



State of New Mexico

New Mexico Corrections Department



Financial Statements and Schedules

With

Independent Auditors' Report

For the Fiscal Year Ended June 30, 2013

**Prepared by the New Mexico Corrections Department
Financial Management Bureau**

**ANNUAL FINANCIAL REPORT
OF THE NEW MEXICO CORRECTIONS DEPARTMENT
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

TABLE OF CONTENTS

INTRODUCTORY SECTION	Page
Official Roster	iii
Organizational Chart	iv
List of Abbreviations	v
FINANCIAL SECTION	
Independent Auditors' Report	vi
A. MANAGEMENT'S DISCUSSION AND ANALYSIS (required supplementary information)	1
B. BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Community Corrections Special Revenue Fund	18
Proprietary Fund Financial Statements	
Statement of Net Position – Proprietary Fund	19
Statement of Revenues, Expenses, and Change in Fund Net Position – Proprietary Fund	20
Statement of Cash Flows – Proprietary Fund	21
Agency Fund Financial Statement	
Statement of Fiduciary Assets and Liabilities - Agency Fund	22
Notes to the Financial Statements	23

C. OTHER SUPPLEMENTAL INFORMATION

General Fund

Schedule of Revenues & Expenditures – Budget and Actual, By Fund

General Operating Fund, SHARE System Fund 90700 60

Probation and Parole General Operating Fund, SHARE System Fund 91500 61

Combining Balance Sheet General Fund Types 62

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund Types 63**

Schedule of Revenues & Expenditures – Budget and Actual, By Program

Program Support 64

Inmate Management and Control 65

Community Offender Management 66

Community Corrections – Vendor Operated 67

Enterprise Fund

Schedule of Revenues and Expenses, By Enterprise 68-69

Schedule of Revenues and Expenses, Cleaning Products, by Facility 70

Schedule of Revenues and Expenses, Textiles, by Facility 71

**Schedule of Revenues & Expenses – Budget and Actual
(GAAP Budgetary Basis) Corrections Industries Division 72**

Agency Fund

Schedule of Changes in Assets and Liabilities 73

D. SINGLE AUDIT SECTION

Schedule of Expenditures of Federal Awards 74

**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 75**

**Independent Auditor's Report on Compliance for each Major Program and on Internal
Control over Compliance Required by OMB Circular A-133 77**

Summary Schedule of Prior Audit Findings 79

Schedule of Findings and Questioned Costs 80

Exit Conference 98

**NEW MEXICO CORRECTIONS DEPARTMENT
OFFICIAL ROSTER
JUNE 30, 2013**

Administrative Officials

Gregg Marcantel
Aurora B. Sánchez
Joe W. Booker, Jr.
JoAnn R. Duran
Jerry Roark
David Bourger
James Brewster
Tim Oakeley
Jose Cordova
Mark Myers

Secretary of Corrections
Deputy Secretary of Administration
Deputy Secretary of Operations
Director of Administrative Services
Director of Adult Prisons Division
Director of Corrections Industries Division
General Counsel
Director of Information Technology Division
Director of Probation and Parole Division
Director Training Academy Division

Corrections Industries Commission

George Marquez
John I. Serrano
Harold Foreman
Nick H. Brown
Jay Armijo
Christine Van Norman

Chair
Member
Member
Member
Member
Member

NEW MEXICO CORRECTIONS DEPARTMENT
List of Abbreviations
JUNE 30, 2013

APD	- Adult Prisons Division
ASD	- Administrative Services Division
CC	- Community Corrections / Vendor Run [Program]
CID	- Corrections Industries Division [Program]
COM	- Community Offender Management [Program]
CNMCF	- Central New Mexico Correctional Facility
CTA	- Corrections Training Academy
DFA	- Department of Finance and Administration
EDB	- Education Bureau
GSD	- General Services Department
HSB	- Health Services Bureau
IMAC	- Inmate Management and Control [Program]
ISP	- Probation and Parole Intensive Supervision [Program]
ITD	- Information Technology Division
NMCD	- New Mexico Corrections Department
PNM	- Penitentiary of New Mexico
PPD	- Probation and Parole Division
PS	- Program Support [Program]
RCC	- Roswell Correctional Center
SCC	- Springer Correctional Center
SHARE	- Statewide Human Resources, Accounting, and Management Reporting System
SNMCF	- Southern New Mexico Correctional Facility
WNMCF	- Western New Mexico Correctional Facility



FINANCIAL SECTION



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Mr. Gregg Marcantel, Secretary, Corrections Department
New Mexico Corrections Department

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, each of the individual SHARE funds, the fiduciary funds and the budgetary comparison for the enterprise fund of the Department as of June 30, 2013, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 2, the financial statements of the Department are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2013, and the respective changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The Schedule of Expenditures of federal awards and additional schedules listed as "other supplemental information" 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 the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of federal awards and additional schedules listed as

“other supplemental information” 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 January 30, 2014 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.

Office of the State Auditor

Office of the State Auditor
Santa Fe, New Mexico
January 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The New Mexico Corrections Department's (Department's) Management Discussion and Analysis (MD&A) is designed to (a) focus the reader on the Department's significant financial issues, (b) provide an overview of the Department's financial activities, (c) identify changes in the Department's financial position, including its ability to address challenges in future years, (d) identify any material deviations from the approved budget, and (e) identify issues or concerns with its funds for the current year.

HIGHLIGHTS AND ACCOMPLISHMENTS

Financial Highlights. The Department's net position increased \$4,472,031 from FY12: governmental net position \$3,992,297 and business-type net position \$479,734

The Corrections Industries Division is classified as a business-type activity. For fiscal year (FY) 2013, the Corrections Industries Division had an increase in net position of \$479,734. Operating revenue increased by \$1,314,149 and operating expenses also increased by \$ 944,905 over the prior period.

Total costs for all Department Programs were \$279,971,972.

Accomplishments.

The Department's is continued to re-organize and restructure itself to better align services and functions to provide greater oversight of daily operations and realize efficiencies. Within the Administrative Services Division (ASD), the General Services Bureau was created by merging fiscal staff from all the other divisions. The full reorganization is scheduled to be complete in FY14. The ASD also instituted a program for accounting, finance, budget and purchasing staff to provide standardized training to reduce errors and increase efficiency.

In FY13, Department's added a private prison to have more focused programs for sex offenders thus increasing the care and support line item. The Department's proactive response to training public and private prison staff on the federal Prison Rape Elimination Act will reduce potential liability related to allegations or findings of prison rape.

Infrastructure emergencies due to deferred maintenance at state-owned facilities continues to be a major problem that the Department is addressing by increasing its maintenance and repairs line item along with enhancing oversight of routine maintenance. The Department's anticipates having a maintenance and repair policy and procedures based on the General Service Department best practice requirements in FY14.

USING THIS ANNUAL REPORT

This annual report is presented under the Governmental Accounting Standards Board (GASB) pronouncement #34. The primary focus in State government is on both the Department (government-wide) and the major individual funds and the financial statements that comprise them. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison and enhance accountability. Although the Department is one of several agencies within the State of New Mexico Government, the Primary Government focus in this financial report is the Department and not the State of New Mexico as a whole.

The components of presentation include Management's Discussion and Analysis (MD&A), Government-wide financial statements and fund financial statements, and Required Supplementary Information (RSI). These items along with their subcomponents are addressed in the following sections contained within this report.

Management's Discussion and Analysis

The purpose of the MD&A is to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. It provides an analysis of the government's overall financial position and results of operations to assist users in assessing whether the financial position has improved as a result of the year's activities. Additionally, it addresses analyses of significant changes that have occurred in funds and significant budget variances.

Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns that add to a total for the Primary Government and consist of a statement of net position and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Both statements distinguish between the governmental and business-type activities of the primary government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

The government-wide financial statements of the Department are divided into two categories:

- **Governmental Activities** – Most of the Department's basic services are included in the governmental activities. State appropriations and federal grants finance most of these activities. The funds included in Governmental Activities for the Department are the General Operating Fund (including Probation and Parole activities and the Building Fund), the Community Corrections Special Revenue Fund, and ARRA Fund.
- **Business-type Activities** – The Department's Corrections Industries Division charges customers a fee for goods and services. These activities are accounted for as a business-type activity.

Fund Financial Statements

Fund financial statements consist of a series of statements that focus on information about the major governmental and enterprise funds. Fund financial statements also report information about a government's fiduciary funds. Governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (enterprise funds) and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Emphasis on fund financial statements is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. Due to the limited fund structure of the Department, all funds have been classified as Major Funds.

The Department has three types of funds:

- Governmental funds – Most of the Department's services are included in governmental funds which focus on (a) how cash and other financial assets, that can be readily converted to cash, flow in and out and (b) the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view that help the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the Department's programs. Since this information does not include the additional long-term focus of the government-wide statements, reconciliation between the government-wide statements and the fund financial statements is provided for governmental-type activities.
- Proprietary funds – Goods and Services for which the Department's Corrections Industries Division charges customers a fee are reported as proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term information.
- Fiduciary funds – Fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support Department programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. The fiduciary funds are not included with the governmental-type funds since these funds are not available to support the Department's programs. The Department's fiduciary fund is the Inmate Trust Account.

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide additional information that is essential to a user's understanding of the basic financial statements. The notes to the financial statements can be found starting on page 24.

Infrastructure Assets

GASB #34 requires that infrastructure assets (roads, bridges, traffic signals, etc.) be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of asset management designed to maintain the service delivery potential. The Department does not own a material interest in any infrastructure assets and therefore is not required to report on this portion of GASB #34.

Budgetary Comparisons

GASB #34 requires budgetary comparison statements for the general fund and for each major special revenue fund that has a legally adopted annual budget to be presented as Required Supplementary Information (RSI). The budgetary comparison statements present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis.

These are also required by the Office of the State Auditor under 2.2.2 NMAC, the Statements of Revenues and Expenditures – Budget and Actual are also presented. This information is provided at the approved budget level to demonstrate compliance with legal requirements.

Corrections Industries Division is required by NMSA 1978 §33-8-6, section O, item #1, to present a detailed financial statement for each enterprise in each facility. This information has been included as a fund financial statement.

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE

Table A-1

The Department's Net Position

	Governmental Activities		Business-Type Activities		Total *		Total Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Current and Other Assets	\$ 45,098,178	\$ 51,156,038	\$ 4,381,849	\$ 5,099,000	\$ 49,480,027	\$ 56,255,038	13.69%
Capital and Non-Current Assets	29,094,149	28,812,570	205,759	221,136	29,299,908	29,033,706	-0.91%
Total Assets	74,192,327	79,968,608	4,587,608	5,320,136	78,779,935	85,288,744	8.26%
Current Liabilities	32,669,175	33,930,648	214,764	453,203	32,883,939	34,383,851	4.56%
Long-Term Liabilities	-	-	-	-	-	-	0.00%
Total Liabilities	32,669,175	33,930,648	214,764	453,203	32,883,939	34,383,851	4.56%
Net Position							
Investment in Capital Assets	29,094,149	28,812,570	205,759	221,136	29,299,908	29,033,706	-0.91%
Restricted	9,651,989	14,725,624	4,167,085	4,645,797	13,819,074	19,371,421	40.18%
Unrestricted	2,777,014	2,499,766	-	-	2,777,014	2,499,766	-9.98%
Total Net Position	\$ 41,523,152	\$ 46,037,960	\$ 4,372,844	\$ 4,866,933	\$ 45,895,996	\$ 50,904,893	10.91%

* Inter-fund balances have been eliminated in the total column

Net Assets: Table A-1 summarizes the Department's net position for the fiscal year ending June 30, 2013. Net position for Governmental Activities and Business-type Activities were \$46,037,960 and \$4,866,933, respectively. Total Department net position for fiscal year 2013 is \$50,904,893. However, most of those assets are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, equipment, etc.) The unrestricted net position in Governmental Activities is \$2,499,766 at the end of the fiscal year.

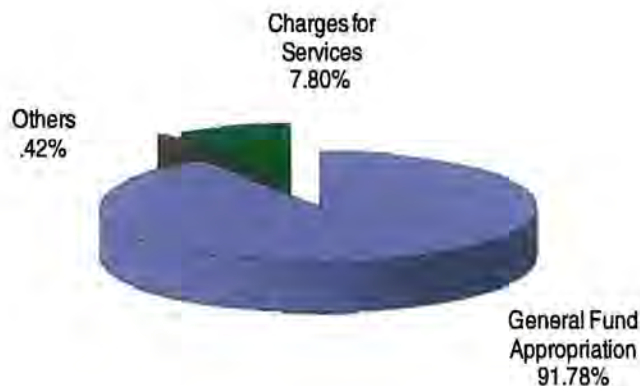
In the Business-type activities, the restricted amount of \$4,645,797 cannot be used in governmental activities. The Department generally can only use these net positions to finance the continuing operations of its business activities, such as working capital requirements.

**Table A-2
Changes in the Department's Net Position**

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012-2013
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Revenues							
Program Revenues							
Charges for Services	\$ 18,644,232	\$ 19,843,707	\$ 2,665,145	\$ 3,979,294	\$ 21,309,377	\$ 23,823,001	11.80%
Operating Grants & Contributions	816,051	979,812	-	-	816,051	979,812	20.07%
General Revenues							
State General Fund Appropriations, net of reversions	250,645,184	258,989,209	-	-	250,645,184	258,989,209	3.33%
Others	256,063	643,000	63,469	8,982	319,532	651,982	
Transfers - Internal Activities	-	(2,847)	-	2,847	-	-	0.00%
Total Revenues	270,361,530	280,452,881	2,728,614	3,991,123	273,090,144	284,444,004	4.16%
Expenses							
Public Safety - Corrections	269,680,610	276,460,583	2,566,484	3,511,389	272,247,094	279,971,972	2.84%
Increase (Decrease) in Net Position	680,920	3,992,298	162,130	479,734	843,050	4,472,032	430.46%
Beginning Net Position	40,842,232	41,523,152	4,210,714	4,372,844	45,052,946	45,895,996	1.87%
Prior Period Adjustment	-	522,511	-	14,355	-	536,866	
Net Position Restatement	-	41,523,152	-	4,387,199	-	45,910,351	
Ending Net Position	\$ 41,523,152	\$ 46,037,961	\$ 4,372,844	\$ 4,866,933	\$ 45,895,996	\$ 50,904,894	10.91%

Changes in Net Position: The Department's change in net position for fiscal year 2013 increased by \$4,472,031. (See Table A-2). A significant portion, 91.78%, of the Department's revenue comes from State General Fund Appropriations, 7.80% comes from charges for services, and less than 1% from other revenue sources. (See figure A-1).

**Figure A-1
Sources of Revenues for Fiscal Year 2013**



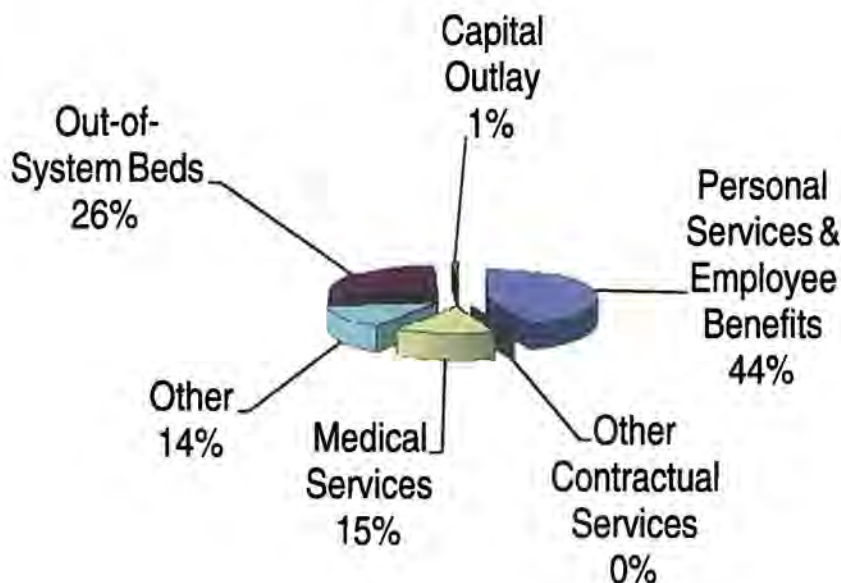
Functional Expenses for Fiscal Year 2013

Business-Type Activities

Program revenues of the Department's business-type activity (Corrections Industries) increased from \$2.7 million to \$4.0 million and expenses increased by approximately 15% percent from \$2.6 million to \$3.2 million.

Governmental Funds

Figure A-2



The Department's total expenditures for government-type activities during the fiscal year were \$276.0 million. Approximately half (44%) of the expenditures of the Department are in the area of personal services and employee benefits. Approximately 54% of the total budgeted positions are for Correctional Officers. The Department continues to be aggressive in recruiting correctional officers to fill vacant posts, in order to reduce overtime.

The second largest area of expenditure within the Department is in the category of "Other" costs (40%), which incorporates travel, maintenance, food, supplies, operating costs, and capital outlay. Of the total amount expended in this functional area during fiscal year 2013 approximately 26% was for the housing male and female inmates in contract prisons, and the remaining 14% was for the other operating costs.

Expenditures in the contractual services category accounted for 15% of the Department's expenditures, with approximately 15% of these expenditures directly related to medical services for inmates and less than 1% are related to other contractual services. Less than one percent of the total expenditures were for capital outlay with the majority of those costs being for machinery and equipment. The governmental activities increase in Public Safety – Corrections expense of \$6,779,973 was due to an increase in inmate costs, population and facility maintenance.

Fund Balance

The Department, in its governmental funds, reported a combined fund balance of approximately \$21.4 million, approximately \$4.6 million higher than last year. The primary reason for the increase relates to the Department had more restricted fund balance that was not used and committed fund balance for re-budgeting purposes.

General Fund Budgetary Highlights

The New Mexico State Legislature makes annual appropriations to the Department. Adjustments to the appropriated budget require approval by the Budget Division of the Department of Finance and Administration with review by the Legislative Finance Committee.

Over the course of the year, the Department adjusts its budget as authorized in the Appropriation Act. These budget adjustments fall into three categories:

- Supplemental and special appropriations that are reflected in the actual beginning account balances (correcting the estimated amounts in the budget adopted for the fiscal year).
- Budget adjustment requests made during the fiscal year to allow the Department to utilize funds where needed.
- Budget adjustment requests that increase or decrease other state funds based on actual revenues.
- Budget adjustment requests that adhere to required operating budget cuts in compliance with Legislative actions.

There were no changes between the original and final operating budget that were deemed to be significant.

Capital Assets and Debt Administration

At the end of fiscal year 2013, the Department invested a total of \$28.9 million in governmental-type activities and \$.2 million in business-type activities for a total amount of \$29.1 million in a variety of capital assets. This amount represents an overall net increase (including additions and deletions) of \$.1 million (0%) over the last fiscal year. Accumulated depreciation also increased by \$2.8 million (8%) over the prior period.

Table A-3
Department's Capital Assets
Dollars in Millions

	Governmental Activities		Business-type Activities		Total		Total % Change 2012 - 2013
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	
Buildings and Improvements	32.2	32.8	0.6	1.0	32.8	33.8	3%
Improvements other than Buildings	3.3	3.6	-	-	3.3	3.6	9%
Machinery and Equipment	22.9	24.2	2.1	2.1	25.0	26.3	5%
Automotive	2.6	2.7	0.6	0.6	3.2	3.3	3%
Depreciation	(32.0)	(34.4)	(3.1)	(3.5)	(35.1)	(37.9)	8%
	<u>29.0</u>	<u>28.9</u>	<u>0.2</u>	<u>0.2</u>	<u>29.2</u>	<u>29.1</u>	0%

Additional detailed information about the Department's capital assets is presented in Note 4 to the financial statements.

GASB Statement #34 requires the recording and depreciation of infrastructure assets such as roads, bridges, traffic signals, etc. The Department does not own any infrastructure assets.

Short-Term Debt

The Department did not have any long-term debt other than compensated absences associated fiscal year 2013. More detailed information regarding the Department's long-term debt is presented in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The New Mexico Corrections Department's (Department's) FY13 operating budget was increased by 2.7 percent or \$7.7 million to \$288.0 million, from the FY12 appropriated budget. The increase was to support Department's inmate population growth and deferred building maintenance. Department's is struggling to fill vacant correctional and probation and parole officer positions and other administrative positions. As a result Department's reverted \$6.7 million in FY13 primarily in employee services and benefits.

In fiscal year 2013, the probation and parole offender population decreased by approximately 6.8 percent. Per the New Mexico Sentencing Commission Department's population in FY13 was at 6,849 or 0.7 percent increase in population from FY12. The department experienced a decline in inmate population in fiscal years 2007 and 2008 after a high of 6,830 in fiscal year 2006, however the population growth did return in fiscal year 2012. The New Mexico Sentencing Commission estimates New Mexico's total inmate population will increase in FY14 and is projected to grow at an average rate of 1.3 percent per year from fiscal year 2012 to 2021. With the current rate of growth, the estimates show that New Mexico will have an offender population of 7,581 by the end of fiscal year 2021.

The Corrections Industries Program (CI) had a 46 percent increase in revenues from FY12 to FY13. With the cutback in state government spending CI was able to increase their sales by being innovative. CI is looking at developing other types of enterprise programs as a means of growing their programs and revenues in the future.

For fiscal year 2013, the department had a general fund-base increase of \$7.9 million that covered inmate population growth, reduced high-vacancy rates from the previous fiscal year, covered inflation increases for contractors, and paid for building maintenance and utility expenses. Department's general fund budget was increased by an additional \$8.7 million from the FY12 general fund operating budget. With this increased budget Department's continued to maintain strict budget measures and flat contracts (no inflation increases) and in some cases reduced contracts to ensure the budget was balanced.

Department's requested a total budget of \$293.3 million from all funding sources for fiscal year 2014, which is a 1.9 percent increase from FY13 operating budget. The general fund request was \$271.2 million. The request included an increase of \$2.3 million for inmate growth. Department's received an operating budget of \$270.6 million which included only \$800.0 thousand for inmate growth. Department's did not receive sufficient funding to support inmate growth in FY14. Again Department's will continue to maintain strict budget measures and flat contracts (no inflation increases) and in some cases reduce contracts to ensure the budget will be balanced.

The Department is a beneficiary of the State Permanent Land Fund, and realized an increase in the distribution income in FY13. - The level of distributions from this source is anticipated to continue through the current fiscal year. Allocations from State Land Income to which the Department is a beneficiary, increased significantly in fiscal year 2013 and is expected to maintain or increase in future periods.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

New Mexico Corrections Department
Administrative Services Division
Attn: JoAnn Duran, CFO, Division Director
4337 NM 14
Post Office Box 27116
Santa Fe, New Mexico 87502-0116

NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total *
ASSETS			
Investments	\$ 45,720,767	\$ 2,740,345	\$ 48,461,112
Petty Cash	2,075	2,250	4,325
Receivables, net of allowance for doubtful accounts	46,697	42,948	89,645
Federal Grants Receivable	190,541	-	190,541
Other Receivables	10,013	-	10,013
Interest Receivable	-	243	243
Internal Balances	(1,077,560)	1,077,560	-
Due from Other State Agencies	1,066,375	361,337	1,427,712
Due from State General Fund	765,056	-	765,056
Inventories	4,284,120	873,751	5,157,871
Prepaid Items	147,955	566	148,521
Total Current Assets	<u>51,156,039</u>	<u>5,099,000</u>	<u>56,255,039</u>
Capital Assets:			
Buildings	32,649,639	1,003,511	33,653,150
Improvements Other than Buildings	3,615,142	-	3,615,142
Machinery and Equipment	24,252,395	2,064,898	26,317,293
Automotive	2,706,793	671,467	3,378,260
Less Accumulated Depreciation	<u>(34,411,399)</u>	<u>(3,518,740)</u>	<u>(37,930,139)</u>
Total Capital Assets, net of depreciation	<u>28,812,570</u>	<u>221,136</u>	<u>29,033,706</u>
Total Assets	<u>79,968,609</u>	<u>5,320,136</u>	<u>85,288,745</u>
LIABILITIES			
Accounts Payable	\$ 214,000	\$ -	\$ 214,000
Vouchers Payable	19,443,555	381,874	19,825,429
Payroll Benefits & Taxes Payable	1,263,763	8,131	1,271,894
Accrued Wages Payable	1,385,334	7,684	1,393,018
Compensated Absences Payable:			
Expected to be paid within one year	4,144,427	45,514	4,189,941
Due to State General Fund	7,474,300	-	7,474,300
Receipts Held in Suspense	51	-	51
Due to Other State Agencies	1,418	-	1,418
Unearned Revenue	-	10,000	10,000
Other Liabilities	3,800	-	3,800
Total Liabilities	<u>33,930,648</u>	<u>453,203</u>	<u>34,383,851</u>
NET POSITION			
Investment in Capital Assets	28,812,570	221,136	29,033,706
Restricted for:			
Subsequent Years Expenditures	14,725,624	4,645,797	19,371,421
Unrestricted	2,499,766	-	2,499,766
Total Net Position	<u>\$ 46,037,960</u>	<u>\$ 4,866,933</u>	<u>\$ 50,904,894</u>

* Inter-fund balances have been eliminated in the total column

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

	Governmental Activities	Business-Type Activities	Total
Expenses			
Public Safety - Corrections	\$ (276,460,583)	\$ -	\$ (276,460,583)
Corrections Industries	-	(3,511,389)	(3,511,389)
Program Revenues			
Charges for Services	19,843,707	3,979,294	23,823,001
Operating Grants & Contributions	979,812	-	979,812
Capital Grants & Contributions	-	-	-
Changes in Net Position:			
Net Program (Expense) / Revenue	(255,637,064)	467,905	(255,169,159)
General Revenues:			
General Fund Appropriation	265,694,000	-	265,694,000
Transfers, net	643,000	-	643,000
Reversions to the State General Fund	(6,704,791)	-	(6,704,791)
Other Revenue	-	2,363	2,363
Unrestricted investment earnings	-	6,619	6,619
Total General Revenues	259,632,209	8,982	259,641,191
Transfers - Internal Activities	(2,847)	2,847	-
Total General Revenues and Transfers	259,629,362	11,829	259,641,191
Change in Net Position	3,992,297	479,734	4,472,032
Net Position - Beginning	41,523,152	4,372,844	45,895,996
Prior Period Adjustment	522,511	14,355	536,866
Net Position beginning, restated	42,045,663	4,387,199	46,432,862
Net Position - Ending	\$ 46,037,960	\$ 4,866,933	\$ 50,904,894

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

ASSETS	General Fund SHARE System Fund *	Community Corrections Special Revenue Fund SHARE System Fund 90200	ARRA Special Revenue Fund SHARE System Fund 89000	Total
Investments	\$ 42,909,627	\$ 2,810,793	\$ 347	\$ 45,720,767
Petty Cash	2,075	-	-	2,075
Receivables, net				
of allowance for doubtful accounts	46,697	-	-	46,697
Federal Grants Receivable	190,541	-	-	190,541
Other Receivables	10,013	-	-	10,013
Due from Other State Agencies	1,066,375	-	-	1,066,375
Due from State General Fund	765,056	-	-	765,056
Inventories	4,284,120	-	-	4,284,120
Prepaid Items	147,955	-	-	147,955
Total Assets	\$ 49,422,459	\$ 2,810,793	\$ 347	\$ 52,233,599
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 214,000	\$ -	\$ -	\$ 214,000
Vouchers Payable	19,122,029	321,526	-	19,443,555
Payroll Benefits Payable	-	-	-	-
Payroll Benefits & Taxes Payable	1,255,840	7,923	-	1,263,763
Accrued Wages Payable	1,378,180	7,154	-	1,385,334
Due to Other Funds	1,077,560	-	-	1,077,560
Due to State General Fund	7,469,847	-	-	7,469,847
State Dated Warrants - Due to SGF	4,106	-	347	4,453
Receipts Held in Suspense	51	-	-	51
Due to Other State Agencies	1,418	-	-	1,418
Other Liabilities	3,800	-	-	3,800
Total Liabilities	30,526,831	336,603	347	30,863,781
Fund Balances:				
Nonspendable	4,434,148	-	-	4,434,148
Restricted	12,251,434	2,474,190	-	14,725,624
Committed	-	-	-	-
Unassigned	2,210,045	-	-	2,210,045
Total Fund Balance	18,895,627	2,474,190	-	21,369,817
Total Liabilities and Fund Balance	\$ 49,422,458	\$ 2,810,793	\$ 347	\$ 52,233,598

* Includes SHARE fund 89800, 90700, and 91500.

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDING JUNE 30, 2013**

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balances - Governmental Funds (Governmental Funds Balance Sheet)	\$ 21,369,817
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Buildings	\$ 32,649,639	
Improvements other than buildings	3,615,142	
Machinery and Equipment	24,252,395	
Automotive	2,706,793	
Accumulated depreciation	<u>(34,411,399)</u>	
Total Capital Assets		28,812,570

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences Payable	<u>(4,144,427)</u>
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Net Position of Governmental Activities (Total Net Position of Governmental Activities)	<u><u>\$ 46,037,960</u></u>
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The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING JUNE 30, 2013**

	General Fund SHARE System Fund *	Community Corrections Special Revenue Fund SHARE System Fund 90200	ARRA Special Revenue Fund SHARE System Fund 89000	Total
Revenues				
Charges for Services	\$ 2,117,520	\$ 598,528	\$ -	\$ 2,716,048
Intergovernmental	1,302,813	-	-	1,302,813
Institutional Sales	2,305,766	-	-	2,305,766
Investment Earnings	13,144,208	-	-	13,144,208
Miscellaneous	374,872	-	-	374,872
Federal Grants and Contributions	979,812	-	-	979,812
Total Revenues	20,224,991	598,528	-	20,823,519
Expenditures, Current				
Personal Services & Employee Benefits	120,477,749	22,773	-	120,500,522
Contractual Services	42,434,086	-	-	42,434,086
Other	107,598,776	2,665,772	-	110,264,548
Expenditures, Capital Outlay	2,638,869	-	-	2,638,869
Total Expenditures	273,149,480	2,688,545	-	275,838,025
Excess (deficiency) Revenues over Expenditures	(252,924,489)	(2,090,017)	-	(255,014,506)
Other Financing Sources (uses)				
State General Fund Appropriations	262,524,200	3,169,800	-	265,694,000
Inter-Agency Transfers-In	643,000	-	-	643,000
Transfers-In Severance tax bond Proceeds	-	-	-	-
Reversions to State General Fund	(6,704,791)	-	-	(6,704,791)
Net Other Financing Sources (uses)	256,462,409	3,169,800	-	259,632,209
Net Change in Fund Balance	3,537,921	1,079,783	-	4,617,704
Fund Balance, Beginning of Year	14,835,195	1,394,407	-	16,229,602
Prior Period Adjustment	522,511	-	-	522,511
Fund Balance, Beginning of Year, restated	15,357,706	1,394,407	-	16,752,113
Fund Balance, End of Year	\$ 18,895,627	\$ 2,474,190	\$ -	\$ 21,369,817

* Includes SHARE fund 89800, 90700, and 91500.

The accompanying notes are an integral part of the financial statements

**NM CORRECTIONS DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

Net Change in fund balances - Total Governmental Funds
(Statement of Revenue, Expenditures and Changes in Fund Balance) \$ 4,617,704

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

In the Statement of Activities, certain operating expenses - compensated absences (sick and annual leave) are measured by the amounts earned during the year. In the Governmental funds, however, expenditure for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The decrease (increase) in the liability for the year is:

Compensated Absences (343,828)

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 are:

Capital Outlay	\$ 2,688,868	
Transfers-in of Capital Assets	(2,847)	
Depreciation Expense	<u>(2,954,270)</u>	
Excess of Depreciation Expense over Capital Outlay		<u>(268,249)</u>

The Statement of Activities reports the loss on the sale of Capital Assets, while the Statement of Revenues, Expenditures and Changes and Changes in Fund Balance reports the proceeds. The reconciling amount is the difference: (13,330)

Change in Net Position of Governmental Activities
(Statement of Activities) \$ 3,992,297

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Other State Funds	\$ 16,692,000	\$ 17,591,601	\$ 19,245,179	\$ 1,653,578
Federal Funds	371,100	1,695,461	979,812	(715,649)
Total Revenues	<u>17,063,100</u>	<u>19,287,062</u>	<u>20,224,991</u>	<u>937,929</u>
Expenditures, Current				
Personal Services & Employee Benefits	128,420,300	128,800,399	120,477,750	8,322,649
Contractual Services	46,594,300	42,971,104	42,434,085	537,019
Other	105,184,500	111,521,308	107,598,771	3,922,537
Expenditures, Capital Outlay	-	-	2,638,869	(2,638,869)
Total Expenditures	<u>280,199,100</u>	<u>283,292,811</u>	<u>273,149,475</u>	<u>10,143,336</u>
Excess (deficiency) Revenues over Expenditures	<u>(263,136,000)</u>	<u>(264,005,749)</u>	<u>(252,924,484)</u>	<u>11,081,265</u>
Other Financing Sources (uses)				
State General Fund Appropriation	262,524,200	262,524,200	262,524,200	-
Transfers-In	251,700	499,449	643,000	143,551
Cash Balance Re-Budgeted	360,100	982,100	-	(982,100)
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	-	(6,704,791)	(6,704,791)
Net Other Financing Sources (uses)	<u>263,136,000</u>	<u>264,005,749</u>	<u>256,462,409</u>	<u>(7,543,340)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,537,925</u>	<u>\$ 3,537,925</u>
Fund Balance, Beginning of Year,			14,835,195	
Prior Period Fund Balance Adjustment			<u>522,511</u>	
Fund Balance, Beginning of Year, restated			15,357,706	
Fund Balance, End of Year			<u>\$ 18,895,631</u>	

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY CORRECTIONS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	Modified Accrual Basis	Favorable (Unfavorable)
Revenues				
Other State Funds	\$ 37,800	\$ 37,800	\$ 598,528	\$ 560,728
Federal Funds	-	-	-	-
Total Revenues	<u>37,800</u>	<u>37,800</u>	<u>598,528</u>	<u>560,728</u>
Expenditures, Current				
Personal Services & Employee Benefits	882,900	882,900	22,773	860,127
Contractual Services	5,500	5,500	-	5,500
Other	2,919,200	2,919,200	2,665,772	253,428
Expenditures, Capital Outlay	-	-	-	-
Total Expenditures	<u>3,807,600</u>	<u>3,807,600</u>	<u>2,688,545</u>	<u>1,119,055</u>
Excess (deficiency) Revenues over Expenditures	<u>(3,769,800)</u>	<u>(3,769,800)</u>	<u>(2,090,017)</u>	<u>1,679,783</u>
Other Financing Sources (uses)				
State General Fund Appropriation	3,169,800	3,169,800	3,169,800	-
Transfers-In	-	-	-	-
Cash Balance Re-budgeted	600,000	600,000	-	(600,000)
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	-	-	-
Net Other Financing Sources (uses)	<u>3,769,800</u>	<u>3,769,800</u>	<u>3,169,800</u>	<u>(600,000)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,079,783</u>	<u>\$ 1,079,783</u>
Fund Balance, Beginning of Year			<u>1,394,407</u>	
Fund Balance, End of Year			<u>\$ 2,474,190</u>	

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

ASSETS

Current Assets:

Investments	\$ 2,740,345
Petty Cash	2,250
Receivables (net of allowance for doubtful accounts)	42,948
Interest Receivable	243
Due from Other Funds	1,077,560
Due from Other State Agencies	361,337
Inventories	873,751
Prepaid Items	566
Total Current Assets	<u>5,099,000</u>

Noncurrent Assets:

Capital Assets:

Machinery and Equipment	2,064,898
Buildings and Improvements	1,003,511
Automotive	671,467
Less Accumulated Depreciation	<u>(3,518,740)</u>
Total Noncurrent Assets	<u>221,136</u>
Total Assets	<u>5,320,136</u>

LIABILITIES

Current Liabilities:

Accounts Payable	381,874
Accrued Wages Payable	7,684
Other Liabilities	8,131
Compensated Absences Payable	45,514
Unearned Revenue	10,000
Total Liabilities	<u>453,203</u>

NET POSITION

Investment in Capital Assets	221,136
Restricted	<u>4,645,797</u>
Total Net Position	<u>\$ 4,866,933</u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDING JUNE 30, 2013**

OPERATING REVENUES	
Sales	\$3,979,294
OPERATING EXPENSES	
Cost of Goods Sold:	
Cost of Materials Used	2,230,212
Direct Labor (inmate payroll)	117,275
Manufacturing and Administrative Overhead	1,004,196
Change in Work in Process and Finished Goods Inventory, Net	119,266
Depreciation Expense	40,440
Total Operating Expenses	<u>3,511,389</u>
OPERATING INCOME (LOSS)	467,905
Nonoperating revenue (expense):	
Interest on Deposits with State Treasurer	6,619
Miscellaneous Income	2,363
Capital Contribution (Transfer from General Fund)	2,847
Total nonoperating revenue / (expense)	<u>11,829</u>
CHANGE IN NET POSITION	479,734
Total Net Position, July 1, 2012	<u>4,372,844</u>
Prior Period Adjustment	<u>14,355</u>
Total Net Position, July 1, 2012, restated	<u>4,387,199</u>
Total Net Position, June 30, 2013	<u><u>\$4,866,933</u></u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 2,820,285
Cash Payments to Suppliers for Goods and Services	(2,102,745)
Cash Payments to Employees for Services	(826,727)
Cash Payments to Inmates for Services	<u>(117,275)</u>
Net Cash Used for Operating Activities	(226,462)
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	<u>(52,970)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(52,970)</u>
Cash Flows from Investing Activities:	
Interest Income	6,619
Miscellaneous Income	<u>2,363</u>
Net Cash Provided by Investment Activities	<u>8,982</u>
Net Increase (Decrease) in Cash	(270,450)
Cash at Beginning of Year (including petty cash)	<u>3,013,045</u>
Cash at End of Year (including petty cash)	<u>\$ 2,742,595</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	<u>467,905</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	40,440
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(6,622)
(Increase) Decrease in Prepaid Expenses	-
(Increase) Decrease in Interest Receivable	342
(Increase) Decrease in Due from Other Funds	(913,271)
(Increase) Decrease in Due from Other State Agencies	(239,613)
(Increase) Decrease in Inventory	171,408
Increase (Decrease) in Accounts Payable	275,983
Increase (Decrease) in Compensated Absences Payable	(4,287)
Increase (Decrease) in Accrued Wages Payable	(751)
Increase (Decrease) in Other Liabilities	(17,996)
Increase (Decrease) Deferred Revenue	<u>-</u>
Total Adjustments and Changes	(694,367)
Net Cash Provided (Used) by Operating Activities	<u>\$ (226,462)</u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
AS OF JUNE 30, 2013**

	<u>Inmate Trust Account</u>
ASSETS	
Cash	\$ 1,720,233
Due from Others	431,608
	<u> </u>
Total Assets	<u>\$ 2,151,841</u>
LIABILITIES	
Due to Others	\$ 325,314
Deposits Held for Others	1,826,527
	<u> </u>
Total Liabilities	<u>\$ 2,151,841</u>

* Please refer to Schedule of Changes in Assets and Liabilities on page 73 for detail information.

The accompanying notes are an integral part of the financial statements



NOTES TO THE FINANCIAL STATEMENTS

NEW MEXICO CORRECTIONS DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2013

TABLE OF CONTENTS

NOTE 1:	HISTORY, OATH AND ORGANIZATION.....	24
NOTE 2:	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	26
NOTE 3:	CASH.....	39
NOTE 4:	CAPITAL ASSETS.....	42
NOTE 5:	RETIREMENT PLANS (STATE PERA & ERB).....	43
NOTE 6:	RETIREE HEALTH CARE.....	44
NOTE 7:	FUNDS HELD IN TRUST BY OTHERS.....	45
NOTE 8:	CONCENTRATIONS AND INTERFUND TRANSACTIONS.....	45
NOTE 9:	OPERATING LEASE COMMITMENTS.....	46
NOTE 10:	CHANGES IN SHORT-TERM LIABILITIES.....	47
NOTE 11:	CONTINGENT LIABILITIES (CLAIMS & JUDGMENTS).....	47
NOTE 12:	OTHER FINANCING SOURCES AND OPERATING TRANSFERS.....	48
NOTE 13:	NEW ACCOUNTING STANDARDS.....	48
NOTE 14:	FUND BALANCE.....	49
NOTE 15:	JPA AND MOU DISCLOSURE.....	50
NOTE 16:	SHARE CASH BALANCES.....	58

NOTE 1: HISTORY, OATH AND ORGANIZATION

The New Mexico Corrections Department (the Department), a cabinet level department, was created by an act of the legislature of New Mexico in 1978. §9-3-2 NMSA 1978, states that "The purpose of the Corrections Department Act... is to create a single, unified department to administer all laws and exercise all functions formerly administered and exercised by the corrections and criminal rehabilitation department and to ensure a comprehensive criminal justice system in New Mexico".

The Oath of the Department is "We commit to the safety and well-being of the people of New Mexico by doing the right thing, always". To perform this oath, the following departmental organization has been established in part by Chapters 9 and 33, NMSA 1978:

Office of the Secretary

The Secretary is empowered to organize the Department and its divisions and may transfer or merge functions between divisions in the interest of efficiency and economy. The Administrative Services Division provides overall support.

Adult Prisons Division

The Director of the Adult Prisons Division reports to the Deputy Secretary of Operations. The Adult Prisons Division is the largest division within the New Mexico Corrections Department, incarcerating approximately 6,800 inmates in six state-owned and operated prisons and five privately operated facilities. Ten of the eleven facilities house male inmates. All female offenders are housed in one facility. The Adult Prisons Division oversees the Health Services Bureau, which includes medical and mental health. The Classification Bureau, Records Bureau, Security Threat Intelligence Unit and Emergency Preparedness are also part of the division.

Administrative Services Division

The Director of the Administrative Services Division is responsible to the Deputy Secretary of Administration and in its commitment to the safety and well-being of the people of New Mexico, by doing the right thing always, provides agency divisions and programs with direction, support, guidance and oversight over all fiscal, human resource and property management activities. Bureaus within the Division ensure an internal control structure exist to enable compliance with statutory, regulatory and departmental administrative requirements while identifying opportunities to more efficiently and effectively operate the department. Administrative services are offered through Budget, Financial Management, Human Resource, Internal Audit and Compliance, and Property Management. Staff in each Bureau is in the forefront of efforts to promote accountability and transparency in state government by providing quality service. They serve as the central point of contact with external agencies.

Information Technology Division

The Chief Information Officer of the Information Technology Division is responsible to the Deputy Secretary of Administration for providing the highest quality technology-based tools and services to create and maintain strong information technology systems to support agency staff and promote agency efficiency and accountability. ITD is divided into five sections - Infrastructure, Applications, Project Management, Business Analysis and Database. This structure supports the alignment of Information Technology with the goals of the business.

Office of the General Counsel

The General Counsel of the Office of the General Counsel is responsible to the Secretary of the Department and is responsible for managing all legal affairs for the New Mexico Corrections Department. There are five attorneys and a general counsel in the division. There are also paralegals who work with the attorneys at large and handle administrative duties as well.

The Division also manages litigation, conducts training, reviews policies, contracts and legislation and serves as a liaison to external legal organizations. Representation involves advising institutions and probation/parole officers in various areas of the law, and defending the Department in pro se inmate civil law cases and employment matters.

The office includes the EEO Officer investigates matters involving employment discrimination, sexual harassment/discrimination and various types of other work related complaints, and provides training on employment discrimination and other related topics.

The office of Professional Standards (OPS) conducts administrative investigations throughout the state and review allegations of staff misconduct. The office is part of the office of the Secretary.

Office of Recidivism Reduction

The Director is responsible to the Deputy Secretary of Operations to reduce the potential for reincarceration by providing prisoners in state custody, and former prisoners on probation or parole, with the comprehensive programming and support services necessary to prepare for, and maintain, successful community reentry and reintegration.

Probation and Parole Division

The Director of the Probation and Parole Division is responsible to the Deputy Secretary of Operations "to provide for public safety through a balance of supervision, enforcement and the provision of program services to increase the probability of offenders becoming law-abiding citizens." To accomplish this mission Probation/Parole's mindset requires a dual perspective: the responsibility to enforce the conditions of probation and parole and to provide services to assist the offender's rehabilitation and reentry into the community.

Training Academy Division

The Director of the Training Academy Division reports to the Deputy Secretary of Administration to prepare effective correctional officers, probation and parole officers and staff and develop strong, effective leaders through continual review, revision and adaptation of existing curriculum and the development of new training that addresses current issues and needs

Corrections Industries Division

The Director of the Corrections Industries Division is responsible to the Deputy Secretary of Administration to enhance the rehabilitation, education and vocational skills of inmates through productive involvement in enterprises and public works of benefit to state agencies and local public bodies and to minimize inmate idleness. CID is administered without appropriated funds and is self-supporting. The Division is financed through a revolving fund, from which all operating expenses are paid. As the manufacturing and services arm of the Corrections Department, the Division employs 39 staff and supervisory personnel to manage an average of 375 inmates in 13 programs at eight different facilities around the state.

Corrections Industries Commission

The Corrections Industries Commission is responsible for advising the Secretary of the Department and establishing policy within the Corrections Industries Division. The Commission consists of seven members appointed by the Governor. Terms are generally for four years with one or two members being replaced each year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the New Mexico Corrections Department (the Department) have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standard Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund type in accordance with GASB Statement #20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. More significant of these accounting policies are described below.

The Department complies with GASB #34 and as part of this Statement, there is a reporting requirement regarding the government's infrastructure (road, bridges, etc.) The Department does not own any infrastructure assets and therefore is unaffected by this requirement.

The Department has since implemented the provisions of GASB #37 and GASB #38 effective July 1, 2000 and GASB #51 effective July 1, 2009.

The Department also implemented the provisions of GASB #54 effective July 1, 2010. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation. See page 37, item 12 and Note 14 for additional information about fund balances.

The above statements did not have a significant impact on the financial statements of the Department.

A. FINANCIAL REPORTING ENTITY

The chief executive of the Department is the Secretary, who is appointed by the Governor of New Mexico and is a member of the Governor's Cabinet. The Department is a component unit of the executive branch and these financial statements include all funds, account groups and activities over which the Department Secretary has oversight responsibility.

The Department is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. Even though the Governor appoints the Secretary, that person has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In accordance with the criteria set forth in GASB # 61 for determining component units, the Department does not have component units.

B. BASIC FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. The reporting model focus is on either the Department as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column using the economic resources measurement focus and the accrual basis of accounting and incorporates long-term assets and receivables as well as long-term debt and obligations. Additionally internal activity has been eliminated at this level of presentation.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (education, labor, transportation, etc.), which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants.

The program revenues must be directly associated with the function or a business-type activity. The Department includes only one function (public safety and corrections).

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

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

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column. Due to the limited fund structure of the Department, all funds have been classified as Major Funds.

Totals on the business-type activities fund statements match the business type activities column presented in the government wide statements, since there are no reconciling items.

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

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

C. BASIS OF PRESENTATION

The financial transactions of the Department are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, 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 which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

The reporting model, GASB Statement 34, sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined. Due to the fund structure of the Department, all funds have been classified as major funds.

The Department uses the following fund types:

Governmental Fund Types

The focus of Governmental Fund measurement (in the Fund Financial Statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the Department.

General Fund:

The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund sources are comprised of SHARE System Fund 89800 - Building Fund, SHARE System Fund 90700 - General Operating Fund, and SHARE System Fund 91500 - Probation & Parole Fund.

General Fund revenues are both earned and appropriated. Sources of non-reverting revenue included in the General Fund are from:

Permanent Fund Income and Land Income (§19-1-17) to which the Department is a beneficiary.

Probation and Parole Fees (§31-20-6 NMSA 1978 and §31-21-13.1 NMSA 1978).

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Fund is the Community Corrections Grant Fund, SHARE System fund number 90200.

Statutory Creation: §33-9-3 NMSA 1978 "There is created in the state treasury a special fund to be known as the "community corrections grant fund."

Use of Funds: §33-9-3 NMSA 1978 "The fund shall be for the purpose of providing programs and services for the diversion of criminal offenders to community-based settings."

Reverting Status: §33-9-3 NMSA 1978 "All money appropriated to the fund or accruing to it as a result of gift, deposit, investments or other sources shall not be transferred to another fund or encumbered or disbursed in any manner except as provided in the Adult Community Corrections Act."

ARRA Fund

The American Recovery and Reinvestment Act of 2009 (ARRA) Fund (SHARE System fund 89000) is established to account for financial resources being used regarding ARRA funding. The separate fund created by the New Mexico Department of Finance and Administration will assist in the federal reporting requirements. Each appropriation is given new organizational codes within the fund when the funds are budgeted and approved. This fund is a non-reverting special revenue fund.

Proprietary Fund Types

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

Enterprise Fund

Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services including capital costs, be recovered with fees and charges or (c) has a pricing policy designed for the fees and charges to recover similar costs. The Corrections Industries Revolving Fund (SHARE System fund 07700) represents the Department's only business-type activity and is included as a major fund.

Statutory Creation: § 33-8-7 NMSA 1978 "There is created in the state treasury a fund which shall be administered by the department secretary as directed by the commission and which shall be known as the "corrections industries revolving fund."

Revenues: § 33-8-7 NMSA 1978 "All income, receipts and earnings from the operation of enterprises shall be credited to the fund." "All interest earned on money in the fund shall be credited to the fund."

Use of Fund: § 33-8-7 NMSA 1978 "Money deposited in the fund shall be used only to meet necessary expenses incurred in the maintenance, operation and expansion of existing enterprises and in the establishment, maintenance, operation and expansion of new enterprises."

Reverting Status: § 33-8-7 NMSA 1978 "No part of the fund shall revert at the end of any fiscal year."

Fiduciary Fund Types

Fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support Department programs. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds.

Agency Fund

Agency funds are used to account for assets held by the Department in the capacity of trustee or agent. The agency fund (SHARE System fund 55700) is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Non-Current Governmental Assets/Liabilities

GASB Statement #34 eliminated the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Positions.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary and Fiduciary Fund Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

Accrual

The enterprise fund is accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Department considers funds available if received within "60 days" after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions* the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Operating Revenues

For the purposes of the enterprise funds, operating revenues, include sales income from business operations. All other revenue is considered non-operating.

E. BUDGETS AND BUDGETARY ACCOUNTING

The New Mexico State Legislature makes annual appropriations to the Department, which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget (modified accrual basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed the legal level of budgetary control. "Per Section 9 of the General Appropriation Act of 2012, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services and

other. Therefore, the legal level of budgetary control would be the appropriation program level (A-Code, P-Code, R-code, and Z-Code). The A-Code pertains to capital outlay appropriations (general obligation/severance tax or state general fund). The P-Code pertains to operating funds. The R-Code pertains to American Recovery & Reinvestment Act (ARRA) funds. The Z-Code pertains to special appropriations." The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year. As per the General Appropriation Act, Laws of 2012, Chapter 19, Section 3, Item M, "for the purpose of administering the General Appropriation Act of 2010 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get accrued by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely or accrued by the statutory deadline must be paid out of the next year's budget."

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.

The budgetary basis differs from the basis of accounting required by Generally Accepted Accounting Principles (GAAP). Significant differences between the budgetary basis and GAAP include the following:

1. The budget does not consider reversions to the State General Fund.
2. The budget includes encumbrances (obligations for unperformed contracts for goods or services). GAAP does not include encumbrances, for multi-year appropriations only.
3. The budget statements are presented on modified accrual basis.

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

1. No later than September 1, the Department submits to the Legislative Finance Committee (LFC), and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
2. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State's General Appropriation Act.
3. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
4. Not later than May 1, the Department submits to DFA an annual operating budget by appropriation unit and object code based upon the appropriation made by the Legislature. The Budget Division of DFA reviews and approves the operating budget, which becomes effective on July 1.
5. Formal budgetary integration is employed as a management control device during the fiscal year for the General, Special Revenue, Capital Projects and Enterprise Funds.

F. ENCUMBRANCES

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end. In cases where the appropriations do not lapse at year-end, the encumbrances outstanding are re-encumbered for the same amount outstanding at year-end and do not constitute expenditures or liabilities

because the commitments will be honored during the subsequent year. The Department does not have appropriations, which are multiple year appropriations that do not lapse at year-end.

G. ASSETS, LIABILITIES AND FUND BALANCE

1. Deposits and Investments

At year end, the carrying amount of the Department's deposits was \$1,720,233 and the bank balance was \$1,786,174. The difference represents outstanding checks, deposits, and other reconciling items. In addition, there was \$4,325 of petty cash.

The Department has defined Investments as Interest in the State General Fund Investment Pool (ISGFIP) with the New Mexico State Treasurer's Office (STO). State law requires the Department's cash investments to be managed by the STO. The investments will include cash on deposit with the State Treasurer, cash on hand, investment pools, and demand deposits. Other types of investments that the STO may make with state funds are statutorily defined: U.S. Government and Agency obligations, commercial paper, corporate bonds, money market mutual funds, certificates of deposit, overnight repurchase agreements, and asset-backed obligations. For purposes of cash flows, Corrections Industries considers all highly liquid investments, which are on deposit with the State Treasurer in interest bearing accounts to be cash or cash equivalents. GASB 40 disclosure related to the above items held within the New Mexico State Treasurer's Office, the reader should refer to separate audited financial statements prepared by the STO which will disclose the categories of risk involved.

The fair value of the investments maintained at the New Mexico State Treasurer's Office are as follows at June 30, 2013.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value *</u>
New Mexico State Treasurer's Office: General Fund Investment Pool	1 day to 3 years	\$ 48,461,112
Total Investments or Cash Equivalents		<u>\$ 48,461,112</u>

* Refer to Note 3 to see individual fund detail regarding holdings held at the New Mexico State Treasurer's Office.

Interest Rate Risk: The Department does not have an investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The New Mexico State Treasurer's Office does have an investment policy that limits investments maturities to five years and less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk: The New Mexico State Treasurer's Office pool is not rated.

2. Accounts Receivable:

Accounts receivable are recorded in the General and Enterprise funds. Where appropriate, an associated allowance for doubtful accounts has been established. Enterprise fund receivables originate from the operations of Corrections Industries related to the sales of goods and services. General Fund receivables include amounts receivable from other state agencies and local governments relating to various joint powers agreements (JPA) for inmate work crews and billings for reimbursement of costs associated with housing county inmates in Department operated facilities.

The Department complies with Article IV, Section 32 of the New Mexico Constitution as it pertains to the remission or forgiveness of debts due to the state or to municipalities. The Department continues to track and communicate with vendors that are listed within its' outstanding accounts receivable listing to recover outstanding balances still owed to the Department. For financial statement purposes only, the total amount the General and Enterprise funds have estimated as being the allowance prior to fiscal year 2013 has been \$253,390 and \$190,425, respectively. In fiscal year 2013, the amount of allowance for financial statement purposes is listed below.

Accounts Receivable consists of the following:

	General Fund	Enterprise Fund	Total
Accounts Receivable	\$ 300,088	\$ 233,373	\$ 533,461
Less: Allowance for doubtful accounts	<u>(253,390)</u>	<u>(190,425)</u>	<u>(443,815)</u>
Net Accounts Receivable	<u>\$ 46,697</u>	<u>\$ 42,948</u>	<u>\$ 89,645</u>

3. Federal Grants Receivable:

Various 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 at fiscal year-end represent amounts expended during the fiscal year that are related to a federal grant, however the reimbursement for the expenditure was not received prior to the end of the fiscal year.

4. Due from / Due to Other Funds

These amounts represent inter-fund receivables and payables arising from inter-fund transactions within the Department. Balances in these accounts relate to (1) amounts due to the enterprise fund for Department purchases of goods and services from Corrections Industries Division, and (2) amounts due to the general operating fund for inmate canteen purchases. Balances in these accounts are netted as part of the reconciliation to the Government-wide columnar presentation. All inter-fund balances are expected to be repaid in the next fiscal year.

Inter-fund receivables and payables as of June 30, 2013 consist of the following:

Inter-fund Receivables

Fund Type	SHARE Fund Number	Due From Other Funds	Due From SHARE Fund Number	Amount
Enterprise Fund	07700	1,077,560	90700	418,763
			91500	<u>658,797</u>
Totals		<u>\$ 1,077,560</u>		<u>\$ 1,077,560</u>

Inter-fund Payables

Fund Type	SHARE Fund Number	Due to Other Funds	Due to SHARE Fund Number	Amount
General Fund	90700	418,763	07700	418,763
General Fund	91500	<u>658,797</u>	07700	<u>658,797</u>
Totals		<u>\$ 1,077,560</u>		<u>\$ 1,077,560</u>

5. Due to / Due from Other State Agencies

These amounts represent receivables and payables arising from transactions between the Department and other State agencies. Balances in these accounts relate to (1) joint powers agreements (JPA) between the Department and various other State agencies to provide inmate work crews, (2) goods and services provided to the Department by other State agencies, and (3) other items required to be accrued from other agencies per GAAP.

Inter-agency receivables and payables as of June 30, 2013 consist of the following:

Interagency Receivables

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due From Other Agencies</u>	<u>Due From SHARE Agency Number</u>	<u>Due From SHARE Fund Number</u>	<u>Amount</u>
General Fund	90700	\$ 1,066,375	33700	60100	\$ 932,861
			80500	20100	54,960
			52100	19900	75,873
			Various	Various	2,681
Enterprise Fund	07700	361,337	35000	20100	18,377
			80500	64100	35,360
			52100	19900	440
			Various	Various	307,160
Totals		<u>\$ 1,427,712</u>			<u>\$ 1,427,712</u>

Interagency Payables

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due to Other Agencies</u>	<u>Due to SHARE Agency Number</u>	<u>Due to SHARE Fund Number</u>	<u>Amount</u>
General Fund	90700	1,418	30500	17000	1,418
Totals		<u>\$ 1,418</u>			<u>\$ 1,418</u>

6. Inventories

Supplies inventory are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Inventories held by the General fund, in the amount of \$4,284,119, consist of generic supplies and materials in the various department operated correctional facilities. Inventories are valued using the average cost method. A portion of the amount reported in nonspendable fund balance represents inventories and indicates that supplies inventories are not available expendable resources for Department programs.

Enterprise fund inventories consist primarily of furniture, textiles, and other items held for resale. Inventories are valued at estimated cost, using the first-in, first-out method, which does not exceed net realizable value. Components of the Corrections Industries (enterprise fund) inventories are as follows:

Raw Materials	\$	281,269
Work in Progress		79,195
Finished Goods		<u>513,287</u>
Total Inventory	\$	<u>873,751</u>

7. Prepaid Items

These amounts represent prepayment of postage and fuel, which has benefit to the Department beyond the fiscal year, ending June 30, 2013. Prepaid items are expensed when consumed under the consumption method. Therefore, these items are allocated to the fiscal year in which they are used. A portion of the amount reported in nonspendable fund balance represents prepaid items.

8. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Pursuant to §12-6-10 NMSA 1978, (effective June 17, 2005), the State's capitalization policy threshold was changed from \$1,000 to \$5,000 requiring agencies to capitalize only acquisitions greater than \$5,000. Assets purchased prior to the new capitalization threshold were not removed from the agency's listing but will remain on the inventory list and will continue to be depreciated until the asset is fully depreciated.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value. The Department utilizes IRS Publication 946 to estimate the useful lives on capital assets as follows:

Building and Improvements – 40 years
Improvements other than Buildings – 20 years
Machinery and Equipment
Other Personal Property – 12 years
Software – 3 to 7 years
Furniture and Fixtures – 10 years
Automotive – 5 years

GASB Statement #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The Department does not own any infrastructure assets.

Construction period interest, if any, is capitalized in the proprietary fund. There was no construction period interest capitalized in 2013. The Department has one internally generated intangible asset (software), which is capitalized.

9. Compensated Absences

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon length of service and employee's hire date. A maximum of thirty working days (240 hours) of accumulated annual leave may be carried forward into the beginning of the calendar year and any excess leave is lost.

When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours. Accumulated annual leave is not expected to be liquidated with expendable available financial resources and is reported in the long-term liabilities.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave that an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50% of accrued sick leave in excess of 600 up to 720 hours, but not to exceed 120 hours (net 60 hours can be paid). In the case of retiring employees, up to 200 net hours in excess of 600 hour minimum limit, can be paid. All sick leave balances from 600 to 720 hours have been recorded at 50% of the employee's current hourly rate in the long-term liabilities.

Compensatory time may be granted by to individuals when overtime is needed. Employees not exempt from the FLSA may accrue up to 240 hours of compensatory leave. Employees exempt from the FLSA may accrue up to 160 hours of compensatory leave.

The non-current portion (the amount estimated to be used in subsequent fiscal years) for Governmental Funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Annual leave and sick leave (in excess of 600 hours up to 720 hours) is accrued in the enterprise fund and reported as a fund liability.

10. Deferred Revenues

Deferred revenues represent a liability for the Governmental Funds. Deferred revenues are used to account for (1) an overdraw of cash(advances) or receipt of grant funds in excess of modified accrual basis expenditures or (2) amounts identified as accounts receivable that have not been received within 60 days of the end of the fiscal year and are accounted for on the modified accrual basis in the fund financial statements. Deferred revenues also arise when resources are received by the Department before it has legal claim to them or when resource inflows that do not yet meet the criteria or eligibility requirements for revenue recognition.

11. Due To State General Fund (Reversions)

Reversions to the State General Fund by the Department are based on the definitions of both reverting and non-reverting funds. Reversions are calculated by applying the total budget for the category to the unexpended amount for the budget category at fiscal year-end.

Reverting Funds. All funds that are not identified by law as non-reverting. Such funds are in excess of budgeted expenditures and budgeted and actual revenues. Examples of such reverting funds currently generated by the Department are miscellaneous revenues, sales and services revenues, and payments for care. Revenues for JPA, are reimbursements for actual costs, and as such, are a receivable due to the Department. Any amounts collected for these revenues over estimated budget are revertible funds, since they would be replacing reverting general fund that was temporarily used to support such activities. Reversions for JPA revenues are dependent on two criteria: 1) Period of receipt (current year versus prior year) and 2) Period of accrual (revenue recognition).

Non-Reverting Funds. All funds, which are either appropriated to or earned by the Department and by law or statute, are not required to be reverted to the state treasury upon completion of a fiscal period or project. The Department currently classifies the following revenues and sources as non-reverting.

- i) Enterprise Funds/Other State Funds – Corrections Industries Revolving Fund (Fund 07700). All revenues generated from sales and services and from other types revenues, which are specifically earned by and applied to the Corrections Industries Division, are non-revertible funds, except for any appropriated General Fund or grant funds awarded to this specific organization. Budget is established in Corrections Industries, program code P533. [Section 33-8-7 NMSA 1978]
- ii) Building Fund (Fund 89800). Revenues, which support the Building Fund, are non-revertible. The source of the revenues is from State Permanent Fund income, both Regular and Charitable. The State Investment Council distributes this income to the Department on a monthly basis. Additionally, any unexpended balance of this fund is classified as cash balance. These revenues support expenditures for the payment of maintenance and repairs at the Central Office and Training Academy Complex [Section 33-1-18, 33-1-19 and 33-2-2 NMSA 1978]
- iii) Community Corrections Grant Fund (Fund 90200). General Appropriations made to this fund do not revert to the State General Fund. Additionally, any unexpended appropriations to this fund are classified as Cash Balance, which is made up from either designated or undesignated cash balance or from non-expended budgeted cash balance. Revenue and expenditure budget is established in Community Corrections/Vendor Run, program code P535. [Section 33-9-3 NMSA 1978]
- iv) Permanent Fund Income (Fund 90700). Revenues, which support the general operating expenditures at the Penitentiary of New Mexico and identified as such, are non-revertible. The source of these revenues is from State Permanent Fund income, both Regular and Charitable. The State Investment Council distributes this income to the Department on a monthly basis. Budget for revenues and expenditures are established in Inmate Management and Control, program code P531. [Section 33-1-18, 33-1-19 and 33-2-2 NMSA 1978]
- v) Land Income (Fund 90700). Revenues, which support the general operating expenditures at the Penitentiary of New Mexico and identified as such, are non-revertible. The source of these revenues is from Land Income, both Regular and Charitable. The State Land Office distributes this income to the Department on a monthly basis. Budget for revenues and expenditures are established in Inmate Management and Control, program code P531. [Section 33-1-18, 33-1-19 and 33-2-2 NMSA 1978]
- vi) Probation and Parole Fees (Fund 90200 and 91500). All Probation and Parole fees collected by the Department are non-revertible funds. Accordingly, all budgeted Cash Balance revenues from these fees that are not used to support current year operations are also not revertible to the State General Fund. Revenue and expenditure budgets are established in both Community Corrections, program code P535 and in Community Offender Management, program code P534. [Section 31-20-6 and 31-21-13.1 NMSA 1978]
- vii) Grant Funds (All Funds). Grant funds from any governmental source, such as Federal or State, direct or indirect, do not revert to the State General Fund unless specifically identified in the grant contract or appropriation law. In some cases, any over drawn grant funds may be reverted to the State General Fund or be reverted to the granting agency. Currently, all grants in operation by the Department, except for the State Criminal Alien Assistance Program (SCAAP) award, are in the form of a reimbursement basis, whereby reimbursement for grant costs is requested from the granting agency after the grant related expenditure has occurred. [Section 6-5-10 NMSA 1978]. When the funds pertaining to the SCAAP award are received, the funds are deferred until budgeted by the Department.

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale dated warrants and prior year reimbursements are also due to the State General Fund. Amounts due to the State General Fund for the year ending June 30, 2013 were paid in September 2013.

Current year reversions *Due to the State General Fund* as of June 30, 2013 were as follows:

General Fund	SHARE	SHARE	SHARE	Total
	System Fund 90700	System Fund 91500	System Fund 89000	
Current Year:				
FY 13 Reversions	\$ 6,235,205	\$ 469,586	\$ -	\$ 6,704,791
Total FY 13 Reversions	6,235,205	469,586	-	6,704,791
State Dated Warrants	4,106	-	347	4,453
Total Reversions Due to General Fund	\$ 6,239,311	\$ 469,586	\$ 347	6,709,244 *

*The Due to State General Fund (\$7,474,300) has been netted with the Due from State General Fund (\$765,056).

12. Reservations of Fund Balance

The Department has implemented GASB 54—Fund Balance Reporting and Governmental Fund Type Definitions. The pronouncement will provide modifications to, and additional types of, fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds. The definition of each classification is summarized below:

Non-Spendable Fund Balance

The portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance

The portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Assigned Fund Balance

The portion of fund balance that are constrained by the government's *intent* to be used for specific purposes, but that are neither restricted nor committed.

Unassigned Fund Balance

The portion of fund balance that is residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

H. REVENUES, EXPENDITURES AND EXPENSES

Substantially all governmental fund revenues are accrued.

Expenditures are recognized when the related fund liability is incurred except for the following permitted by generally accepted accounting principles:

Prepaid items and inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

It is the practice of the Department to use available unrestricted resources first unless otherwise specifically directed to use restricted resources.

I. NET POSITION

The government-wide and business types Fund Financial Statements utilize a net position presentation. Net Positions are categorized as investment in capital assets, restricted and unrestricted.

Net investment in Capital Assets – is intended to reflect the portion of net positions which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Position – are liquid assets (generated from revenues and not bond proceeds), which have third-party constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation limiting their use.

The Department follows GASB 46 "Net Assets Restricted by Enabling Legislation". The government-wide statements of net position reports \$50,904,893, of which \$19,371,421 is restricted by enabling legislation.

Unrestricted Net Position – represent all other unrestricted liquid assets that do not meet the definition of "restricted net position" or "invested in capital assets".

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

K. PROGRAM REVENUES

Revenues that (1) originate from the program or from parties other than the government's taxpayers or citizens as a whole and (2) reduce the expenses of the function that has to be financed by general revenues. Revenues of this type can originate from a governmental source, but the proceeds are a charge for services or products produced by a government agency, where that agency is considered a vendor within the market place. Additionally, program revenues are fees charged by the government agency that are used to support a specific operation of that governmental unit.

The Department classifies the following types of revenues as program revenues: (1) All revenue received by Corrections Industries for the sale of goods or services, (2) Permanent Fund Income and Land Income of which the Department is a beneficiary, and (3) other charges for services such as Concession Merchandise, Institutional Sales, Payment for Care – Individuals, etc.

NOTE 3:

CASH

A. Pledged Collateral

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Departments deposits may not be returned.

In accordance with Section 6-10-7 NMSA 1978, deposits of public monies are to be collateralized in an aggregate equal to 50% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage. Deposits are exposed to custodial risks if they are not covered by depository insurance. FDIC insures the deposits of governmental accounts on a per Official Custodian basis as follows: the aggregate balance in demand deposits accounts are insured up to \$250,000 per Official Custodian and the aggregate balances in time and savings accounts are insured up to \$250,000 per Official Custodian.

On June 30, 2013, the Corrections Department had one bank account with a balance above \$250,000:

	Wells Fargo Bank
Total Amount on Deposit	\$ 1,786,174
Less: Amount covered by FDIC	<u>(250,000)</u>
Total Uninsured Funds	<u>1,536,174</u>
Amount requiring collateral (50%) *	<u>\$ 768,087</u>

Detail of pledged collateral specific to this agency is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the State Treasurer's Office collateral bureau monitors pledged collateral for all state funds held by state agencies in such "authorized" bank accounts.

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



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NOTE 3: Cash (continued)

B. Schedule of Investment Accounts Including cash held at the State Treasurer's Office

<u>Name of Depository</u>	<u>Account Name</u>	<u>Fund Type</u>
General Fund:		
NM State Treasurer	General Operating	General
NM State Treasurer	Building Fund	General
NM State Treasurer	Probation and Parole	General
N/A	Various	General
Total General Fund Cash		
Special Revenue Funds:		
NM State Treasurer	General Operating	General
Total Special Revenue Fund		
Enterprise Funds:		
NM State Treasurer	Correction Industries	Enterprise
N/A	Various	Enterprise
Total Enterprise Funds		
ARRA Special Revenue Funds:		
NM State Treasurer	ARRA	General
Total State Capital Project Funds:		
Agency Fund:		
Wells Fargo Bank New Mexico	Inmate Master Trust Account	Agency Inmate Trust
Total Agency Fund Cash		

SHARE System Fund No.	Type of Account	Interest Bearing	Bank/DFA Statement Balance at 06/30/13	Reconciled Book Balance at 06/30/13
90700	State Treasury	No	\$ 34,768,942	\$ 34,768,942
89800	State Treasury	No	150,602	150,602
91500	State Treasury	No	7,990,083	7,990,083
N/A	Petty Cash	No	2,075	2,075
			<u>42,911,702</u>	<u>42,911,702</u>
90200	State Treasury	No	2,810,793	2,810,793
			<u>2,810,793</u>	<u>2,810,793</u>
07700	State Treasury	Yes	2,740,345	2,740,345
N/A	Petty Cash	No	2,250	2,250
			<u>2,742,595</u>	<u>2,742,595</u>
89000	State Treasury	No	347	347
			<u>347</u>	<u>347</u>
55700	Checking	No	1,786,174	1,720,223
			<u>1,786,174</u>	<u>1,720,223</u>

NOTE 4: CAPITAL ASSETS

The changes in capital assets for the year are as follows:

	Beginning Balance 07/01/12	Net Transfers	Additions	Deletions	Ending Balance 06/30/13
Governmental-type Activities:					
Buildings and Improvements	\$ 32,236,294	\$ (373,023)	\$ 786,368	\$ -	\$ 32,649,639
Improvements other than Buildings	3,271,149	-	343,993	-	3,615,142
Machinery and Equipment	22,946,722	-	1,491,258	(185,585)	24,252,395
Automotive	2,639,544	-	67,249	-	2,706,793
Total Capital Assets at Historical Cost	61,093,709	(373,023)	2,688,868	(185,585)	63,223,969
Less: Accumulated Depreciation					
Buildings and Improvements	13,574,616	(370,176)	1,126,193	(760)	14,329,873
Improvements other than Buildings	869,373	-	140,229	-	1,009,602
Machinery and Equipment	15,307,193	-	1,602,256	(171,495)	16,737,954
Automotive	2,248,378	-	85,592	-	2,333,970
Total Accumulated Depreciation	31,999,560	(370,176)	2,954,270	(172,255)	34,411,399
Governmental Activities Capital Assets, Net	\$ 29,094,149	\$ (2,847)	\$ (265,402)	\$ (13,330)	\$ 28,812,570
Business-type Activities:					
Buildings and Improvements	\$ 630,488	\$ 373,023	\$ -	\$ -	\$ 1,003,511
Machinery and Equipment	2,064,898	-	-	-	2,064,898
Automotive	618,497	-	52,970	-	671,467
Total Capital Assets at Historical Cost	3,313,883	373,023	52,970	-	3,739,876
Less: Accumulated Depreciation					
Machinery and Equipment	1,975,379	-	23,124	-	1,998,503
Buildings and Improvements	517,529	370,176	14,847	-	902,552
Automotive	615,216	-	2,469	-	617,685
Total Accumulated Depreciation	3,108,124	370,176	40,440	-	3,518,740
Enterprise Fund Capital Assets, Net	\$ 205,759	\$ 2,847	\$ 12,530	\$ -	\$ 221,136

All Capital Assets listed above are being depreciated. The Corrections Department does not have any Capital Assets that are not being depreciated, such as land.

Depreciation expense for the current year is \$2,954,270 and \$40,440 for the governmental and enterprise funds, respectively. On the Statement of Activities, these amounts are included in the Public Safety-Corrections and Corrections Industries categories, accordingly.

The amounts reported under Net Transfers consist of the reclassification of assets between groups.

NOTE 5: RETIREMENT PLANS (STATE PERA & ERB)

PERA Plan Description

Substantially all of the Corrections Department's full time employees participate in a public employee retirement system authorized under the Public Employees' Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, 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. A copy of that report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

PERA plan members are required to contribute 7.42% of their gross salary for non-custody employees and 7.6% of their gross salary for custody employees. The Corrections Department is required to contribute 16.99% of the gross salary for non-custody employees and 25.5% of the gross salary for custody employees. The contribution requirements of plan members and the Corrections Department is established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Corrections Department contributions to PERA for the years ending June 30, 2013, 2012, and 2011 were \$12,815,568, \$11,618,800, and \$13,829,086, respectively, which equal the amount of the required contributions for each year.

ERB Plan Description

Some of the Corrections Department full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) 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 (certified teachers) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, New Mexico, 87502. The report is also available on ERB's website at www.nmerb.org.

ERB Funding Policy

Member Contributions

Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 9.40% of their gross salary in fiscal year 2013; 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter.

Employer Contributions

In fiscal year 2013, the Corrections Department was required to contribute 12.4% of the gross covered salary for employees whose annual salary is \$20,000 or less, and 10.9% of the gross covered salary for employees whose annual salary is more than \$20,000.

In the future, the Corrections Department will contribute the following percentages of the gross covered salary of employees: 13.15% of gross covered salary in fiscal year 2014; and 13.9% of gross covered salary in fiscal year 2015.

The contribution requirements of plan members and the Corrections Department are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Corrections Department's contributions to ERB for the fiscal years ending June 30, 2013, 2012, and 2011, were \$663,189, \$723,567, and \$771,185, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 6: RETIREE HEALTH CARE

RHCA Plan Description

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

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

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

Funding Policy

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

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

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

The Corrections Department contributions to the RHCA for the years ended June 30, 2013, 2012, and 2011 were \$1,581,406 \$1,473,539, and \$1,427,090, respectively, which equal the required contributions for each year.

NOTE 7: FUNDS HELD IN TRUST BY OTHERS

The Department, through the Penitentiary of New Mexico (PNM), is an income beneficiary of a portion of the State Permanent Fund derived from trust lands assigned to PNM by the Fergusson Act of 1898 and the New Mexico Enabling Act of 1910. These Acts together transferred surface acres and mineral acres of Federal Land to the Territory of New Mexico. The grants stipulate that such lands are to be held in trust for the benefit of specifically identified state institutions.

The Department is also an income beneficiary of a portion of the State Charitable, Penal and Reformatory Institutions Permanent Fund derived from trust lands assigned to PNM by the Fergusson Act of 1898 and the New Mexico Enabling Act of 1910.

Responsibility for the investment of the State Permanent Fund resides with the State Investment Officer. Because the Department does not control the funds, they are not reflected in the accompanying financial statements. Income from the trust is required to be used for the care and custody of adult offenders and is recognized in the general fund as a component of other state fund revenues.

At June 30, 2013 the value of the Department's interest in the State Permanent Fund was \$242,402,774 at market. Income from the trust for the year then ended was \$10,584,851.

The value of the Department's interest in the State Charitable, Penal and Reformatory Institutions Fund was 1/7th of the fair market value, which was \$104,891,943 at June 30, 2013. Income from the trust for the year then ended was \$655,980.

NOTE 8: CONCENTRATIONS AND INTERFUND TRANSACTIONS

All Corrections Industries Division sales are to other government agencies.

In addition, the Enterprise Fund (Corrections Industries) conducts business with the Corrections Department General Fund in the form of sales of goods and services. These sales are at list price unless a sale price or other discount is also available to other customers. Sales to the general fund during fiscal year ended June 30, 2013 amounted to \$2,420,865.

Inmates at various institutions are required to work for the institutions or provide direct labor in the Corrections Industries work programs reflected on pages 68 & 69. These inmates are compensated at nominal rates, and their earnings are paid to the credit of the inmate trust accounts reported in the Agency Fund. During fiscal year ended June 30, 2013 the Enterprise Fund incurred \$117,275 in inmate wages expense.

The inmates make purchases from the facility canteen (commissaries), which result in Other State Funds revenues to the General Fund. During fiscal year ended June 30, 2013 the General Fund recorded \$1,801,521 in such revenues.

NOTE 9: OPERATING LEASES

LESSEE:

The Department is obligated for office space lease agreements for Probation and Parole Division field offices, copier and mailing equipment leases Department wide, and GSD Motor Transportation Pool vehicle leases Department wide. All are being accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations; therefore, all lease agreements include a cancellation clause and are contingent upon legislative appropriation.

Future minimum annual payments under operating lease agreements for facilities, vehicles, and equipment are as follows:

Year Ended June 30,	
2014	\$ 3,295,042
2015	2,585,318
2016	2,153,315
2017	2,009,026
2018	1,739,486
2019-23	1,913,060
Total Minimum Lease Payments	\$ 13,695,247

During the year ended June 30, 2013, general fund operating lease expenditures for facilities, vehicles, and equipment totaled \$4,298,654.

LESSOR:

The Corrections Industries Division is lessor of farmland at the minimum unit of the Central New Mexico Correctional Facility in Los Lunas, New Mexico. The following schedule identifies the amount of expected farm rent revenue for the enterprise fund:

Year Ended June 30,	
2014	\$ 7,212
2015	2,404
2016	-
Total Minimum Lease Payments	\$ 9,616

The Corrections Industries Division is lessor of corral space outside the secured perimeter of the prison facility in Santa Fe, New Mexico. The following schedule identifies the amount of expected rent revenue for the general fund:

Year Ended June 30,	
2014	\$ 185,000
2015	185,000
2016	185,000
2017	185,000
2018	138,750
2019-2023	-
Total Minimum Lease Payments	\$ 878,750

NOTE 10: CHANGES IN SHORT-TERM LIABILITIES

The changes in short-term liabilities for government type activities are as follows:

	Balance Beginning	Increase	(Decrease)	Balance Ending*
Compensated Absences:				
Annual Leave	\$ 3,410,137	\$ 3,556,088	\$ (3,369,074)	\$ 3,597,151
Compensatory Leave	323,035	2,018,484	(1,871,434)	470,085
Sick Leave	67,427	2,894,967	(2,885,203)	77,191
	<u>67,427</u>	<u>2,894,967</u>	<u>(2,885,203)</u>	<u>77,191</u>
 Total Long-Term Liabilities	 <u>\$ 3,800,599</u>	 <u>\$ 8,469,539</u>	 <u>\$ (8,125,711)</u>	 <u>\$ 4,144,427</u>

The changes in short-term liabilities for business-type activities are as follows:

	Balance Beginning	Increase	(Decrease)	Balance Ending*
Compensated Absences:				
Annual Leave	\$ 48,672	\$ 33,146	\$ (37,069)	\$ 44,749
Compensatory Leave	1,284	696	(1,448)	532
Sick Leave	-	22,948	(22,715)	233
	<u>-</u>	<u>22,948</u>	<u>(22,715)</u>	<u>233</u>
 Total Long-Term Liabilities	 <u>\$ 49,956</u>	 <u>\$ 56,790</u>	 <u>\$ (61,232)</u>	 <u>\$ 45,514</u>

*The estimated amount expected to be paid for Compensated Absences within one year is \$4,144,427 which is listed on the Statement of Net Position on page 11. The General Operating Funds typically have been used to liquidate short-term liabilities like capital leases and compensated absences. The General Operating Funds used are SHARE funds 89800, 90200, 90700, and 91500. The estimated balance of \$45,514 for the business-type activities is expected to be paid for within one year.

NOTE 11: CONTINGENT LIABILITIES (CLAIMS & JUDGMENTS)

The Department as a State Agency defined in the New Mexico Tort Claims Act, is insured through the State of New Mexico General Services Department, Risk Management Division. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico;
2. Coverage to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverage for State of New Mexico employees.

In the case of civil actions or claims against the Department for financial damages, the Department's certificate of insurance with Risk Management does not cover claims for back wages but does cover civil rights claims for other compensatory damages.

The civil actions or claims against the Department for money damages are referred to the Risk Management Division (RMD) for payment of any judgment or settlement and for some of these claims the Department and RMD could share the liability for any monetary judgment or settlement. The potential risk of loss to the Department in these pending legal cases is estimated at \$905,000 and is deemed to be "slight to moderate" by the Department's counsel and management and the potential loss would not materially adversely affect the financial statements.

NOTE 12: OTHER FINANCING SOURCES AND OPERATING TRANSFERS

Transfer In/Out:

During the fiscal year, the Department received and transferred funds that were recorded as " Other Financing Sources/Uses". These amounts include (1) \$265,694,000 of State General Fund Appropriations. (2) \$643,000 was received from GSD Risk Management Division for costs related to legal staff defending the Department in Pro Se cases. (3) The Department transferred to the State General Fund as part of its reversions \$6,704,791 (additional information regarding this amount can be found in Note 2-11 starting on page 35). The following is a breakdown of these transactions by fund:

	SHARE Agency / Fund	Transfer In	Transfer Out
State General Fund Appropriations			
(1) SHARE System Fund 90200	34101-85300	\$ 3,169,800	\$ -
(1) SHARE System Fund 90700	34101-85300	235,070,800	-
(1) SHARE System Fund 91500	34101-85300	<u>27,453,400</u>	<u>-</u>
Total State General Fund Appropriations		<u>\$ 265,694,000</u>	<u>\$ -</u>
State General Fund Appropriations			
(2) SHARE System Fund 90700	35000-35703	<u>\$ 643,000</u>	<u>\$ -</u>
Total Operating Transfers - General Fund Appropriations		<u>\$ 643,000</u>	<u>\$ -</u>
State General Fund Reversions			
(3) SHARE System Fund 90700	34100-85300	-	6,235,205
(3) SHARE System Fund 91500	34100-85300	<u>-</u>	<u>469,586</u>
Total State General Fund Appropriation Reversions		<u>\$ -</u>	<u>\$ 6,704,791</u>

NOTE 13: NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has published Statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. Significant change is the requirement to record each governmental entity's pro rate share of unfunded actuarial accrued liability (UAAL) on its financial statements including multi-employer cost sharing plans. The Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB), are multi-employer cost sharing plans. The changes arising from these statements are significant and the Department will comply with these changes as implementation information is provided by the State of New Mexico, PERA, and ERB. The implementation date for Statement No. 68, most relevant to the Department is for FY 2015. The status of the PERA Plan at June 30, 2012, the most recent audited financial statements available, has an unfunded accrued actuarial liability of approximately \$6.2 billion. The status of the ERB Plan at June 30, 2012, the most recent audited financial statements available, has an unfunded accrual liability of approximately \$6.2 billion.

NOTE 14: FUND BALANCE

Government Fund Balances - Restricted and Committed

The Department's fund balances represent: (1) *Restricted Fund Balance*, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other government or imposed by law through constitutional provisions or enabling legislation; (2) *Committed Fund Balance*, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; (3) *Non-Spendable Fund Balance*, which includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact; (4) *Unassigned Fund Balance*, which includes a portion of fund balance that is residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amount in any of the unrestricted fund balance classification could be used.

The following is a summary of the Restricted Fund Balance amounts by fund type at June 30, 2013:

Governmental Funds	
General Operating Fund (90700)	\$ 6,974,086
Probation and Parole Fund (91500)	5,126,746
Community Corrections Special Revenue Fund (90200)	2,474,190
Building Fund (89800)	<u>150,602</u>
	<u>\$ 14,725,624</u>

The Community Corrections Special Revenue Fund statutorily does not revert to the State General Fund. The Department has requested to use \$612,700 in its fiscal year 2014 budget request and \$612,700 in its fiscal year 2015 budget request, thereby reducing the amount of the appropriation request.

The Department has a portion of fund balance in the amount of \$4,434,148 that is Nonspendable. This amount includes prepaid expenses, inventories, and petty cash. The Department also has a portion of fund balance in the amount of \$2,210,045 listed as Unassigned Fund Balance.

NOTE 15: JPA AND MOU DISCLOSURE

The Department was a party to the following Joint Power Agreements (JPA) and Memorandums of Understanding (MOU) during fiscal year 2013:

Inmate Labor – JPA between NMCD and Energy Minerals and Natural Resources Department (EMNRD) to provide inmate forestry work camp that will provide training and labor for fire suppression. JPA will incorporate inmates at the Central New Mexico Correctional Facility (CNMCF) and Women's Correctional Facility.

- o Responsible Party for Operations: EMNRD
- o Time period: October 14, 1997 to indefinite
- o Total estimated amount of Project: \$112,105
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: EMNRD
- o Revenue Reported: NMCD

Inmate Labor – JPA between NMCD and Energy Minerals and Natural Resources Department (EMNRD) to provide inmate labor to maintain New Mexico State Parks.

- o Responsible Party for Operations: EMNRD
- o Time period: July 20, 2001 to indefinite
- o Total estimated amount of Project: \$149,000
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: EMNRD
- o Revenue Reported: NMCD

Inmate Labor – JPA between NMCD and Energy Minerals and Natural Resources Department (EMNRD) to provide inmate labor for the upkeep of state parks in Southeastern NM to include Bottomless Lakes State Park, Brantley Lake State Park, the Living Desert Zoo and Gardens State Park. JPA will incorporate inmates at Roswell Correctional Center.

- o Responsible Party for Operations: EMNRD
- o Time period: July 3, 2001 to indefinite
- o Total estimated amount of Project: \$35,029
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: EMNRD
- o Revenue Reported: NMCD

NM Tort Claims Act – JPA between NMCD and General Services Department, Risk Management Division to provide legal representation of NMCD employees pursuant to the New Mexico Tort Claims Act (Pro Se cases). Yearly allotment made to the NMCD Office of General Counsel.

- o Responsible Party for Operations: General Services Department (GSD)
- o Time period: July 1, 2012 to June 30, 2016
- o Total estimated amount of Project: \$237,780
- o Portion Applicable to NMCD: Income
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: GSD
- o Revenue Reported: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Landfill / Transfer Station Work Crews – JPA between NMCD and the South Central Solid Waste Authority (SCSWA) to provide inmate work crews for maintenance, beautification, and enhancement at the Corralitos landfill or transfer station in Dona Ana County.

- o Responsible Party for Operations: South Central Solid Waste Authority
- o Time period: May 5, 2005 to Indefinite
- o Total estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: SCSWA
- o Revenue Reported: NMCD

Transitional Reporting Services – JPA between NMCD and the New Mexico Department of Health (NMDOH) to provide FTE to support the Transitional Reporting Center Programs in the Albuquerque and Las Cruces areas.

- o Responsible Party for Operations: NMDOH
- o Time period: Indefinite
- o Total estimated amount of Project: \$1,000,000
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMDOH
- o Revenue Reported: NMCD

Inmate Labor – JPA between NMCD and the New Mexico Department of Transportation (NMDOT) to provide inmate labor for highway maintenance and beautification. Officer and inmate wages are reimbursed by NMDOT.

- o Responsible Party for Operations: NMDOT
- o Time period: July 18, 2011 to June 30, 2014
- o Total estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMDOT
- o Revenue Reported: NMCD

Inmate Labor – JPA between NMCD and the Santa Fe Solid Waste Management Agency (SFSWM) to provide inmate labor to perform minor maintenance, beautification, and litter control of the Caja Del Rio Landfill property and other properties as directed by the agency.

- o Responsible Party for Operations: SFSWM
- o Time period: September 1, 2001 to Indefinite
- o Total estimated amount of Project: \$90,000
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: SFSWM
- o Revenue Reported: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Inmate Labor – JPA between NMCD and the City of Grants to provide inmate work crews for maintenance, beautification, and enhancement at various locations in the City of Grants, New Mexico.

- o Responsible Party for Operations: City of Grants
- o Time Period: December 5, 2008 to Indefinite
- o Total Estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: City of Grants
- o Revenue Reported: NMCD

Inmate Labor – JPA between NMCD and the City of Las Cruces to provide inmate labor to perform minor maintenance, beautification, and litter control of public areas and other properties as directed by the agency.

- o Responsible Party for Operations: City of Las Cruces
- o Time Period: July 28, 1998 to Indefinite
- o Total Estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: City of Las Cruces
- o Revenue Reported: NMCD

Inmate Labor – JPA between NMCD and the City of Santa Fe to provide inmate labor to perform minor maintenance, beautification, and litter control in the Santa Fe public areas and other properties as directed by the agency.

- o Responsible Party for Operations: City of Santa Fe
- o Time Period: July 21, 2009 to Indefinite
- o Total Estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: City of Santa Fe
- o Revenue Reported: NMCD

Albuquerque Safe Streets Task Force – MOU between NMCD/PPD and the Federal Bureau of Investigations (FBI) for inter-agency cooperation and formalizing inter-agency relationships for policy guidance, planning, training, public and media relations.

- o Responsible Party for Operations: NMCD / FBI
- o Time Period: April 8, 2009 - Duration of SSTF Operations
- o Total Estimated Amount of Project: Actual Cost/Reimbursement
- o Portion Applicable to NMCD: Actual Cost/Reimbursement
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD / FBI
- o Revenue Reported: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Psychiatric Services – JPA between NMCD and NM Behavioral Health Institute to provide Psychiatric services for inmates under the authority of the NMCD.

- o Responsible Party for Operations: NMBHI
- o Time period: September 21, 2000 - Indefinite
- o Total estimated amount of Project: actual per diem rates \$325 per day
- o Portion Applicable to NMCD: Actual costs
- o Amount Agency Contributed in Fiscal Year 2013: \$40,000
- o Audit Responsibility: NMCD
- o Revenue Reported: NMBHI

Legal Representation – MOU between NMCD and the Attorney General's Office (AG) to provide legal representation of NMCD and its employees in federal and habeas corpus proceedings.

- o Responsible Party for Operations: NMCD
- o Time period: July 1, 2009 - Indefinite
- o Total estimated amount of Project: \$25,000 +
- o Portion Applicable to NMCD: \$25,000 +
- o Amount Agency Contributed in Fiscal Year 2012: \$1,418
- o Audit Responsibility: NMCD
- o Revenue Reported: NM Attorney General

Inmate Tracking – MOU between NMCD and the New Mexico Human Services Department for the tracking of all inmates and parolees named in Child Support Enforcement Cases.

- o Responsible Party for Operations: HSD / NMCD
- o Time Period: June 4, 2003 - Indefinite
- o Total Estimated Amount of Project: -0-
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: HSD / NMCD
- o Revenue Reported: Agreement only, no funds transferred

2013 Financial Audit – MOU between NMCD and the Office of the State Auditor for the 2013 Financial Audit.

- o Responsible Party for Operations: NMCD / OSA
- o Time Period: June 11, 2012 – December 15, 2013
- o Total Estimated Amount of Project: \$115,000.00
- o Portion Applicable to NMCD: \$115,000.00
- o Amount Agency Contributed in Fiscal Year 2013: \$115,000.00
- o Audit Responsibility: NMCD
- o Revenue Reported: OSA

Training of Personnel from Central America – MOU between NMCD and Department of State, Bureau for International Narcotics and Law Enforcement Affairs (INL), for training and mentoring of corrections personnel from Central America.

- o Responsible Party for Operations: NMCD / INL
- o Time Period: February 3, 2012 – January 31, 2015
- o Total Estimated Amount of Project: Actual Cost/Reimbursement
- o Portion Applicable to NMCD: \$354,790
- o Amount Agency Contributed in Fiscal Year 2012: \$354,790
- o Audit Responsibility: NMCD / INL
- o Revenue Reported: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Reimbursement of Actual – MOU between NMCD and FBI (Organized Crime Drug Enforcement Task Forces) for the State and Local Overtime and Authorized Expense Agreement

- o Responsible Party for Operations: NMCD / FBI
- o Time Period: October 1, 2012 – September 30, 2013
- o Total Estimated Amount of Project: Actual Cost/Reimbursement
- o Portion Applicable to NMCD: \$13,110
- o Amount Agency Contributed in Fiscal Year 2013: \$13,110
- o Audit Responsibility: NMCD
- o Revenue Reported: NMCD

Collective Bargaining Negotiations – MOU between NMCD, Multiple Agencies and Department of Finance & Administration (DFA) for the representation during collective bargaining negotiations.

- o Responsible Party for Operations: NMCD
- o Time Period: May 4, 2005 - Indefinite
- o Total Estimated Amount of Project: \$7,649
- o Portion Applicable to NMCD: \$7,649
- o Amount Agency Contributed in Fiscal Year 2013: \$7,649
- o Audit Responsibility: NMCD
- o Revenue Reported: DFA

Inmate Labor – MOU between NMCD and New Mexico Department of Military Affairs (NMDMA) for inmate labor to perform janitorial and maintenance services.

- o Responsible Party for Operations: NMDMA
- o Time Period: April 25, 2005 - Indefinite
- o Total Estimated Amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMDMA
- o Revenue Reported: NMCD

Hepatitis C Medication and Pharmaceutical Consulting – MOU between NMCD and New Mexico Department of Health (NMDOH) to provide Hepatitis C medication and consulting to NMCD inmates with the HCV Disease.

- o Responsible Party for Operations: NMCD
- o Time Period: June 21, 2007 - Indefinite
- o Total Estimated Amount of Project: Actual Costs
- o Portion Applicable to NMCD: Actual Costs
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD
- o Revenue Reported: NMDOH

International and Domestic Terrorism Taskforce – MOU between NMCD and the Federal Bureau of Investigations (FBI) to form the New Mexico Joint Terrorism Taskforce.

- o Responsible Party for Operations: NMCD / FBI
- o Time Period: January 8, 2004 - Indefinite
- o Total Estimated Amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: FBI
- o Revenue Reported: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

10 Year Inmate Population Projections – MOU between NMCD and the New Mexico Sentencing Commission to develop sound 10 year inmate population projections.

- o Responsible Party for Operations: NMCD
- o Time Period: September 26, 2011 – Indefinite
- o Total estimated amount of project: \$22,000
- o Portion applicable to NMCD: \$22,000
- o Amount Agency Contributed in Fiscal Year 2013 - \$22,000
- o Audit Responsibility: NMCD
- o Revenue Reported: NMSC

Regional Fugitive Task Forces – MOU between NMCD and the United States Marshal's Service to form the regional Fugitive Task Forces per the Presidential Threat Protection Act.

- o Responsible Party for Operations: NMCD
- o Time Period: Indefinite
- o Total Estimated Amount of Project: Actual Cost/Reimbursement
- o Portion Applicable to NMCD: Actual Cost/Reimbursement
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD / US Marshal's Service
- o Revenue Reported: NMCD

ABE Computer based instruction – MOU between NMCD and the Northeast New Mexico Detention Facility (NENMDF) to bring computer-based instruction and assessment to inmates enrolled in Adult Basic Education (ABE) educational programming at NENMDF.

- o Responsible Party for Operations: NMCD / NENMDF
- o Time Period: December 12, 2011 – June 30, 2013
- o Total estimated amount of project: -0-
- o Portion applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

ABE Computer based instruction – MOU between NMCD and Lea County Correctional Facility (LCCF) to bring computer-based instruction and assessment to inmates enrolled in Adult Basic Education (ABE) educational programming at LCCF.

- o Responsible Party for Operations: NMCD / LCCF
- o Time Period: December 9, 2011 – June 30, 2013
- o Total estimated amount of project: -0-
- o Portion applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

ABE Computer based instruction – MOU between NMCD and the Guadalupe County Correctional Facility (GCCF) to bring computer-based instruction and assessment to inmates enrolled in Adult Basic Education (ABE) educational programming at GCCF.

- o Responsible Party for Operations: NMCD / GCCF
- o Time Period: January 24, 2011 – June 30, 2013
- o Total estimated amount of project: -0-
- o Portion applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Pacific Institute for Research and Evaluation (PIRE) – MOU between NMCD and PIRE to collaborate and to conduct a pilot test of pre-reentry planning services per the evidence-based Critical Time Intervention (CTI) model using video-conferencing technology.

- o Responsible Party for Operations: NMCD
- o Time Period: September 15, 2012 – January 31, 2013
- o Total estimated amount of project: -0-
- o Portion applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

NM General Services Department (NMGSD) – MOU between NMCD and New Mexico General Services Department to utilize supervised inmates to perform cleaning, beautification, landscaping and maintenance of GSD building grounds.

- o Responsible Party for Operations: NMGSD
- o Time Period: May 3, 2013 – June 30, 2013
- o Total Estimated Amount of Project: Actuals
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD/NMGSD
- o Revenue Reported: NMCD

Department of Veteran Affairs (VA) – MOU between NMCD and the VA to promote cooperation between NMCD and VA regarding the supervision of probationers and parolees residing at a VA facility with a residential rehabilitation treatment program in NM.

- o Responsible Party for Operations: NMCD
- o Time Period: December 1, 2012 – July 30, 2015
- o Total Estimated Amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

PB&J Family Services – MOU between NMCD and PB&J Family Services to provide pre and post release family reunification services for female inmates who are mothers.

- o Responsible Party for Operations: NMCD
- o Time Period: March 28, 2013 – September 30, 2015
- o Total Estimated Amount of Project:
- o Portion Applicable to NMCD:
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

Department of Military Affairs – MOU between NMCD and the Department of Military Affairs for operation and use of Old PNM Main.

- o Responsible Party for Operations: NMCD
- o Time Period: September 15, 2012 – Indefinite
- o Total Estimated Amount of Project:
- o Portion Applicable to NMCD:
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Recidivism Reduction Plan – MOU between NMCD, Corrections Corporation of America (CCA), and the Amity Foundation (Amity) to establish collaboration on the implementation of an Amity SAMHSA grant by providing assistance for reentry programming and specialized case management, under the direction of the NMCD Reentry and Prison Reform Division, at the NM Women's Correctional Facility and providing assistance with post release reentry services to female inmates as they reintegrate into the community of Bernalillo County.

- o Responsible Party for Operations: Amity Foundation
- o Time Period: October 20, 2011 – September 30, 2014
- o Total estimated amount of project: -0-
- o Portion applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

NM Magistrate Courts – MOU between NMCD and the Magistrate Courts of NM for NMCD to accept probation supervision.

- o Responsible Party for Operations: NMCD
- o Time Period: June 14, 2013– Indefinite
- o Total estimated amount of project: -0-
- o Portion applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2013: -0-
- o Audit Responsibility: NMCD

NOTE 16: SHARE CASH BALANCES

Section 6-5-2.1(J) NMSA 1978 requires the Department of Finance and Administration to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

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

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

As of June 30, 2013, the General Fund Investment Pool has not been reconciled by the Department of Finance and Administration at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the New Mexico Corrections Department / Department of Finance & Administration's balances at the business unit/fund level is not possible.

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

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

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

Currently, the Department of Finance and Administration (DFA) has commissioned two reports that address the statewide cash reconciliation issues. They are (1) Current State Diagnostic of Cash Control, dated June 20, 2012 and (2) Cash Management Plan and Business Processes, dated October 11, 2012, both prepared by Deloitte Consulting, LLP. These reports are available on the DFA website http://www.nmdfa.state.nm.us/Cash_Control.aspx.

As part of the Department's cash controls, all incoming funds and outgoing disbursements are tracked to ensure transactions are properly entered into SHARE and post to the general ledger. Additionally, at year-end the Department performs a cash analysis on all funds to ensure the activity affecting the cash accounts properly reflect the ending balances at year-end. The Department also does not issue third party disbursements that may materially affect the Department's financial statements.

NOTE 17: PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been made to correct the beginning net position and fund balance as of July 1, 2013. This adjustment corrects the current year's opening balances in net position and General Fund balance for federal grant revenue that was erroneously reported as deferred revenue as of June 30, 2012. This adjustment only affects the beginning net position on the Statement of Activities and the beginning fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

	<u>Fund Level</u>
Fund Balance, beginning of year, as previously stated	\$ 10,207,937
To adjust fund balance for federal revenue received in a prior year	522,511
Fund Balance, Beginning of Year, restated	<u>\$ 10,730,448</u>

	<u>Government- Wide Level</u>
Net Position, Beginning of Year, as previously stated	\$ 41,523,152
To adjust fund balance for federal revenue received in a prior year	522,511
Net Position, Beginning of Year, restated	<u>\$ 42,045,663</u>

A prior period adjustment has been made to correct the beginning net as of July 1, 2013. This adjustment corrects the current year's opening balances in net position due to accounts payable being overstated as of June 30, 2012. This adjustment only affects the beginning net position on the Statement of Activities.

	<u>Government- Wide Level</u>
Net Position, Beginning of Year, as previously stated	\$ 4,372,844
To adjust fund balance for federal revenue received in a prior year	14,355
Net Position, Beginning of Year, restated	<u>\$ 4,387,199</u>

NOTE 18: SUBSEQUENT EVENT

A lawsuit (Case#33792) was brought against the State of New Mexico by the American Federation of State, County and Municipal Employees Council (AFSCME) to obligate the state to pay wages at the negotiated level to those state employees covered by contract under the Public Employee Bargaining Act, NMSA 11978, Section 10-7E-1. On May 30, 2013, the Supreme Court of the State of New Mexico ruled in favor of the union employees. As a result, NMCD has a potential liability due to this lawsuit. The Department of Finance and Administration is the lead agency in calculating the liability, which is probable but not reasonably estimated at this time. Currently there are too many unknown factors, outside of our purview to allow us to determine a reasonable estimated cost.

GENERAL FUND

The General Fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

The General Fund is comprised of the New Mexico Corrections Department Performance Based Budgeting by Programs and Non-Program budgets. Non-Program budgets are labeled as traditional budgets for the ASD Building Fund and the ARRA Fund as listed below. The General Fund is accounted for at the Department of Finance and Administration within the Statewide Human Resources, Accounting, and Management Reporting System (SHARE).

Program Support (Fund 90700)

- Administrative Services Division (ASD)
- Information Technology Division (ITD)

Inmate Management and Control (Fund 90700)

- Education Bureau (EDB)
- Health Services Bureau (HSB)
- Adult Prisons Division (APD)
- Corrections Training Academy (CTA)
- Addiction Services Bureau (ASB)
- Western New Mexico Correctional Facility (WNMCF)
- Southern New Mexico Correctional Facility (SNMCF)
- Penitentiary of New Mexico (PNM)
- Central New Mexico Correctional Facility (CNMCF)
- Roswell Correctional Center (RCC)
- Springer Correctional Center (SCC)

Community Offender Management (Fund 91500)

- Probation & Parole Division (PPD)

Community Corrections / Vendor Operated (Fund 90200)

- Community Corrections (CC)

Traditional Budget

- ARRA Fund (Fund 89000)
- ASD Building Fund (Fund 89800)

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL BY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

**GENERAL OPERATING FUND
SHARE FUND 90700**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts Modified Accrual Basis</u>	<u>Favorable (Unfavorable)</u>
REVENUES				
State General Fund	\$ 235,070,800	\$ 235,070,800	\$ 235,070,800	\$ -
Other State Funds	14,692,000	15,589,201	17,254,399	1,665,198
Inter-Agency Transfers	251,700	499,449	643,000	143,551
Federal Funds	371,100	1,679,851	959,930	(719,921)
Total Revenues	<u>\$ 250,385,600</u>	<u>252,839,301</u>	<u>253,928,129</u>	<u>1,088,828</u>
Rebudgeted Cash	<u>100,000</u>	<u>722,000</u>	<u>-</u>	<u>(722,000)</u>
Total Budgeted Revenues	<u><u>\$ 250,485,600</u></u>	<u><u>\$ 253,561,301</u></u>	<u><u>\$ 253,928,129</u></u>	<u><u>\$ 366,828</u></u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 109,305,600	\$ 109,667,689	\$ 102,503,402	\$ 7,164,287
Contractual Services	46,549,800	42,896,604	42,389,598	507,006
Other	94,630,200	100,997,008	97,426,253	3,570,755
Operating Transfers	-	-	-	-
Reversions	-	-	6,235,205	(6,235,205)
Total Budgeted Expenditures	<u><u>\$ 250,485,600</u></u>	<u><u>\$ 253,561,301</u></u>	<u><u>\$ 248,554,459</u></u>	<u><u>\$ 5,006,842</u></u>

* \$722,000 was re-budgeted from cash balance.

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL BY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

**PROBATION AND PAROLE GENERAL OPERATING FUND
SHARE FUND 91500**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts Modified Accrual Basis</u>	<u>Favorable (Unfavorable)</u>
REVENUES				
State General Fund	\$ 27,453,400	\$ 27,453,400	\$ 27,453,400	\$ -
Other State Funds	2,000,000	2,000,000	1,990,780	(9,220)
Inter-Agency Transfers	-	-	-	-
Miscellaneous Revenue	-	2,400	-	(2,400)
Federal Funds	-	15,610	19,882	4,272
Total Revenues	<u>29,453,400</u>	<u>29,471,410</u>	<u>29,464,062</u>	<u>(7,348)</u>
Rebudgeted Cash	<u>260,100</u>	<u>260,100</u>	<u>-</u>	<u>(260,100)</u>
Total Budgeted Revenues	<u><u>\$ 29,713,500</u></u>	<u><u>\$ 29,731,510</u></u>	<u><u>\$ 29,464,062</u></u>	<u><u>\$ (267,448)</u></u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 19,114,700	\$ 19,132,710	\$ 17,974,348	\$ 1,158,362
Contractual Services	44,500	74,500	44,487	30,013
Other	10,554,300	10,524,300	10,172,518	351,782
Operating Transfers	-	-	-	-
Reversions	-	-	469,586	(469,586)
Total Budgeted Expenditures	<u><u>\$ 29,713,500</u></u>	<u><u>\$ 29,731,510</u></u>	<u><u>\$ 28,660,939</u></u>	<u><u>\$ 1,070,571</u></u>

* \$260,100 was re-budgeted from cash balance

**NEW MEXICO CORRECTIONS DEPARTMENT
COMBINING BALANCE SHEET GENERAL FUND TYPES
AS OF JUNE 30, 2013**

ASSETS	Building Fund SHARE System Fund 89800	General Operating Fund SHARE System Fund 90700	Probation & Parole Fund SHARE System Fund 91500	Total *
Investments	\$ 150,602	\$ 34,768,942	\$ 7,990,083	\$ 42,909,627
Petty Cash	-	2,075	-	2,075
Receivables net of allowance for doubtful accounts	-	46,697	-	46,697
Federal Grants Receivable	-	190,541	-	190,541
Other Receivables	-	10,013	-	10,013
Due from Other State Agencies	-	1,066,375	-	1,066,375
Due from State General Fund	-	765,056	-	765,056
Inventories	-	4,167,674	116,445	4,284,119
Prepaid Items	-	111,366	36,589	147,955
Total Assets	\$ 150,602	\$ 41,128,739	\$ 8,143,117	\$ 49,422,458
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ 214,000	\$ 214,000
Vouchers Payable	-	17,959,268	1,162,761	19,122,029
Payroll Benefits & Taxes Payable	-	1,103,767	152,073	1,255,840
Accrued Wages Payable	-	1,172,060	206,120	1,378,180
Due to Other Funds	-	418,763	658,797	1,077,560
Due to State General Fund	-	7,000,261	469,586	7,469,847
State Dated Warrants - Due to SGF	-	4,106	-	4,106
Receipts Held in Suspense	-	51	-	51
Due to Other State Agencies	-	1,418	-	1,418
Deferred Revenue	-	-	-	-
Other Liabilities	-	3,800	-	3,800
Total Liabilities	-	27,663,494	2,863,337	30,526,831
Fund Balances:				
Reserved for:				
Nonspendable	-	4,281,115	153,033	4,434,148
Restricted	150,602	6,974,086	5,126,746	12,251,434
Committed	-	-	-	-
Unassigned	-	2,210,045	-	2,210,045
Total Fund Balance	150,602	13,465,246	5,279,779	18,895,627

* Inter-fund balances have been eliminated in the total column.

NEW MEXICO CORRECTIONS DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND TYPES
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

	Building Fund SHARE System Fund 89800	General Operating Fund SHARE System Fund 90700	Probation & Parole Fund SHARE System Fund 91500	Total *
Revenues				
Other State Funds	\$ -	\$ 17,254,399	\$ 1,990,780	\$ 19,245,179
Federal Grants	-	959,930	19,882	979,812
Total Revenues	-	18,214,329	2,010,662	20,224,991
Expenditures, Current				
Personal Services & Employee Benefits	-	102,503,401	17,974,348	120,477,749
Contractual Services	-	42,389,599	44,487	42,434,086
Other	-	97,426,258	10,172,518	107,598,776
Expenditures, Capital Outlay	-	2,638,869	-	2,638,869
Total Expenditures	-	244,958,127	28,191,353	273,149,480
Excess (deficiency) Revenues over Expenditures	-	(226,743,798)	(26,180,691)	(252,924,489)
Other Financing Sources (uses)				
General Fund Appropriation	-	235,070,800	27,453,400	262,524,200
Operating Transfers-In	-	643,000	-	643,000
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	(6,235,205)	(469,586)	(6,704,791)
Net Other Financing Sources (uses)	-	229,478,595	26,983,814	256,462,409
Excess Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses	-	2,734,797	803,123	3,537,920
Fund Balance, Beginning of Year	150,602	10,207,937	4,476,656	14,835,195
Prior Period Adjustment	-	522,511	-	522,511
Fund Balance, Beginning of Year, restated	150,602	10,730,448	4,476,656	15,357,706
Fund Balance, End of Year	\$ 150,602	\$ 13,465,245	\$ 5,279,779	\$ 18,895,626

* Inter-fund balances have been eliminated in the total column.

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

PROGRAM SUPPORT

	<u>Budgeted Amounts</u>		<u>Actual Amounts Modified Accrual Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State General Fund	\$ 8,050,000	\$ 8,470,240	\$ 8,470,240	\$ -
Other State Funds	12,700	162,700	416,206	253,506
Inter-Agency Transfers	251,700	251,700	643,000	391,300
Federal Funds	90,400	90,400	-	(90,400)
Total Revenues	<u>8,404,800</u>	<u>8,975,040</u>	<u>9,529,446</u>	<u>554,406</u>
Rebudgeted Cash	-	-	-	-
Total Budgeted Revenues	<u>\$ 8,404,800</u>	<u>\$ 8,975,040</u>	<u>\$ 9,529,446</u>	<u>\$ 554,406</u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 6,067,300	\$ 6,487,540	\$ 5,880,193	\$ 607,347
Contractual Services	589,200	589,200	491,880	97,320
Other	1,748,300	1,898,300	1,398,684	499,616
Operating Transfers	-	-	-	-
Reversions	-	-	795,264	(795,264)
Total Budgeted Expenditures	<u>\$ 8,404,800</u>	<u>\$ 8,975,040</u>	<u>\$ 8,566,021</u>	<u>\$ 409,019</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

INMATE MANAGEMENT and CONTROL

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>Modified Accrual Basis</u>	<u>(Unfavorable)</u>
REVENUES				
State General Fund	\$ 227,020,800	\$ 226,600,560	\$ 226,600,560	\$ -
Other State Funds	14,679,300	15,426,501	16,838,193	1,411,692
Inter-Agency Transfers	-	247,749	-	(247,749)
Federal Funds	280,700	1,589,451	959,930	(629,521)
Total Revenues	<u>241,980,800</u>	<u>243,864,261</u>	<u>244,398,683</u>	<u>534,422</u>
Rebudgeted Cash	100,000	722,000	-	(722,000)
Total Budgeted Revenues	<u>\$ 242,080,800</u>	<u>\$ 244,586,261</u>	<u>\$ 244,398,683</u>	<u>\$ (187,578)</u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 103,238,300	\$ 103,180,149	\$ 96,623,209	\$ 6,556,940
Contractual Services	45,960,600	42,307,404	41,897,718	409,686
Other	92,881,900	99,098,708	96,027,569	3,071,139
Operating Transfers	-	-	-	-
Reversions	-	-	5,439,941	(5,439,941)
Total Budgeted Expenditures	<u>\$ 242,080,800</u>	<u>\$ 244,586,261</u>	<u>\$ 239,988,438</u>	<u>\$ 4,597,823</u>

* \$722,000 was re-budgeted from cash balance

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

COMMUNITY OFFENDER MANAGEMENT

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
State General Fund	\$ 27,453,400	\$ 27,453,400	\$ 27,453,400	\$ -
Other State Funds	2,000,000	2,000,000	1,990,780	(9,220)
Inter-Agency Transfers	-	-	-	-
Miscellaneous Revenue	-	2,400	-	(2,400)
Federal Funds	-	15,610	19,882	4,272
Total Revenues	29,453,400	29,471,410	29,464,062	(7,348)
Rebudgeted Cash	260,100	260,100	-	(260,100)
Total Budgeted Revenues	\$ 29,713,500	\$ 29,731,510	\$ 29,464,062	\$ (267,448)
EXPENDITURES				
Personal Services & Employee Benefits	\$ 19,114,700	\$ 19,132,710	\$ 17,974,348	\$ 1,158,362
Contractual Services	44,500	74,500	44,487	30,013
Other	10,554,300	10,524,300	10,172,518	351,782
Operating Transfers	-	-	-	-
Reversions	-	-	469,586	(469,586)
Total Budgeted Expenditures	\$ 29,713,500	\$ 29,731,510	\$ 28,660,939	\$ 1,070,571

* \$260,100 was re-budgeted from cash balance

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

COMMUNITY CORRECTIONS – VENDOR OPERATED

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Modified Accrual Basis</u>	
REVENUES				
State General Fund	\$ 3,169,800	\$ 3,169,800	\$ 3,169,800	\$ -
Other State Funds	37,800	37,800	598,528	560,728
Inter-Agency Transfers	-	-	-	-
Federal Funds	-	-	-	-
Total Revenues	<u>3,207,600</u>	<u>3,207,600</u>	<u>3,768,328</u>	<u>560,728</u>
Rebudgeted Cash	600,000	600,000	-	(600,000)
Total Budgeted Revenues	<u>\$ 3,807,600</u>	<u>\$ 3,807,600</u>	<u>\$ 3,768,328</u>	<u>\$ (39,272)</u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 882,900	\$ 882,900	\$ 22,773	\$ 860,127
Contractual Services	5,500	5,500	-	5,500
Other	2,919,200	2,919,200	2,665,772	253,428
Operating Transfers	-	-	-	-
Reversions	-	-	-	-
Total Budgeted Expenditures	<u>\$ 3,807,600</u>	<u>\$ 3,807,600</u>	<u>\$ 2,688,545</u>	<u>\$ 1,119,055</u>

* \$600,000 was re-budgeted from cash balance

ENTERPRISE FUND

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The Enterprise Fund is accounted for at the Department of Finance and Administration within the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) Fund 07700.

A combined balance sheet is presented in the Statement of Net Assets at both government-wide and proprietary levels of detail. Listed below is a description of the types of activities operated by the Department's Corrections Industries Division (CID), as shown in the following Schedule of Revenue and Expenses, by Enterprise.

Furniture – CNMCF (Los Lunas) manufacture furniture for sale primarily to government entities.

Data Entry Programs – The PNM Data Entry Program employs inmates to enter computer data for other state agencies, which are billed for the services rendered.

Printing – The GCCF print shop, located in Santa Rosa, NM, provides printing services to government entities.

Reproduction – The Corrections Corporation of America women's facility in Grants, NM provides microfilming and electronic imaging of documents to government entities.

Telemarketing – Telemarketing programs at the Corrections Corporation of America women's facility, located in Grants, NM, answer telephone inquiries about tourist attractions for the New Mexico Tourism Department and mail brochures to prospective tourists.

Shoes and Textiles (Textiles) – Clothing, shoes, mattresses, bed linens, towels and other related products are manufactured at the privately operated men's facility in Hobbs (LCCF), at the privately operated women's facility in Grants (CCA), and at the state operated men's facility in Grants (WNMCF) for sale to government entities and companies operating private prisons.

Cleaning Products – Manufacturing and production of various types of plastic cleaning products located at WNMCF in Grants, NM.

Administrative Overhead – The costs of Sales and Marketing, the Distribution Center, and Central Office "enterprises" are allocated to the true enterprises at fiscal year end.



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**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES, BY ENTERPRISE
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

	Furniture	Tele- marketing	Cleaning Products*	Textiles*
Revenue from Sales	\$ 546,467	\$ 60,868	\$ 396,269	\$ 1,476,077
Manufacturing Costs:				
Costs of Materials Used:				
Beginning Inventory - Materials	104,308	2,404	37,295	153,468
Materials Purchases	492,623	-	230,091	839,122
Net Material Transfers	-	-	-	-
Materials Available	596,931	2,404	267,386	992,590
Less Ending Inventory	(96,884)	(1,850)	(30,533)	(119,158)
Cost of Materials Used	500,047	554	236,853	873,432
Direct Labor - Inmate Pay	44,504	12,806	6,677	27,253
Manufacturing Overhead:				
Salaries	113,364	45,195	24,508	54,123
Benefits	48,793	15,195	12,619	29,644
In-State Travel	1,940	-	-	2,107
Maintenance & Repairs	2,674	-	318	1,531
Supplies	8,874	2,650	1,150	4,247
Contractual Services	12,693	-	-	-
Other Costs	2,728	1,796	675	3,350
Out-of-State Travel	-	-	-	-
Irrigation Fees	-	-	-	-
Depreciation	3,865	141	8,087	2,260
Miscellaneous	207	-	-	-
Total Manufacturing Overhead	195,138	64,977	47,357	97,262
Total Manufacturing Costs	739,689	78,337	290,887	997,947
Add Beginning Work in Process	93,261	-	-	-
Less Ending Work in Process	(78,546)	-	-	-
Total Cost of Goods Manufactured	754,404	78,337	290,887	997,947
Add Beginning Finished Goods	198,817	-	29,670	387,763
Less Ending Finished Goods	(93,049)	-	(48,304)	(370,107)
Net Finished goods Transfers	480	4	605	(1,089)
Total Cost of Goods Sold	860,652	78,341	272,858	1,014,514
Gross Profit	(314,185)	(17,473)	123,411	461,563
Allocated Overhead:				
Facility Overhead	-	-	-	-
Sales & Marketing	(13,723)	-	(9,951)	(37,068)
Distribution Center	63,658	-	46,161	171,947
Central Office	(127,792)	(36,771)	(19,172)	(78,257)
Capital Contribution (Transfer)	-	-	-	-
Other Income (Expense)	-	-	-	-
Net Income (Loss)	\$ (392,042)	\$ (54,244)	\$ 140,449	\$ 518,185

PNM Data Entry	GCCF Print	LLCC Fam	Sales & Marketing	Distribution Center	Central Office	Total Industries
\$ 17,040	\$ 110,655	\$ 225,463	\$ -	\$ 1,146,455	\$ -	\$ 3,979,294
-	28,505	7,431	-	-	-	333,411
-	44,645	17,962	-	553,627	-	2,178,070
-	-	(6,813)	-	6,813	-	-
-	73,150	18,580	-	560,440	-	2,511,481
-	(27,643)	(5,201)	-	-	-	(281,269)
-	45,507	13,379	-	560,440	-	2,230,212
-	11,077	12,807	-	2,151	-	117,275
-	-	5,459	47,382	74,974	238,477	603,482
-	-	2,483	17,089	32,215	65,207	223,245
-	-	-	845	33,907	5,660	44,459
-	4,199	-	-	-	3,844	12,566
-	2,658	-	19	2,278	667	22,543
-	1,412	-	-	-	-	14,105
-	9,823	160	2,198	7,302	21,050	49,082
-	-	-	-	-	175	175
-	-	32,348	-	-	-	32,348
1,055	2,579	10,612	-	4,699	7,142	40,440
-	82	-	-	26	1,876	2,191
1,055	20,753	51,062	67,533	155,401	344,098	1,044,636
1,055	77,337	77,248	67,533	717,992	344,098	3,392,123
-	-	-	-	-	-	93,261
-	(649)	-	-	-	-	(79,195)
1,055	76,688	77,248	67,533	717,992	344,098	3,406,189
-	2,237	-	-	-	-	618,487
-	(1,827)	-	-	-	-	(513,287)
-	(2,521)	-	1,651	257	613	-
1,055	74,577	77,248	69,184	718,249	344,711	3,511,389
15,985	36,078	148,215	(69,184)	428,206	(344,711)	467,905
-	-	-	-	-	-	-
-	(2,780)	(5,662)	69,184	-	-	-
-	12,890	-	-	(294,656)	-	-
-	(31,806)	(36,773)	-	(6,177)	336,748	-
-	-	-	-	-	2,847	2,847
-	-	1,020	-	-	7,962	8,982
\$ 15,985	\$ 14,382	\$ 106,800	\$ -	\$ 127,373	\$ 2,846	\$ 479,734

* Roll-up for Cleaning Products and Textiles on following pages.

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES,
FOR CLEANING PRODUCTS BY FACILITY
For the Fiscal Year Ending June 30, 2013**

	WNMCF Soap Shop	WNMCF Plastics	Total Cleaning Products
Revenue from Sales	\$ 191,590	\$ 204,679	\$ 396,269
Manufacturing Costs:			
Costs of Materials Used:			
Beginning Inventory - Materials	12,505	24,790	37,295
Materials Purchases	123,243	106,848	230,091
Net Material Transfers	-	-	-
Materials Available	135,748	131,638	267,386
Less Ending Inventory	(11,255)	(19,278)	(30,533)
Cost of Materials Used	<u>124,493</u>	<u>112,360</u>	<u>236,853</u>
Direct Labor - Inmate Pay	<u>2,060</u>	<u>4,617</u>	<u>6,677</u>
Manufacturing Overhead:			
Salaries	12,254	12,254	24,508
Benefits	6,303	6,316	12,619
In-State Travel	-	-	-
Maintenance & Repairs	318	-	318
Supplies	1,150	-	1,150
Contractual Services	-	-	-
Other Costs	675	-	675
Out-of-State Travel	-	-	-
Irrigation Fees	-	-	-
Depreciation	1,749	6,338	8,087
Loss on Disposal of Equipment	-	-	-
Miscellaneous	-	-	-
Total Manufacturing Overhead	<u>22,449</u>	<u>24,908</u>	<u>47,357</u>
Total Manufacturing Costs	149,002	141,885	290,887
Add Beginning Work in Process	-	-	-
Less Ending Work in Process	-	-	-
Total Cost of Goods Manufactured	149,002	141,885	290,887
Add Beginning Finished Goods	18,469	11,201	29,670
Less Ending Finished Goods	(41,067)	(7,237)	(48,304)
Net Finished goods Transfers	552	53	605
Total Cost of Goods Sold	<u>126,956</u>	<u>145,902</u>	<u>272,858</u>
Gross Profit	64,634	58,777	123,411
Allocated Overhead:			
Facility Overhead	-	-	-
Sales & Marketing	(4,811)	(5,140)	(9,951)
Distribution Center	22,318	23,843	46,161
Central Office	(5,915)	(13,257)	(19,172)
General Fund Subsidy	-	-	-
Other Income (Expense)	-	-	-
Net Income (Loss)	<u>\$ 76,226</u>	<u>\$ 64,223</u>	<u>\$ 140,449</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES,
FOR TEXTILES BY FACILITY
For the Fiscal Year Ending June 30, 2013**

	CCA Textiles	Santa Rosa Textiles	WNMCF Textiles	Total Textiles
Revenue from Sales	\$ 411,753	\$ -	\$ 1,064,324	\$ 1,476,077
Manufacturing Costs:				
Costs of Materials Used:				
Beginning Inventory - Materials	101,962	51,506	-	153,468
Materials Purchases	164,234	-	674,888	839,122
Net Material Transfers	-	-	-	-
Materials Available	266,196	51,506	674,888	992,590
Less Ending Inventory	(71,222)	(47,936)	-	(119,158)
Cost of Materials Used	194,974	3,570	674,888	873,432
Direct Labor - Inmate Pay	21,994	-	5,259	27,253
Manufacturing Overhead:				
Salaries	41,869	-	12,254	54,123
Benefits	23,352	-	6,292	29,644
In-State Travel	2,107	-	-	2,107
Maintenance & Repairs	1,531	-	-	1,531
Supplies	3,252	-	995	4,247
Contractual Services	-	-	-	-
Other Costs	3,350	-	-	3,350
Out-of-State Travel	-	-	-	-
Irrigation Fees	-	-	-	-
Depreciation	1,707	-	553	2,260
Loss on Disposal of Equipment	-	-	-	-
Miscellaneous	-	-	-	-
Total Manufacturing Overhead	77,168	-	20,094	97,262
Total Manufacturing Costs	294,136	3,570	700,241	997,947
Add Beginning Work in Process	-	-	-	-
Less Ending Work in Process	-	-	-	-
Total Cost of Goods Manufactured	294,136	3,570	700,241	997,947
Add Beginning Finished Goods	102,290	94,679	190,794	387,763
Less Ending Finished Goods	(89,690)	(97,544)	(182,873)	(370,107)
Net Finished goods Transfers	438	(255)	(1,272)	(1,089)
Total Cost of Goods Sold	307,174	450	706,890	1,014,514
Gross Profit	104,579	(450)	357,434	461,563
Allocated Overhead:				
Facility Overhead	-	-	-	-
Sales & Marketing	(10,340)	-	(26,728)	(37,068)
Distribution Center	47,965	-	123,982	171,947
Central Office	(63,156)	-	(15,101)	(78,257)
General Fund Subsidy	-	-	-	-
Other Income (Expense)	-	-	-	-
Net Income (Loss)	\$ 79,048	\$ (450)	\$ 439,587	\$ 518,185

NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENSES – BUDGET AND ACTUAL
For the Fiscal Year Ending June 30, 2013

CORRECTIONS INDUSTRIES DIVISION

Revenues	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts GAAP Basis	Favorable (Unfavorable)
Printing and Reproduction	\$ 400,000	\$ 400,000	\$ 110,655	\$ (289,345)
Furniture Sales	1,752,600	1,752,600	1,692,922	(59,678)
Other Manufacturing	1,284,700	1,284,700	1,889,386	604,686
Farm Products	184,300	184,300	225,463	41,163
Micrographic, Data Entry & Telemarketing Services	228,800	228,800	60,868	(167,932)
Interest on Deposits	4,200	4,200	6,619	2,419
Capital Contribution (Transfer from General Fund)	-	-	2,847	2,847
Other Revenue	119,200	119,200	2,363	(116,837)
Total Revenues	3,973,800	3,973,800	3,991,123	17,323
Rebudgeted Cash	-	-	-	-
Total Budgeted Revenues	\$ 3,973,800	\$ 3,973,800	\$ 3,991,123	\$ 17,323
Expenditures				
Personal Services & Employee Benefits	\$ 1,683,800	\$ 933,800	\$ 826,727	\$ 107,073
Contractual Services	25,400	25,400	14,105	11,295
Other	2,264,600	3,014,600	2,630,117	384,483
Operating Transfers	-	-	-	-
Total Budgeted Expenditures	3,973,800	3,973,800	3,470,949	502,851
Non-Budgeted Expenditures				
Depreciation Expense	-	-	40,440	(40,440)
Total Budgeted and Non-Budgeted Expenditures	\$ 3,973,800	\$ 3,973,800	\$ 3,511,389	\$ 462,411

NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
For the Fiscal Year Ending June 30, 2013

	<u>Balance as of</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of</u> <u>June 30, 2013</u>
ASSETS				
Cash	\$ 1,951,259	\$ 5,121,477	\$ (5,352,503)	\$ 1,720,233
Due from Others	265,055	431,608	(265,055)	431,608
Total Assets	<u>2,216,314</u>	<u>5,553,085</u>	<u>(5,617,558)</u>	<u>2,151,841</u>
LIABILITIES				
Due to Other State Agencies	28,779	-	(28,779)	-
Due to Others	164,155	325,314	(164,155)	325,314
Deposits Held for Others	2,023,380	1,826,527	(2,023,380)	1,826,527
Total Liabilities	<u>\$ 2,216,314</u>	<u>\$ 2,151,841</u>	<u>\$ (2,216,314)</u>	<u>\$ 2,151,841</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ending June 30, 2013**

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Pass-through programs from the New Mexico Higher Education Department			
Adult Basic Education	84.002	None	170,537
Total U.S. Department of Education Programs			170,537
U.S. Department of Justice			
Direct Programs:			
State Criminal Alien Assistance Program	16.606	None	217,807
Prisoner Reentry Initiative	16.753	2010-DD-BX-0622	72,297
Organized Crime Drug Enforcement Task Forces	16.579	245D-AC-63435	7,128
United States Marshal	16.738	JLEOTFS4	8,320
Total Direct Programs			305,552
Pass-through programs from the State Department of Public Safety			
Residential Substance Abuse for State Prisoners	16.593	2010-RT-BX-0034	138,464
Edward Byrne Memorial Justice Assistance Grant	16.803	12-JAG-NMGTF-SFY13-1	14,981
Bullet Proof Vest Program	16.607	2011-BO-BX-10056459	9,975
Total Pass-through Programs			163,420
Total U.S. Department of Justice Programs			468,972
Corporation for National and Community Service			
Pass-through program from the Children, Youth and Families Department			
AmeriCorps Program-Opportunities with AmeriCorps for Reentry Success	94.006	12FHNM001	111,578
Total Corporation for National Community Programs			111,578
Total Expenditures of Federal Awards			<u>\$ 751,087</u>

Note: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. There were no federal awards expended in the form of non-cash assistance during the year. There were no loans for loan guarantees during the year.



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

**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***

Independent Auditor's Report

Mr. Gregg Marcantel, Secretary, Corrections Department
New Mexico Corrections Department

We have audited 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of the New Mexico Corrections Department (Department) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Department's basic financial statements, and the combining and individual funds and related budgetary comparisons of the Department presented as supplemental information, and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2010-02 and 2011-06 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 2011-02, 2011-03, 2011-04, 2011-07, 2012-01, 2012-02, 2012-03, 2013-02, 2013-03, 2013-04, 2013-05, and 2013-06.

The Department's Response to Findings

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

Purpose of this Report

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



Office of the State Auditor
Santa Fe, New Mexico
January 30, 2014



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Mr. Gregg Marcantel, Secretary, Corrections Department,
New Mexico Corrections Department

Report on Compliance for Each Major Federal Program

We have audited New Mexico Corrections Department's (Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Department's major federal programs for the year ended June 30, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Department's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of 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 its major federal program for the year ended June 30, 2013.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Office of the State Auditor
Santa Fe, NM
January 30, 2014

**New Mexico Corrections Department
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013**

Findings for Fiscal Year 2012

Current Status

10-02	Accounting for Fiduciary Funds	Repeated and Modified
11-01	Payroll-Lack of Supporting Documentation	Resolved
11-02	Contract Billing and Rates Applied	Repeated and Modified
11-03	Lack of Maintaining a Tracking Log for Receiving Money Order, checks, or cash to ensure properly making deposits within the required time periods	Repeated and Modified
11-04	Domicile To Duty Vehicles	Repeated and Modified
11-05	Inmate Trust Accounts-Missing Documentation	Repeated and Modified and Combined with 10-02
11-06	Medical Services Contract	Repeated and Modified
11-07	Missing Capital Assets	Repeated and Modified
12-01	Residential Housing/Trailer Court Benefits at Facilities	Repeated and Modified
12-02	Use of State Issued Gasoline Credit Cards	Repeated and Modified
12-03	Compensated Absences	Repeated and Modified
12-04	Overpayment of AMERICORP Stipend	Resolved

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

1. Type of auditor's report issued	Unmodified
2. Internal Control over Financial Reporting	
a. Material Weakness Identified?	Yes
b. Significant Deficiencies not considered to be material weakness?	Yes
c. Noncompliance Material to the financial statements noted?	No

Federal Programs:

1. Internal Control over major programs:	
a. Material Weakness Identified?	No
b. Significant Deficiencies not considered to be material weakness?	No
2. Type of auditor's report issued on compliance for major program	
	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	
	No
4. Identification of Major Programs:	
<u>Program Name</u>	<u>CFDA Number</u>
State Criminal Alien Assistance Program	16.606
5. The threshold for distinguishing Types A & B programs:	
	\$300,000
6. The Department was determined to be a low-risk auditee?	
	Yes

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

**Finding #2010-02 Accounting for Fiduciary Funds and Missing Documentation–
Repeated and Modified (Significant Deficiency)**

Condition:

Accounting

The Department presents in its audit report a "Statement of Fiduciary Assets and Liabilities". The title of the statement implies that all of the funds disclosed on this statement are "agency" funds. The agency funds included in this statement are used to account for money that belongs to inmates in the various prisons. The accounting and financial reporting for agency funds is very simple; generally the only asset is cash in the bank and the counter-balancing credit is a liability often titled "Funds held for others." All of the financial reporting for agency funds occurs on a statement of position, either a balance sheet or a statement of assets and liabilities. There is no activity statement that discloses the amount of money received and expended during the fiscal period.

The Department also uses the fiduciary funds to account for the operation of a number of inmate stores at the various prisons. The inmate stores purchase merchandise for resale to the inmates. The inmate stores sell goods to the inmates for a modest profit. Profits from the sales to the inmates are accumulated and used to purchase items for inmate use, such as, equipment used in the inmates' gymnasium and inmate gratuities upon release. Not all of the merchandise purchased during the fiscal year was sold during the fiscal year. Thus, as of the balance sheet date, the inmate stores also held a small amount of inventory that is omitted from the Statement of Fiduciary Assets and Liabilities.

The Department uses the Inmate Trust Accounting System (ITAS) which is a subsystem of software used to track all inmate-related information for the Department. ITAS is used to account for the fiduciary funds which are funds owned by the inmates and which are in the State of New Mexico's SHARE fund 55700. The ITAS software does not readily produce auditable accounting reports such as a trial balance at the end of each month which consists of total fiduciary funds of \$2,151,840. Further, ITAS was designed to account for agency funds, not operations such as inmate stores.

Documentation

During our testwork of the Department's Inmate Trust Account "Agency Funds" cash disbursements and receipts, we noted the following.

During our testwork of Inmate Trust Accounts cash disbursements, we noted the following out of 30 items tested:

- There were no supporting vendor invoices or receipts in nine disbursements for a total of \$316.
- There was one disbursement in which the purchase order was missing the amount for each item on the purchase order as well as the total amount for the purchase order for a total of \$2,255.
- There was one disbursement in which the signers on the check are related for a total of \$91.
- There were two instances of release of inmate money without proper authorization from the inmate for a total of \$316.
- There were no supporting documents that included a NMCD designee signature that evidenced the receipt of goods or service in 25 disbursements for a total of \$5,595.
- There was no documentation of proper approval for one disbursement for a total of \$217.
- There was no supporting vendor invoice for one disbursement in which it states on the purchase order that the items were sent back to the vendor however it appears that items were still paid for a total of \$27.
- There was one disbursement for a bus ticket in which the check amount was for a total of \$91; however, the receipt of the ticket was for \$71.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

During our testwork of 30 Inmate Trust Account cash receipts, we noted the following:

- There was lack of detail in supporting documents to trace the recording of the transaction from the Account Transaction History (general ledger) to the bank deposit in 4 transactions for a total of \$166. Key information was not recorded, such as the batch # and deposit ID#, on the related deposit slip that would allow the deposit at the bank to trace back to the Account Transaction History (general ledger).
- Four checks were received and deposited in Inmate Trust Accounts totaling \$108. New Mexico Corrections Policy # CD-024500 specifically indicates that checks will not be accepted.
- During testwork over cash receipts we observed that cash receipts were not always used in numerical order, which circumvents the internal control in place.
- Four money orders totaling \$445 tested were not deposited within 24 hours. One cash receipt totaling \$50 lacked the date received; therefore we were unable determine if the money was deposited timely.

Criteria:

The Financial Control Division (FCD) of the New Mexico Department of Finance and Administration (DFA), as authorized by 6-5-2 and 9-6-5 (E) NMSA 1978 has issued regulations titled "Responsibility for Accounting Function" which are Title 2, Chapter 20, Part 5 of the New Mexico Administrative Code (NMAC). These regulations require all accounting systems, including subsidiary systems such as the Department's fiduciary fund accounting system to record transactions timely. FCD has also promulgated the Manual of Model Accounting Practices to provide further guidance to New Mexico state agencies with respect to the SHARE accounting system. Furthermore, the Department's Inmate Trust Accounts Policy CD-024500 states it is the responsibility of the Warden of each facility to promulgate policies and procedures regarding the cash disbursement and cash receipt process of the Inmate Trust Accounts.

Section 13-1-157 NMSA, Receipt; inspection; acceptance or rejection of deliveries establishes that, "The using agency is responsible for inspecting and accepting or rejecting deliveries. The using agency shall determine whether the quantity is as specified in the purchase order or contract and whether the quality conforms to the specifications referred to or included in the purchase order or contract. If inspection reveals that the delivery does not conform to the quantity or quality specified in the purchase order or contract, the using agency shall immediately notify the central purchasing office. The central purchasing office shall notify the vendor that the delivery has been rejected and shall order the vendor to promptly make a satisfactory replacement or supplementary delivery. In case the vendor fails to comply, the central purchasing office shall have no obligation to pay for the nonconforming items of tangible personal property. If the delivery does conform to the quantity and quality specified in the purchase order or contract, the using agency shall certify to the central purchasing office that delivery has been completed and is satisfactory."

Cause:

The Department is using a database software application to account for fiduciary funds. This software was never intended to produce accounting reports such as a monthly trial balance or to account for a business-type activity such as an inmate store. Also, the Department's current policies and procedures over Inmate Trust Accounts are not detailed in a manner that captures what constitutes adequate and complete documentation requirements.

Effect:

The Department is currently including in its "Statement of Fiduciary Assets and Liabilities" amounts that are not agency funds. Further, it is not disclosing the activity of the inmate stores in a meaningful manner. Also, the Department is unable to readily produce a monthly trial balance for the fiduciary funds which can be used by management throughout the fiscal year and by the auditors during the annual financial audit. Further, the Department is not able to produce meaningful statements of operations for activities such as the inmate stores and canteens. Without a monthly trial balance, the Department does not have a readily determinable "per books" balance of cash to which it can reconcile the Inmate Trust bank account. Furthermore, without proper supporting documentation for the disbursement and the receipting of cash, inmate funds are susceptible to misappropriation. In addition, the lack of established allocation for the commissions received increases the risk of misappropriation.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Recommendation:

The Department should either acquire or develop software which would enable it to extract information from the ITAS system to produce auditable accounting reports including a trial balance at the end of each month. The NMCD also needs to acquire software that will enable it to properly account for the inmate stores and produce a meaningful statement of operations that will disclose the inmate stores revenues, purchases, and expenses. The inmate stores could be reported as a special revenue fund, a proprietary fund, or as a private purpose trust. The Department should work with the DFA to develop an approach to inputting the accounting information into the SHARE accounting system. The Department should establish consistent and thorough policies and procedures related to controls over inmate trust accounts, especially cash receipts and cash disbursements. The implemented policies and procedures should be followed by all facilities consistently. At a minimum, NMCD should always keep copies of documents that are associated with the disbursements and receipt of monies from the Inmate Trust Account for an adequate time period.

Management Response:

The Department concurs with the recommendation and recognizes the importance of accounting for all funds entrusted to the Department. Of equal importance is the activity of the inmate stores as well as the ability to readily produce accounting reports from its' Inmate Trust Accounting System. The current Inmate Trust policy and procedure will be reviewed and modified as needed to include oversight and consistently review process. Additionally, the Department is exploring and researching vendor's that have suitable software programs that can encompass the concerns stated within the recommendation.

Finding #2011-02 **Contract Billing and Rates Applied -
Repeated and Modified (Other)**

Condition:

During our testwork, Contract Cash Disbursement, we noted two instances out of four in which invoices totaling \$1,045,435 between the Department and a municipality, contains verbiage that is unclear to the reader. The contract terms use a schedule to determine the annual rate which is used in the calculation of the facility use fee; however, we found that the schedule was ambiguous, and neither the contract provisions nor the schedule provided clear guidance as to how the Department should apply the schedule rates to a definite time period.

Criteria:

Proper accounting practices require adherence to contract requirements. Contracts should only be entered into when the terms and requirements clearly establish beginning and end dates of rates.

Cause:

The facility use fee schedule's date ranges for annual fees are not clear, and the contract provisions do not provide guidance as to whether the date ranges should be interpreted as beginning dates or end dates.

Effect:

Without clear contract terms, the Department may interpret the verbiage incorrectly within the contract.

Recommendation:

The Department should only enter into contracts when contract terms are clearly stated. The ambiguity in the contract and the schedule need to be corrected.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Management Response:

NMCD believes that the contract in question with a municipality has clearly defined terms which protect the interests of the Department as well as those of the Contractor. However, NMCD is currently reviewing this contract and is developing an amendment to the schedule to remove and address any ambiguity. Adult Prison Division (APD) and Administrative Services Division (ASD) management, including NMCD General Counsel, and the Contractor are working together to address any potentially unclear terms. The review will be completed within 60 days so that the amendment can be drafted and approved prior to the end of fiscal year 2014.

Finding #2011-03 Lack of maintaining a tracking log for receiving money orders, checks, or cash to ensure properly making deposits within the required time periods – Repeated and Modified (Other)

Condition:

During our testwork of governmental cash receipts, we noted 20 instances out of 25 totaling \$170,690 that were not properly logged in to identify the date received. As a result, we were unable to determine if the next succeeding business day rule was met.

During our testwork of Inmate Trust Account cash receipts, we noted four instances out of 30 totaling \$445 that were received but not deposited in the bank within the required period. In addition, we noted one instances out of 30 totaling \$50 lacked the date received; therefore we were unable to determine if the money was deposited timely.

Criteria:

Section 6-10-2 NMSA 1978, of the Public Money statute requires the maintenance of a record in which is entered daily, in detail, all items of cash receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. According to Section 6-10-3 NMSA 1978, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as in Section 6-10-54 NMSA 1978 provided, shall be paid into the state treasury, before the close of the next succeeding business day after the receipt of the money. Also, it is good accounting practice to have accurate referenced documentation to ensure the funds are properly recorded and deposited.

Cause:

The system currently in place does not capture the date deposits are received and other procedures are not in place to document the date in order to ensure timely deposit. For the inmate trust account deposits, responsible individuals were not aware of the procedures and there was a lack of enforcement of Department policies.

Effect:

An ineffective system in place to log in money orders, checks, or cash when received can lead to an increased risk for misappropriation of receipts from the mail. The items could potentially have been held for days and deposited anytime after the required time period. In addition, money orders, checks, or cash received by the Department, but not logged in upon receipt, could be deposited into bank accounts not authorized by the Department. Further, the Department is unable to demonstrate compliance with the rule for deposit by end of the succeeding business day.

Recommendation:

In order to prevent or reduce the risk of misappropriation of funds, a log should be consistently maintained for all the monies received by the Department. Such a log will provide the information necessary to ensure that all monies received are deposited in accounts authorized by the Department in a timely manner. The Department should also ensure staff is properly trained and references money orders in the deposit before they are deposited into the bank.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Management Response:

Management concurs with the recommendation and will implement process to improve the accounting of cash records; periodic reviews and training of staff.

Finding #2011-04 **Domicile to Duty Vehicle –
Repeated and Modified (Other)**

Condition:

The Department's current policy, *Use of State and Privately Owned Motor Vehicles Policy #CD-022000 Section M*, conflicts with the Department's recent analysis regarding qualified nonpersonal-use vehicles. The Department has determined that the past practice to allocate fringe benefits to employees using Department vehicles was inaccurately established and indicated that none of those employees should have been allocated a fringe benefit as they are exempt under the relative IRS guidelines.

Criteria:

IRS Publication 15-B (2013) establishes qualified nonpersonal-use vehicles as follows: All of an employee's use of a qualified nonpersonal-use vehicle is a working condition benefit. A qualified nonpersonal-use vehicle is any vehicle the employee is not likely to use more than minimally for personal purposes because of its design. Qualified nonpersonal-use vehicles generally include all of the following vehicles: Clearly marked, through painted insignia or words, police, fire and public safety vehicles.

Cause:

The Department's current policy and practice of allocating fringe benefits to employees using qualified nonpersonal-use vehicles conflicts with IRS guidelines.

Effect:

Certain employees' taxable income may have been incorrectly impacted.

Recommendation:

The current policy and practice should be revised to reflect the IRS guidelines. Further, the Department should perform an analysis of all the impacted employees and determine what type of remedy is necessary.

Management Response:

The NMCD will change its policy to ensure compliance with Internal Revenue Code Title 26 § 132 since vehicles assigned to staff are not commuting vehicles but part of employment requirements.

Finding #2011-06 **Medical Services Contract –
Repeated and Modified (Significant Deficiency)**

Condition:

During our testwork of contract services, we noted six out of six instances related to medical services contracts in which the Department paid invoices prior to verifying the fixed and variable cost portion of the invoice totaling \$8,079,388 for medical services rendered. In addition, the agency paid thirty-four medical contract services invoices

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

for a total of \$36,939,863 in fiscal year 2013 in which, it appears NMCD also paid prior to the Department verifying the fixed and variable cost portions.

During our testwork of cash disbursement, we noted one instance related to medical services in which the Department paid invoices prior to verifying the fixed portion of the invoice totaling \$1,562,500 for medical services rendered.

The Department monitors services rendered as well as the staffing reconciliation portions of the invoice by reviewing monthly staffing detail, the pharmaceutical costs and the patient information pertaining to the pharmaceutical costs. The services on each invoice are reviewed, approved, and signed off on by the Department staff that oversees medical operations prior to payment. The Department relies on reports provided by the vendor in order to reconcile the fixed cost portion of the invoices. Specifically, one Department employee reviews the reports to determine whether the vendor is meeting a standard of "substantial delivery of medical services." The reports also detail the services provided for the month prior to the time period covered by the invoice. In sum, the fixed contract portion of the vendor's reports do not support the amounts charged in the invoice under the fixed contract amount, and the Department receives the reports after it has already made payment for the time period covered by the reports. In addition, although the staffing portion of the invoice agrees with the dollar amount provided in the monthly reports,

The Department did not independently verify the information. For example, if the vendor's staffing report indicates that there were three nurses on a given day, the Department did not review the vendor's timesheets or take a "head count" to verify that three nurses were actually at the facility.

We also noted three instances out of three in which the Department prepaid for behavioral health services totaling \$731,233. In addition, based on a report provided by the behavioral health service provider as of 6/24/13 the Department had a balance of \$591,516 of unused funds on deposit with Optum Health.

Criteria:

All costs should be completely supported before they are approved for payment; invoices should be processed only when they adequately detail all costs that support what is being charged in the invoice. Section 13-1-158 NMSA 1978 establishes: "No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications or unless prepayment is permitted under Section 13-1-98 NMSA 1978 by exclusion of the purchase from the Procurement Code [13-1-28 NMSA 1978]." The Department should also have a monitoring system in place that allows for the independent verification of the receipt of goods and services prior to making payment.

Cause:

The Department is lacking the resources to adequately monitor services rendered in order to support costs prior to disbursing payment of invoices related to the medical health services. Also, the Department is a part of the Behavioral Health Collaborative which requires payment of a set amount or "allotment" on a monthly basis to Optum for future behavioral health services.

Effect:

With the lack of resources to adequately monitor the services rendered prior to disbursement, lack of support for a portion of the invoice prior to payment and the pre-payment of services, there is potential for payments made for services that are not rendered. Further, the behavioral health collaborative agreement appears to require the Department to pay for services prior to those services being rendered and prior to the Department being able to certify and verify the services provided.

Recommendation:

The Department should implement a monitoring system that functions as a control over payments that may have unsupported costs. NMCD should also ensure invoices contain enough detailed support prior to disbursing payment to the vendor. Any invoice that fails to include sufficient cost detail should be rejected. The Department should

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

independently verify the reports of the vendor's services and should not solely rely on the vendor produced detail. Additionally, contract language should be added to contracts that requires detailed billings and full support for all charges under the contract. The Department should review vendor timesheets to ensure that staffing was provided by the vendor and the Department should also do random "head counts" at the various prison infirmaries. The Department should also review the Behavioral Health Collaborative contract/agreement and determine what other options can be considered regarding potential conflict with procurement code and the potential for paying for services prior to being rendered.

Management Response:

The NMCD hired a Health Services Administrator responsible for overseeing the medical contract and has hired an assistant to help with the oversight. Additionally, the NMCD hired an Internal Audit Manager whose primary responsibility is to audit or review contracts, including the medical contract and service quality. The Office of Internal Audit on its work plan has the review and monitoring of this and other large contracts. Additionally, audit staff at the prisons are required to monitor contractor services.

**Finding #2011-07 Missing Capital Assets –
Repeated and Modified (Other)**

Condition:

During the capital assets test work we selected 10 capital assets at Central New Mexico Corrections Industries (CNMCI), 15 capital assets at Central New Mexico Correctional Facility (CNMCF). We noted three instances at CNMCI and six instances at CNMCF where we could not locate capital assets from the capital asset listing, "Location Detail," to its location at the facility.

Capital Asset	Book Cost	Explanation provided by NMCD	Location
28' Gooseneck Trailer	\$ 7,493	Currently in Grants	CNMCI
Nova 5 Olymp. Edge Bander	\$ 31,200	Disposed of	CNMCI
Accutrack Trailer	\$ 3,200	Currently in Grants	CNMCI
Camera Pelco	\$ 3,264	Disposed of	CNMCF
Computer Optiplex	\$ 1,097	Disposed of	CNMCF
Gateway Computer E4300	\$ 1,014	Disposed of	CNMCF
Dryer	\$ 3,054	Disposed of	CNMCF
X-Ray Unit Pano	\$ 15,713	Disposed of	CNMCF
Jack Hammer	\$ 1,439	Disposed of	CNMCF

In addition, we selected 10 capital assets at (CNMCI), 15 capital assets at (CNMCF) in the field and agreed the asset to the capital asset listing. We noted three instances at CNMCI and four instances at CNMCF where we located the capital assets at the facility; however we could not identify the capital asset on the capital asset listing, "Location Detail".

Capital Asset	Location
80 Nissan Forklift	CNMCI
16" Radial Arm Saw	CNMCI
Oliver-Shaper 287D	CNMCI
Trailblazer Generator/Welder	CNMCF
Grill	CNMCF
Ranger TM #4	CNMCF
Stove	CNMCF

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Administrative Services Division (ASD):

During the review of the Department's additions of capital assets, we noted that one asset out of 15 tested in which the mileage expense of \$2,906 to transport and set up an asset at the facility was not properly reviewed before it was paid.

In addition, during our review of capital assets additions, we noted that two assets out of 15 in which the agency did not properly determine the fair value of the donated assets. The agency valued the assets based on an amount that was reported in Capital Asset Master Report from the donating agency that was dated May 2011.

Further, during our review of capital assets additions we noted one asset out of 15 tested in which the cost of the asset was overstated by \$29,800. The amount was adjusted by the Department subsequent to the auditor's discovery of the error.

Western New Mexico Correctional Facility (WNMCF):

During our review of disposals we noted one asset out of five tested in which the Office of the State Auditor was not properly notified of the disposition of the asset.

Central New Mexico Correctional Facility (CNMCF):

During our review of disposals we noted one asset out of five tested in which the Office of the State Auditor was notified of the disposition of the asset, however the asset tag on the disposition letter did not match the asset tag on the disposal listing.

Criteria:

Title 2, Chapter 20, Part 1 NMAC establishes the requirement that each state agency conduct a physical count of its capital assets each year. This physical count must be documented with a listing that identifies all of the capital assets. (Section 2.20.1.16(D))

NMAC establishes "The inventory process shall produce a list of the property and the date and cost of acquisition. The annual physical inventory checks against losses not previously revealed and brings to light errors in records of accountability, but more importantly, a systematic physical inventory of fixed assets provides an opportunity for surveying their physical condition, with respect to their need for repairs, maintenance or replacement." Section 2.20.1.18 (A) establishes the standards for disposition of assets which state "Sections 13-6-1 through 13-6-2 NMSA 1978, and the procurement code govern the disposition of fixed assets."

Cause:

Lack of consistent adherence to the Department's capital asset policies and procedures. The CNMCI and CNMCF are not properly monitoring their capital asset additions and disposals and reporting back to the accounting department on a yearly basis. The ASD and PPD are not consistently reviewing the capital asset listing on a yearly basis to verify existence of the assets. In addition at ASD is not properly reviewing invoices and assets before they are capitalized on the books.

Effect:

The capital asset listing is not being consistently maintained which could cause capital asset balances to be misstated. A lack of adherence to established policies and procedures may subject assets to misappropriation.

Recommendation:

To maintain adequate accountability, the Department should maintain a capital asset listing through conducting physical inventories, properly including tag numbers, serial numbers, and other identifiable information for additions, and each business office obtain proper authorization prior to disposing of assets. In addition, it would benefit the Department to conduct the physical inventory as close to fiscal year end as possible in order to facilitate the preparation of the capital asset listing for financial reporting purposes. We recommend that policies for proper

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

accounting of capital assets be conveyed to all employees with the responsibility of accounting for capital asset deletions. Additional training may be necessary to ensure proper procedures are understood and followed.

Management Response:

NMCD will implement procedures to maintain a capital asset listing containing required elements and relevant identifying information; work with staff to conduct a physical inventory as close as possible to June 30th; provide training to NMCD employees responsible for maintaining the listing.

Finding #2012-01 Residential Housing/Trailer Court Benefits at Facilities – Repeated and Modified (Other)

Condition:

During our audit procedures regarding housing/trailer court benefits, we noted in 1 out of 9 instances that the required pre-approval was not documented before housing was assigned. Additionally, we noted 1 out of 9 instances prior approval for having more than two pets was not obtained. Further, in 1 out of 9 instances the Residential Housing/Trailer Court Acknowledgement and Agreement Form (CDD-024901) was not completed. Additionally, there was no evidence that the required annual review was performed.

Criteria:

The Department's Institutional Residential Housing; Trailer Court Facilities, State Provided Phone Services Policy # CD-024900 Section A establishes the criteria for assignment of residential housing/trailer court facilities to department personnel. Sections 3 and 6 of Part A require pre-approval be submitted in writing prior to assignment of housing. Section 3 also requires a review of assigned housing to be conducted by the Approving Authority on an annual basis. Additionally Section C establishes rules governing all occupants of residential housing or trailer court facilities. Section 5 states no more than two pets will be allowed for each family without prior written authorization by the Approving Authority.

Cause:

The Department's Institutional Residential Housing; Trailer Court Facilities, State Provided Phone Services Policy is not being followed.

Effect:

Without adhering to the policies and procedures in place, employees may be incorrectly assigned residential housing/trailer court facilities. Furthermore, fringe benefit calculations, or the lack thereof, may be incorrect or not in compliance with IRS regulations.

Recommendation:

The Department should strictly adhere to the policy and procedure regarding assignment of housing. The Department should also consider implementing a review and/or monitoring process to ensure compliance with the policy.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Management Response:

Management concurs with the finding and recommendation as noted and has also reviewed and updated the policy and procedures to include a review and monitoring process.

Finding #2012-02 **Use of State Issued Gasoline Credit Cards –
Repeated and Modified (Other)**

Condition:

During the review of the Wright Express fuel card (WEX) activity for the fiscal year we tested ten invoices with total expenditures of \$87,405. The transactions related to these invoices were examined for compliance with department policy and New Mexico statutory requirements. As a result of this review we noted:

- 37 instances where unleaded plus fuel was purchased at a cost of \$1,624, 13 instances where super-unleaded fuel was purchased at a cost of \$502, and 2 instances where premium diesel was purchased at a cost of \$171;
- One instance where a vehicle was filled up twice within an hour and the total amount of fuel purchased was 30.5 gallons. The fuel tank capacity for the vehicle was 13.5 gallons. The total cost of the fuel was \$98 and with \$57 associated with the additional gallons;
- One instance where a vehicle was filled up twice within an hour and the total amount of fuel purchased was 39.6 gallons. The fuel tank capacity for the vehicle was 33 gallons. The total cost of the fuel was \$128 with \$19 associated with the additional gallons;
- One instance where the vehicle was filled up four times within an hour and the total amount of fuel purchased was 28 gallons. The fuel tank capacity for the vehicle was 17.5 gallons. The total cost of the fuel was \$103 with \$33 associated with the additional gallons;
- 13 instances totaling \$113 where non-fuel transactions were not supported by documentation;
- One instance where the gas tank capacity was 13.5 gallons, and the individual purchased 21.8 gallons, the total cost of the fuel was \$70 with \$26 associated with the additional gallons;
- One instance of a non-fuel purchase of \$36 that include a receipt that stated "non-fuel charge". The receipt and the invoice were not detailed enough to determine what was actually purchased and if it was an allowed purchase;
- Two instances where two car washes were purchased simultaneously for a total of \$34;
- One instance that included an overnight shipping charge. There was evidence included stating the card was not supposed to be overnighted causing an additional unnecessary cost of \$11;
- For the items noted above, no backup documentation was included with the invoices to demonstrate whether employees had been reimbursed for unauthorized or unsupported purchases.

During our testwork one invoice for Corrections Industries was reviewed, we noted the department had a temporary gas card they used as needed.

Criteria:

Per NMAC 1.5.4.12, the purchase of unleaded plus gasoline, super-unleaded gasoline, and food is not allowed. Per NMAC 1.5.3.19, the state agency shall seek reimbursement from employees who make unauthorized purchases on the state fuel credit card. Per the Department's Policy #CD-02200 on the use of state and privately owned vehicles and the use of gasoline credit card. Also, it is good accounting practice to retain receipts for all purchases made.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Cause:

The Department's Policy # CD-02200, Use of State and Privately Owned Motor Vehicles; Use of Gasoline Credit Card, does not incorporate guidance on the use of gasoline credit cards as it relates to WEX card use. Furthermore, there does not appear to be a monitoring system in place that would identify unallowed WEX card purchases and there does not appear to be a requirement to retain receipts for purchases.

Effect:

Unauthorized purchases of premium diesel, super-unleaded, and unleaded plus fuel products appear to have been made and not detected. Inadequate internal oversight and accounting practices can heighten the potential for fraud or misappropriation of public funds.

Recommendation:

The Department may consider seeking reimbursement for unauthorized purchases made using the Wright Express Fuel Cards, in accordance with statutory requirements. The Department should implement regular monitoring of purchases made with the fuel cards and require supporting documentation for purchases made should be remitted to the liaison at the time the vehicle is returned. The Department should document inquiries and explanations for transactions which appear to be unallowed. Reimbursement for all unauthorized purchases should be documented with the Vehicle Coordinator. The Department should include clear guidance in policy # CD-02200 pertaining to the use of gasoline credit cards. There should be a permanent gas card assigned to each state vehicle.

Management's Response:

NMCD is working to ensure that these types of questionable actions are eliminated and addressed immediately. Management has recently hired a manager and an employee to provide oversight to NMCD Fleet Management. The employee has recently received "hands-on" training from the General Services Department – Transportation Services Division (GSD-TSD) to ensure adherence to the NM Administrative Code, and state policies and rules.

Additionally, management is reviewing and updating as necessary, the department policy and procedures, to ensure compliance and the training of all staff performing fleet management functions is performed routinely.

**Findings #2012-03 Compensated Absences –
Modified and Repeated (Other)**

Condition:

During our audit procedures regarding compensated absences we noted the following out of 25 balances tested:

- One instance where the pay rate on the employees' pay stub did not agree to the amount in the compensated absence liability calculation for the employee resulting in an overstated balance of \$31.
- One instance where compensatory time was granted when overtime should have been paid. There was no mechanism in place to automatically pay Fair Labor Standards Act (FLSA) covered employees overtime payments according to state and federal regulations, when an employee did not pre-approve compensatory time in lieu of overtime payment.
- In five instances tested the employees' liability amount did not agree to the amount in the compensated absence liability report resulting in a total understatement of \$286.
- Four instances where employees exceeded the 160 hour maximum compensatory time balance, and the ending compensated absence liability was not adjusted to cap the balances at 160 hours per employee. The total overage was 195 hours, amounting to \$4,716. As there does not appear to be any mechanisms in place to cap the balances at 160, there is potential that more overages exist.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

- Additionally, the Department's policy #CD-035100 Part C. #8, is in conflict with the "Policies for Governor Exempt Employees" as of June 2010 ESPP 20.f. The Department's policy allows for accrual of comp time for Governor-Exempt employees while the "Policies for Governor Exempt Employees" does not.

Criteria:

NMAC 1.7.4.14 Section J establishes Agencies shall pay FLSA covered, non-exempt employees for overtime worked unless the employee, in advance, agrees in writing to compensatory time off. Employees may accrue a maximum of 160 hours of compensatory time under the Department's policy, unless otherwise authorized by statute and shall be paid for accrued compensatory time upon separation.

Policies for Governor Exempt Employees, Policy Number ESPP 20.f states FLSA non-covered and FLSA exempt employees may be required to work in excess of 40 hours per week and are expected to work all hours necessary to perform their duties to the best of their abilities without additional compensation. FLSA non-covered and FLSA exempt employees shall not be awarded compensatory time for hours worked in excess of 40 hours per week and shall not receive cash payments in lieu of compensatory time.

Cause:

NMAC 1.7.4.14 and 1.7.7.8 and the Department's Overtime and Extra Hours Worked Compensation Policy #CD-035100 is not being followed. Additionally, there does not appear to be a mechanism in place at NMCD control level to identify the unallowed overages. Also, there does not appear to be proper review of employees' liability amounts related the year-end compensated absence liability.

Effect:

Without a monitoring process in place employees are accruing balances of compensatory time that exceed set policy amounts and statutory requirements.

Recommendation:

The Department should implement a monitoring process to ensure employees are not accruing balances of compensatory time that exceed policy limits and statutory requirements.

Management's Response:

The NMCD will implement measures to prevent future occurrences, including a monitoring process.

**Finding #2013-01 Internal Controls over Financial Reporting
(Material Weakness)**

Condition:

Management did not have adequate internal control procedures in place over the financial statements in accordance with generally accepted accounting principles (GAAP), including the schedule of expenditures of federal awards (SEFA). The lack of controls did not include a proper review of the drafted report including the inclusion of revised standards and verifying amounts reported in the financial statements to underlying records and schedules. During the fiscal year 2013 audit, the following audit adjustments were not identified by management and were necessary to reconcile the general ledger and schedules to the financial statements.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

<u>Financial Statement Line Item</u>	<u>Approximate Increase/(Decrease)</u>
Capital Assets	100,800
Investments - Business Activities	350,000
Accounts Payable - Business Activities	360,000
Accounts Payable - Governmental Activities	136,000
Beginning Fund Balance and Beginning Net Position - Governmental	523,000
Supplies	(71,000)
Other Receivables	(1,710)
Federal Receivables	6,900
Receivables, net of allowance for doubtful accounts	38,000
Inventory - Business Activities	(317,000)
Inventory - Governmental	22,000
Federal Expenditures and SEFA	15,000

Criteria:

Management is responsible for establishing and maintaining internal controls for the financial statements issued by the Department. In addition, OMB Circular A-133 requires the auditee to prepare a complete and accurate SEFA. A system of internal control over the financial reporting does not stop at the general ledger; rather it includes internal controls over the preparation of the financial statements.

Effect:

Material misstatements were included in the drafted financial statements provided to the auditors that were not prevented or detected by management. As a result, audit adjustments were required to ensure the financial statements were materially correct.

Cause

Management did not have adequate internal control procedures for identifying errors or fraud in the general ledger that could have resulted in material misstatements of the financial statements if they had not been identified by the auditor and corrected. In addition, the Department experienced unexpected turnover in key positions shortly after year end.

Auditor Recommendation:

The Department should develop a documented record of processes and procedures related to financial reporting and closing to ensure the knowledge is not limited to specific individuals. In addition, management should review adjustments to their general ledger in a timely manner and review all adjustments and schedules related the financial statements to ensure accuracy and the timely close out of accounting records at year end.

Management Response:

Management recognized the lack of documented processes and procedures when we experienced the unexpected turnover of key financial staff. The agency is working towards filling the key positions; documenting financial reporting processes and procedures. Management will ensure that all adjustments and schedules related to the financial statements are thoroughly reviewed prior to submitting them to the auditors.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Finding #2013-02

Prior Year Audit Findings (Other)

Condition:

Management is responsible for providing a status of prior year findings to the independent public accountant (IPA) for planning purposes. The agreed upon deadline in the fiscal year 2013 engagement letter to provide the information to the IPA was September 3, 2013. As of November 6, 2013, after numerous requests for the information, management had provided responses for only three of 11 prior year findings. The deadline for submission of the audit report was December 16, 2013.

Criteria:

GAGAS Section 4.05 requires auditors to evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations for previous engagements including whether related recommendations have been implemented. Auditors utilize the information provided by management to assess risk and determine the nature, timing and extent of current audit work including determining the extent to which testing the implementation of the corrective action is applicable to the current audit objectives. In addition, an important management responsibility is to establish and maintain internal control on an ongoing basis including considering whether they are operating as intended and that they are modified as appropriate (AU-C 315). Further, the IPA is required to report the status of all prior year findings in the current year audit report (Section 2.2.2.10 (I)(2) NMAC) and timely response from management is a critical part of that process.

Cause:

Management did not appear to begin the process of obtaining information regarding the status of prior year findings until after the agreed upon deadline.

Effect:

The IPA's planning has been delayed, which could result in a late audit report. In addition, it appears management was not maintaining internal controls on an ongoing basis to resolve deficiencies noted in prior year audits.

Recommendation:

Management should document and update the progress of the corrective action process as it occurs as a proper internal control mechanism over corrective action and in order to provide timely information to the IPA.

Management Response:

Corrective action and progress was documented but a miscommunication between NMCD staff and OSA staff created the impression of non-compliance. In the future, NMCD will provide the auditors with a written status of the corrective actions and implementation progress and will schedule a separate meeting to discuss prior year findings and request the auditors specifically identify any outstanding issues, if any before the audit is completed. Any outstanding issues will be immediately addressed.

Auditor Rebuttal:

The Office of the State Auditor (OSA) requested that the status of the prior year findings be provided by management by September 3, 2013 which was agreed to by management on July 1, 2013. This date was included in the engagement letter signed by the management and governance. In addition, the importance of providing the status on prior year findings was discussed during the entrance conference held on June 26, 2013. OSA requested the status of the prior year findings on multiple occasions in person, and by email on September 23, 2013, October 9, 2013, and October 15, 2013 and by phone, as well as during the monthly status meetings as an agenda item presented to all held on September 4, 2013, October 16, 2013, and November 12, 2013. During those meetings, management represented

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

the status would be provided as soon as they were completed and alternative estimated dates of October 18, 2013 and November 12, 2013 were provided. The status of prior year findings was provided on November 12, 2013 after OSA notified management on November 6, 2013 that it was no longer practicable to delay audit procedures in anticipation of the status.

OSA would like to emphasize that management should document and update the corrective action plan throughout the process of rectifying findings.

Finding #2013-03 Late Audit Report (Other)

Condition:

NMCD did not submit its 2013 audit report by regulatory due date. The report was submitted in January 2014.

Criteria:

As a state agency, the Department is required to submit their audit report no later than 60 days after notification is provided to the Financial Control Division of the Department of Finance and Administration that the agency's books and records are ready and available for audit (Section 2.2.2.9 (A)(1)(g) NMAC). In addition, the state agency deadline for submitting the audit report cannot extend beyond December 15 (or the next business day in the event December 15th falls on a weekend) in accordance with Section 12-6-3 (D) NMSA 1978 and Section 2.2.2.12 (A) NMAC.

Effect:

The Department was not in compliance with state statute and regulations and findings reported in the audit may not be resolved timely.

Cause:

The Department experienced unexpected turnover in key positions shortly after fiscal year end and schedules and documents requested for audit were incomplete and required revisions.

Recommendation:

The Department should develop a documented record of processes and procedures related to financial reporting and closing to ensure the knowledge is not limited to specific individuals. In addition, management must ensure there is adequate training and monitoring of items prepared for the audit to ensure the audit is completed and submitted in a timely manner. Management should ensure that this process is timely in the close out of accounting records at year end.

Management Response:

The Department recognizes the importance of meeting audit deadline and is looking at processes and procedures that will enable audit deadlines and is filling positions as efficiently as possible.

Finding #2013-04 Stale-Dated Checks – Agency Fund (Other)

Condition:

During review of the Agency Fund Bank Reconciliation, we noted 399 checks which were dated June 30, 2012 or earlier, the earliest date being March 6, 2008, that were not properly cancelled. The total amount of the checks was \$26,144.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Criteria:

New Mexico Statutes, Section 7-8A-2 through 7-8A-7, NMSA 1978 states property held by a court, government, governmental subdivision, agency or instrumentality, one year after the property becomes distributable is presumed abandoned if it is unclaimed by the apparent owner. Once the property is presumed abandoned the holder shall report the amounts and funds to New Mexico Taxation and Revenue Department as unclaimed property. The report must be filed before November 1 of each year and cover the twelve months next preceding July 1 of that year.

Effect:

The Department was not in compliance with state statute regarding stale-dated checks.

Cause:

The Department was not monitoring outstanding checks to ensure compliance with state statute.

Recommendation:

We recommend that management implement a procedure to monitor outstanding checks for the agency fund and are accounted for in compliance with state statute.

Management Response:

NMCD will work towards implementing a procedure to monitor the outstanding checks for the agency funds, and to also ensure they are accounted for, in order to be in compliance with NMSA 1978 7-8A-2 through 7-8A-7.

Finding #2013-05 Lack of Proper Approval for Travel Reimbursements (Other)

Condition:

During our test work of internal controls related to travel reimbursements, we noted in one instance that there was not documentation of approval for an employee with travel expenditures that exceeded \$1,500 in the fiscal year.

Criteria:

The Per Diem and Mileage Act (Sections 10-8-1 through 10-8-8 NMSA 1978) restricts the amount of reimbursement an employee may receive in any one year unless management approval is obtained.

Cause:

Travel reimbursements were not monitored to ensure management approval was obtained for employees with reimbursements approaching \$1,500.

Effect:

There is an increased risk that employees be reimbursed for travel not approved and opportunity for abuse increases.

Recommendation:

The Department should ensure total reimbursements by employees are being properly monitored to ensure management approval is obtained when necessary and implement a mechanism to trigger approval as required.

**New Mexico Corrections Department
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

Management Response:

NMCD has implemented a monitoring process to ensure management approval is obtained for employees with reimbursements approaching \$1,500.

Finding #2013-06 Approval of Journal Entries (Other)

Condition:

The Department did not have a process in place to document the review of journal entries initiated and posted by the Department of Finance and Administration (DFA) for appropriateness.

Criteria:

Good accounting practices require sufficient internal controls for the approval of journal entries to ensure the agency has authorized all adjustments to the general ledger. In addition, management is responsible for internal control processes designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations in accordance with AU Section 325.

Effect:

Without a proper review in place, the potential for erroneous or inappropriate journal entries increases.

Cause:

NMCD management was unaware of the need to document the review of journal entries initiated by the DFA.

Recommendation:

The Department should incorporate DFA initiated journal entries into the current procedures for journal entries to document the review process.

Management Response:

NMCD staff currently reviews all journal entries posted to the general ledger and maintains a log of all entries and a file with all entries and support documentation. Staff will now also initial the DFA documents clearly showing those were reviewed.

C. FINDINGS – FEDERAL PROGRAMS

None.

NEW MEXICO CORRECTIONS DEPARTMENT
Exit Conference
Year Ended June 30, 2013

An exit conference was held on Thursday, January 30, 2014 and attended by the following:

New Mexico Corrections Department Personnel:

Gregg Marcantel, Secretary of Corrections
Aurora B. Sánchez, Deputy Secretary of Administration
Joe W. Booker, Jr., Deputy Secretary of Operations
JoAnn R. Duran, ASD Director, Administrative Services Division
Carl Ortega, Budget Bureau Chief, Budget Bureau
Blanca Sena, Accounting Manager, Financial Management Bureau
Joseph Rael, Procurement Manager, Financial Management Bureau
Antoinette Solano, Accountant/Auditor, Financial Management Bureau
Debra Martinez, Accountant/Auditor, Financial Management Bureau
Christina Campa, Accountant/Auditor, Financial Management Bureau
Carlos Montano, Accounts Payable, Financial Management Bureau

New Mexico Office of the State Auditor Personnel:

Hector Balderas, State Auditor
Natalie Cordova, CPA, Financial Audit Director
Melissa Spangler, CPA, CGFM, Audit Manager
Anna Williams, Audit Supervisor
Lori Narvaiz, Audit Staff