was conducted in September and was not recorded timely. Again, this was a new function and the financial staff was not diligent in the reconciliation and recording in SHARE. Another new function that DVS central was not accustom to performing. An annual inventory was done in September with the assistance of our consultant. DVS has currently implemented a WASP system which will enhance the tracking of our fixed assets.

Current status/Plan of Action:

- 1.) DVS-NM Veterans' Home financial staff will be scheduled for trainings to understanding the proper processes and procedures to post revenue to the general ledger and to reconcile to the bank statements from both Bank of the Southwest and Wells Fargo. Currently, DVS main office will be reviewing and posting into the general ledger until proper training is completed and the process is drafted. The future plan will be to hire two FTE's in Santa Fe office to assist NMVH with the accounts receivables, general ledger and collections.
- 2.) This process will be turned over to our Quality Assurance Process Improvement (QAPI) to identify a procedure where scheduled audits can be made to ensure that the care rendered by the in-house providers are what is billed to ensure the facility recoups all available reimbursements for care rendered under an MCO or other insurance plan. This will be an ongoing process tracked by Veterans Home Management team and will be reported up to the Governing Board. A process will then be drafted to be available to the staff for implementation and training will be performed as well.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-002 Financial Close and Reporting – (Significant Deficiency) (continued)

- 3.) The ASD section at DVS central have already implemented training for the Hospital Administrator and staff to ensure the proper controls are in place. DVS central will continue to educate the importance of this review prior to approving any transaction. To ensure proper controls are in place, the CFO will require any transactions be communicated to the ASD office and the proper approach will then take place.
- 4.) Proper trainings has been implemented and the reconciliation process has been initiated to ensure expenditures and revenues are reconciled quarterly. The cash deposits are also reconciled against the initial federal draw and posted into the general ledger. For FY19 the new process was follow and is currently reconciled to the penny.
- 5.) A management team will meet to decipher and prioritize the list of policies and procedures in which need to be reviewed and completed. Prior meetings have been conducted and policies have been delegated to the proper individuals.
- 6.) Reevaluation of the life of an asset will be tracked by the asset management software that has been implemented throughout DVS which will continue to monitor the values of all assets in the agency.
- 7.) Reevaluation of the life of an asset will be tracked by the asset management software that has been implemented throughout DVS which will continue to monitor the values of all assets in the agency.

Implementation with occur before the end of Fiscal year 2019

Person Responsible:

- 1.) The CFO/NMVH Budget Director will be working with DFA staff, other health care facility organizations and possibly a training consultant to enhance the education and expertise in this area.
- 2.) The person to organize this action will be the Director of Health Care Division along with the Hospital Administrator.
- 3.) Hospital Administrator/Finance Director will be held accountable for the reconciliation process at the home and DVS central ASD staff will ensure training, resources and education are readily available.
- 4.) Program Section will be responsible for the accountability and reconciliation of this program and the CFO will oversee.
- 5.) CFO in conjunction with the Hospital Administrator and Finance Director will be the organizing staff to draft and implement.
- 6.) This responsibility will be placed with the Fixed Assets Manager along with the NMVH warehouse staff.
- 7.) Hospital Administrator/Healthcare Director and the Finance Director will ensure the implementation of the monthly inventory count. CFO will ensure the inventory is recorded to the general ledger by year-end.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-003 Restatement (Significant Deficiency)

Condition: During our review of the financial statements and SHARE trial balance, we noted the following: accounts receivable balance was overstated in the prior year due to the federal receivable being recorded in the wrong fund of \$171,206; a due from other state agencies that was recorded in cemetery fund but should have been in recorded in Veterans' Cemetery STB proceeds fund. This led to a net restatement of \$171,206, of beginning fund balance in Veterans' Cemetery STB proceeds fund. In addition we noted the prior year General Fund due from other state agencies balance of \$15,000 was received in fiscal year 2017. However the amount was incorrectly credited to an expenditure account. This result was an overstatement of fund balance and an understatement of expenditures.

Criteria: In accordance with generally accepted accounting principles, all transactions including liabilities should be recorded in the financial statements.

Effect: The Department reported an understatement of liabilities, expenditures and an overstatement of assets which resulted in an overstatement of fund balance in fiscal year 2017 financial statements.

Cause: The fiscal year 2017 individual funds were not reconciled at year to reflect current year activity.

Auditor's Recommendation: We recommend that the Department perform a thorough review of the financial statements and audit adjustments, to ensure that all adjustments are reflected in the SHARE trial balance and the audited financial statements.

Management's Response: The Cemetery Program was a new capital project implemented in 2016 with a Severance Tax Bond to initially assist in the pre-construction of the first cemetery capital project in Ft. Stanton. This process was initially created in error by BOF and requested that DVS transfer back the funds and then would reinstate the STB. Unfortunately, during the transition of funds back and forth the expenditures that were already processed were not properly reimbursed. DVS recognized the error and conducted a complete audit which included all STB expenditures and draws, reimbursements to GSD as operating transfers, Federal expenditures and draw and reconciled them to the general ledger. This process was performed for both Ft. Stanton and Gallup cemeteries as they were both under construction simultaneously. All the clean-up was performed in FY18 which is why we had this \$171,206 error. Again, this was a new undertaking for DVS and we had another learning curve with this initial process. The additional overstatement of \$15,000 in fund balance was posted in error but was recognized during a monthly reconciliation in FY18. This was an unfortunate instance where the transfer was overlooked in a prior year.

Current status/Plan of Action: The CFO and cemetery section now have a process in place to reconcile quarterly. Every expenditure, operating transfer, draw down and deposit has to be reconciled to the penny. Any errors identified will be rectified immediately, noted and filed in our documentation. The CFO will reconcile all cash received in Wells Fargo and will add that documentation to the paperwork back-up. Direct communication with GSD will also be imperative in the completion and reconciliation for the cemetery program. The cemeteries are currently reconciled for FY19. The CFO and finance team know has a process in place to reconcile any transfers from other agencies timely and posted according to the appropriate account codes.

Person Responsible: The Cemetery Program Director along with the CFO/finance program section will be responsible in the communication and reconciliation and posting to the general ledger for the cemetery capital projects.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-004 Improve IT General Controls (Findings that do not rise to the level of a Significant Deficiency)

Condition: During our review of IT general controls, we noted the following:

- Lack of Disaster Recovery Plan and Incident Response Plan. The assumption of the Veterans Home during the fiscal year makes it more necessary to develop a Plan
- Lack of Information Security Plan. The Veterans Home has a responsibility under the Health Insurance Portability and Accountability Act (HIPAA) to protect and secure protected and confidential information.
- One of the Department's applications is hosted by third party vendor (cloud-based). However, no review is completed for the Service Organization Control (SOC) report to ensure that it has the necessary controls.
- Lack of review of users access listings for network and applications

Criteria: Per State of NM Statewide Guideline "Enterprise IT Security Policy", S-GUIDE00.003, "the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality, privacy, accessibility, availability, and integrity.

Effect: The deficiencies identified decrease the overall network security and are considered area that can be exploited by a potential hacker. Lack of redundant servers and the issue on back up tapes could potentially expose the Department to loss data.

Cause: The Department is aware of the issues and still in the process of addressing them. It just assumed the operations of the Veterans Home and still working on its IT policies and procedures.

Auditor's Recommendation: We recommend the following:

- Develop Disaster Recovery (DR) Plan and Incident Response Plan. The DR plan needs to be tested and results of testing need to be documented.
- Develop IT Security Plan to protect its network and applications as well as security protocols in place for its protected and confidential information in accordance with HIPAA. It is also recommended to ensure that protected information is encrypted
- SOC reports for hosted applications need to be reviewed on annual basis. In addition, the Department needs to document responses to users complimentary controls as identified in the SOC report.
- Implement a formal process to review users' access listing for the network and critical applications, restricting access on a need to know basis, consistent with users' roles and responsibilities. This will ensure that the Department is not providing too much access privilege to any user that might be used either too intentionally or unintentionally modify data within the system.

Management's Response:

- 1) DVS now has a Disaster recovery plan in place with 100% failover of all critical data from the New Mexico State Veterans Home to Servers in Santa Fe Located at the Lew Wallace Building.
 - a. Going forward the DR plan can be improved by, reevaluating locations, monitoring internet stability as well as their infrastructure. Maintain minimal risks, create and assess the business continuity plan. Create and review the DR site checklist, update the plan, and also test it. As future sites come online, they will be provisioned as DR sites.

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2018-004 Improve IT General Controls (Findings that do not rise to the level of a Significant Deficiency)
(continued)**

- 2) All the servers housing critical data have been equipped with "At Rest encryption" "Data at rest encryption means protecting data that's not moving through networks outside of the New Mexico Department of Information Technology's network. The protection, in this case, is offered via encryption.
 - a. We need to implement something that shows the normal procedures for all security-related concerns. This would be to define the roles and responsibilities of the IT staff, to define policies that govern the network security, identify the types of data that are used on the network and their security concerns, auditing and monitoring of systems and policies, conduct agency-wide training for the human firewall.
- 3) The data is replicated using PeerSync software implementing bit level and block level replication from New Mexico State Veterans Home in Truth or Consequences, to Servers in Santa Fe Located at the Lew Wallace Building.
- 4) We have implemented a 100 % failover dataset within the New Mexico State Veterans Home from one set of servers to another with an active/passive data set wherein all critical data is automatically replicated from a server in the new annex building to a server located in the Carrie Tingley building's IT office. This server acts as a passive data server for the New Mexico State Veterans Home that is onsite rather than in Santa Fe.
 - a. The review of the systems will be something we can do when we get better monitoring in place. We can do an audit of installed applications with SCCM. The SCCM will help us with doing role-based user administration. There application data access review within the WatchGuard firewall.

Management's Response:

NMDVS has the following HIPAA compliant standards in place.

Security Implementation for NMDVS Workstations and Desktops

- CD-ROM Autorun feature disabled on all workstations
- Password caching disabled on all workstations
- Chat clients (Internet Messenger, etc.) are not allowed at departmental workstations
- ActiveX, JavaScript, and Java disabled in web browsers and email programs for all workstations except for the program PCC which is required for use
- The windows seven internal firewall has been activated on Windows 7 and ten machines
- Remote desktop and remote assistance been turned off on all machines
- Web servers are set to only accept traffic on port 80 and port 443
- The web server is set to reject attempts to administer it remotely
- Sample files, scripts, help and development files been removed from the web server
- File sharing is not permitted on any workstation in the department
- All workstations are required to implement a password-protected screensaver with a 30-minute max time

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2018-004 Improve IT General Controls (Findings that do not rise to the level of a Significant Deficiency)
(continued)**

- Bit Locker is enabled on every WS.
- Group Policy prevents unauthorized access to Application, Files, and Folders not specific to users and groups.
- Users were instructed on how to lock workstations when they step away "Stand up Lock up Policy."
- NMDVS has implemented EFAX solution to provide secure fax capabilities from user's desktops rather than standalone fax machines for HIPAA compliance.

Security Implementation for NMDVS Servers

- Remote desktop via Cisco Anyware connect or TeamViewer by authorized admin users
- Servers required to implement a password-protected screensaver with a 5-minute max time
- Group policy for user shares in place
- No administrative shares implemented
- Server administrator accounts disabled
- System Center Manager is enabled, and security audits are automatic.
- The server is hardened according to industry best practices.

Management's Response:

Finding - DVS uses PCC which is a cloud-based system. However, no review is done for the Service Organization Control Report for the service provider to ensure it has the necessary controls in place (confidentiality, availability, security, etc.)

Aside from providing a secure portal to PCC and maintaining one login to one user environment, DVS does not bare the responsibility of the (confidentiality, availability, security, etc.) PCC bares this burden

The PCC contract reads as follows:

PointClickCare's Protection of Customer's Resident Record Data. PointClickCare will: (i) maintain appropriate administrative, physical, and technical safeguards for the protection of the security, confidentiality and integrity of the electronic health records of Customer's residents and other information which would be considered "Protected Health Information," "Personal Health Information," or any similar descriptor ("Resident Record Data") pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA" and any amendments or implementing regulations), any more restrictive state law or any similar provincial law (e.g., Ontario's Personal Health Information Protection Act, 2004); (ii) obtain third-party security audits which indicate whether the protection and security of Customer's Resident Record Data meet established industry standards for the provision of services comparable to the Services; and (iii) unless otherwise specified, host Customer's production database containing Resident Record Data in Customer's country of residence provided that: (a) PointClickCare may from time to time access US Customers' Resident Record Data from Canada, and Canadian Customers'

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**2018-004 Improve IT General Controls (Findings that do not rise to the level of a Significant Deficiency)
(continued)**

Resident Record Data from the United States, for various purposes including disaster recovery, troubleshooting software and technical issues, and responding to specific Customer requests for data access; and (b) host Canadian Customer's backup Resident Record Data (in double-encrypted form) in the United States. Details of PointClickCare's data access rights and obligations are set out in the Business Associate Agreement ("BAA") with US Customers, the Information Manager Agreement ("/MA") with Alberta Customers, and similar agreements with other Canadian Customers and PointClickCare's Privacy Policy available at <https://pointclickcare.com/website-privacy-policy>.

DVS Responsibility per the PCC contract:

Customer's Responsibilities. Customer is solely responsible for: (i) Customer's and Users' compliance with this MSA and all applicable schedules and addenda; (ii) maintaining appropriate administrative, physical and technical safeguards for protecting the security, confidentiality, and integrity of all electronic data or information ("Data") created or received by, Customer, including Resident Record Data, text messages or other materials uploaded, posted, or stored through Customer's and Users' use of the Services which Customer or Users may access, use or disclose ("Customer's Data"); (iii) the accuracy, quality, and legality of Customer's Data and the means by which Customer and Users acquire Customer's Data; (iv) managing Users' identity and password combinations for use of, and access to, the Services; (v) using commercially reasonable efforts to prevent password theft or loss, or unauthorized access to or use of the Services; (vi) notifying PointClickCare promptly of any password theft, security breach or other unauthorized access to, or use of, the Services; (vii) using the Services only in accordance with any documentation provided by PointClickCare and all applicable local, state or provincial, federal, and/or international laws, rules and government regulations relating to Customer's and Users' use of the Services and Customer's and Users' provision of health care and medical services to Customer's residents; (viii) procuring and maintaining the network connections which allow Users to access and use the Services, including Secure Socket Layer protocol or other protocols accepted by PointClickCare; (ix) ensuring Users follow login procedures which support such protocols; and (x) taking any other actions that a health care provider should, in the normal course of dealing with Resident Record Data, take to protect the confidentiality of such data.

Management's Response:

Finding- Lack of user access review for applications. We recommend an annual review to determine the appropriateness of access based on users roles and responsibilities.

NMDVS does not allow any installation of third-party software without a written request and justification from a supervisor or manager through the IT department.

The security measure is built into each computer image to restrict and unauthorized installation of software without an administrative password and login.

Person Responsible: Chief Information Officer

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Status of Prior Years Findings
Year Ended June 30, 2018**

2017-001	Lack of supporting documentation for payments	Resolved
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**STATE OF NEW MEXICO
DEPARTMENT OF VETERANS' SERVICES
Exit Conference
Year Ended June 30, 2018**

EXIT CONFERENCE

An exit conference was held on October 30, 2018 to discuss the annual financial report. Attending were the following:

Representing the Department of Veterans' Services:

Jack R. Fox, Cabinet Secretary
Sal Soto, Director
Mitchel Lawrence – Director, Health Care Coordination
Alan Martinez – Deputy Secretary
Christina Baca, Chief Financial Officer

Representing the Independent Auditor Axiom CPAs:

Jenni Littlefield-McGaughey, Supervisor