

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY
AND EMERGENCY MANAGEMENT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2017

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
OFFICIAL ROSTER
JUNE 30, 2017**

M. Jay Mitchell, Cabinet Secretary

Vacant, Deputy Cabinet Secretary

Sarah Peterson, Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the General Fund and Federal Grants Fund of the New Mexico Department of Homeland Security and Emergency Management (the Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

Mr. Jay Mitchell, Cabinet Secretary
 State of New Mexico
 Department of Homeland Security and Emergency Management
 and Mr. Wayne A. Johnson, New Mexico State Auditor

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 qualified and unmodified opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Qualified
General Fund Budgetary Comparison	Qualified
Federal Grants Fund	Qualified
Federal Grants Fund Budgetary Comparison	Unmodified
Capital Projects Fund	Unmodified

Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund (Including Budgetary Comparison) and Federal Grants Fund

We were unable to obtain sufficient appropriate audit evidence relating to the completeness, existence, accuracy, and valuation of the Department’s federal accounts receivable/payable reported as of June 30, 2017. Accounting principles generally accepted in the United States of America require that amounts reported as accounts receivable represent net realizable amounts to be received by the Department or valid liabilities due to the federal government. However, management is unable to provide sufficient audit evidence to support these balances of the Department. The amount by which this departure would affect the assets, liabilities, revenues, fund balance, net position of the Federal Grants Fund and governmental activities has not been determined.

Management has not calculated the Department’s reversion and related amounts due to the State General Fund as of and for the year ended June 30, 2017. As a result, we were unable to obtain sufficient appropriate audit evidence relating to the completeness, existence, accuracy, and valuation of the Department’s amount due to the State General Fund as of June 30, 2017 and any related reversions to the State General Fund. Accounting principles generally accepted in the United States of America require that any liabilities and related expenditures be properly accrued and reflected in the Department’s financial statements. The amount by which this departure would affect the liabilities, other financing uses (reversions), fund balance, and net position of the General Fund, Federal Grants Fund, and governmental activities has not been determined.

Management was unable to provide sufficient audit evidence relating to the completeness, existence, and accuracy of the balances and related activity of each executive order accounted for within the General Fund. Accounting principles generally accepted in the United States of America require that the assets, liabilities, and fund balance of a fund be properly reported for and accounted as of and for the year ended June 30, 2017. The amount by which this departure would affect the liabilities, other financing uses (reversions), fund balance, net position of the General Fund, and governmental activities has not been determined.

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor

Management was unable to provide the budgeted amounts for the Executive Orders within the General Fund by expenditure category for the remaining unexpended balance from prior years, which is required to prepare the budgetary comparison on a budgetary basis as of and for the year ended June 30, 2017.

Qualified Opinions

In our opinion, except for the matters described in the “Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund (Including Budgetary Comparison) and Federal Grants Fund” paragraphs above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, General Fund and Federal Grants Fund of the Department as of June 30, 2017, and the respective changes in financial position and budgetary comparison of the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Capital Projects Fund as of June 30, 2017, and the respective changes in financial position and budgetary comparison of the Federal Grants Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the budgetary comparison statements, 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 State of New Mexico as of June 30, 2017, and the changes in its financial position for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 6 through 11 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.

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements and the budgetary comparisons as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other schedules required by 2.2.2 NMAC as listed in the table of contents as schedule of special appropriations, schedule of executive orders, schedule of joint powers agreements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents as schedule of special appropriations, schedule of executive orders, and schedule of joint powers agreements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the General Fund as described in the “Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund (Including Budgetary Comparison) and Federal Grants Fund”, the schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents as schedule of special appropriations, schedule of executive orders, and schedule of joint powers agreements 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 10, 2018 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
January 10, 2018

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

This discussion and analysis of the New Mexico Department of Homeland Security and Emergency Management provides an overview of financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the financial statements. This section will assist the reader in understanding the following:

- Highlight significant financial issues;
- Provide an overview of the Department's financial activity;
- Identify changes in the Department's financial position;
- Identify any material deviation from the approved budget; and
- Identify issues or concerns.

Department's Role for the State of New Mexico

On July 1, 2007, the Department of Homeland Security and Emergency Management (DHSEM) was created by NMSA, Section 9-28-1 through 9-28-7. Prior to July 1, 2007, the responsibilities attributed to this department were performed by the New Mexico Department of Public Safety.

These responsibilities include coordinating with state agencies, county and local municipalities, federal agencies, and the private sector to prepare for, respond to, recover from, and mitigate all emergencies and disasters. Natural disasters are the state's most common threat; however, New Mexico is also at risk for human-caused hazards such as increased gang and drug cartels, and increased illegal activity along our Mexican border. The state uses the Department of Homeland Security's (DHS) Risk Management Framework to enhance security of the state's critical infrastructure and key resources. In addition, the New Mexico All Source Intelligence Center (NMASIC), a bureau of DHSEM, collects, analyzes, and disseminates intelligence and information to key state and federal stakeholders. Maintaining these current procedures and meeting long-term goals for equipment, training, exercise, personnel, and planning is critical to the Department's success.

Financial Highlights

- In fiscal year 2017, the Department received \$46,279,382 in revenue, the majority from non-recurring federal grants.
- Change in net position for the year-ended June 30, 2017 was \$(649,290).
- At the end of the current fiscal year, assets decreased primarily due to decreased grant receivables and liabilities decreased primarily due to decreases in the Department's Overdraft of its Investment in State Treasurer's General Fund Investment Pool.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Department of Homeland Security and Emergency Management's (DHSEM) basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. Financial data presented in these financial statements is for the activities of DHSEM as a single agency. It does not purport to represent the State of New Mexico as a whole.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of DHSEM's finances, in a manner similar to a private-sector business.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Therefore, revenues and expenses are included in this statement for some items that will result in cash flows in future fiscal periods (e.g. earned but unused vacation and uncollected accounts receivable).

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Department of Homeland Security and Emergency Management, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department are reported in governmental funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Department of Homeland Security and Emergency Management maintains its fund structure in the Statewide Human Resources, Accounting and Management Reporting (SHARE) System. The Department maintains four funds: General Fund (Fund No. 20050), Executive Orders State Disasters Fund (Fund No. 20380), Federal Fund (Fund No. 40280), and Capital Projects Fund (Fund No. 89200).

The Department of Homeland Security and Emergency Management adopts an annual appropriated budget for the activities of the Department. A budgetary comparison statement has been provided for funds 20050 and 40280 as required supplementary information and the other major special revenue funds that have legally adopted budgets and are presented as part of the basic financial statement. All other budget comparisons that have legally adopted budgets are presented as supplementary information.

The basic governmental fund financial statements can be found on pages 14 through 19 of this report.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 33 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Department of Homeland Security and Emergency Management, current assets (excluding capital assets) increased by \$3,478,145 or by 10%. This change primarily results from increased grants receivable. The Department's liabilities have increased by \$4,147,866. The governmental activities net position increased by \$3,313,584.

The restricted portion (\$30,471,960) of Department of Homeland Security and Emergency Management's net position represents resources that are subject to external restrictions on how they may be used, such as special appropriations (executive orders) that can only be used towards specific declared disaster relief efforts.

	<u>Governmental Activities</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current and Other Assets	\$ 38,071,279	\$ 34,593,134
Capital Assets	1,783,176	1,947,737
Total Assets	<u>\$ 39,854,455</u>	<u>\$ 36,540,871</u>
Current Liabilities	\$ 7,483,555	\$ 3,335,689
Noncurrent Liabilities	-	-
Total Liabilities	<u>7,483,555</u>	<u>3,335,689</u>
Net Position:		
Net Investment in		
Capital Assets	1,783,176	1,947,737
Restricted for:		
Other Purposes	30,471,960	31,156,781
Unrestricted	115,764	100,664
Total Net Position	<u>32,370,900</u>	<u>33,205,182</u>
Total Liabilities, Deferred		
Inflows of Resources,		
and Net Position	<u>\$ 39,854,455</u>	<u>\$ 36,540,871</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Changes in Net Position

The Department's total revenues of \$46,279,382, total expenses of \$54,970,520, and total general revenues and expenses of \$7,856,856 resulted in a change in net position of \$(834,282). The Department had a decrease in grant and executive order revenue and program expenses from the prior year.

The table shows the summarized revenues and expenditures for the years ended June 30, 2017 and 2016.

	<u>Governmental Activities</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
REVENUES		
Program Revenues:		
Operating Grants	\$ 46,222,232	\$ 60,027,213
Charges for Services	57,150	61,804
Total Revenues	<u>46,279,382</u>	<u>60,089,017</u>
EXPENSES		
Program Expenses:		
Public Safety	54,970,520	72,601,870
Total Expenses	<u>54,970,520</u>	<u>72,601,870</u>
GENERAL REVENUES AND (EXPENSES)		
State General Fund Appropriations	7,323,700	8,004,600
Transfers In	559,376	928,557
Transfers Out	-	(3,255,013)
Reversions to State General Fund	(26,220)	-
Other Revenue	-	10,469
Total General Revenues and Expenses	<u>7,856,856</u>	<u>5,688,613</u>
CHANGE IN NET POSITION	(834,282)	(6,824,240)
Net Position - Beginning of Year	33,205,182	41,428,589
Net Position - Restatement	<u>-</u>	<u>(1,399,167)</u>
Net Position - As Restated	<u>33,205,182</u>	<u>40,029,422</u>
NET POSITION - END OF YEAR	<u>\$ 32,370,900</u>	<u>\$ 33,205,182</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Financial Analysis of the Government's Funds

As noted earlier, Department of Homeland Security and Emergency Management uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of Department of Homeland Security and Emergency Management's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Department's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

For fiscal year 2017, the Department had four governmental funds. The Department's General Fund is used to account for State General Fund appropriations and fees collected from entities with hazardous waste facilities. The Federal Direct Operating Grants is used to account for federal grants awarded to the agency. The Special Appropriation Special Revenue Fund was used to account for a capital outlay project allocated for improvements to infrastructure damaged by severe flooding in several New Mexico counties, but was reverted in Fiscal Year 2016. The Executive Orders State Disasters Fund accounts for State General Fund appropriations designated for use in disaster assistance and rendering aid in emergency situations. Finally, the Capital Projects Fund accounts for the capital project allocated to the department to assist local entities with match funding for federally awarded hazard mitigation projects.

As of the end of fiscal year 2017, Department of Homeland Security and Emergency Management's governmental funds reported combined ending fund balances of \$30,779,523, a decrease of \$641,360 in comparison with the prior year. \$30,471, 960 is *restricted* for specific purposes.

The ending fund balance is largely attributable to the Executive Orders State Disasters Fund balance of \$29,971,960. The decrease in fund balance is primarily attributed to decreases in special appropriations resulting from executive orders from the Governor.

Budget Amendment Highlights

The annual operating budget is approved by the New Mexico Governor. Over the course of the year, the Department's budget is subject to approval by the New Mexico Department of Finance and Administration. Comparison of actual expenditures on a budgetary basis to approved budget amounts is presented in the basic financial statements section of the financial statements. Budgetary basis expenditures were within approved budgeted amounts. The difference in budget to actual expenditures for the total categories is \$134,018,191. There were no unexpected budget variances during the year.

	Final Budget	Actual (Budgetary) Basis	Favorable (Unfavorable) Variance
General Fund	\$ 2,708,700	\$ 2,575,131	\$ 133,569
Federal Fund	149,460,940	46,037,240	103,423,700
Executive Orders State Disasters Fund	35,131,781	5,170,859	29,960,922
Special Appropriation	750,000	250,000	500,000
Total for Governmental Funds	<u>\$ 188,051,421</u>	<u>\$ 54,033,230</u>	<u>\$ 134,018,191</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Capital Asset and Debt Administration

Capital Assets

The investment in capital assets consists of buildings, equipment, information technology, and automobiles. The following net change occurred in the capital assets during the years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Net Capital Assets - Beginning of Year	\$ 1,947,737	\$ 3,601,963
Restatement to Capital Assets	-	(1,399,167)
Capital Assets Purchased	184,992	275,591
Current Year Depreciation/Adjustments	<u>(349,553)</u>	<u>(530,650)</u>
Net Capital Assets - End of Year	<u>\$ 1,783,176</u>	<u>\$ 1,947,737</u>

Consistent with application of GASB No. 34, the Department has recognized depreciation for assets during the fiscal year of \$349,553. The summary of changes in capital asset and accumulated depreciation balances can be found in Note 5 of the financial statements.

Economic Factor and Next Year's Budgets

The Department's fiscal year 2019 budget recommendation was submitted with an additional \$500,000 in appropriations to support development efforts of the Statewide Mass Notification System and enhancements for radio communications statewide.

Request for Information

This financial report is designed to provide a general overview of Department of Homeland Security and Emergency Management's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cabinet Secretary, Department of Homeland Security and Emergency Management, 13 Bataan Blvd., Santa Fe, NM. 87502.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS	<u>Governmental Activities</u>
Current Assets:	
Due from Federal Government	\$ 36,300,365
Due from Other State Agencies	1,756,595
Other Assets	14,319
Total Current Assets	<u>38,071,279</u>
Non-Current Assets:	
Capital Assets, Net of Depreciation	<u>1,783,176</u>
Total Assets	<u><u>\$ 39,854,455</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Investment in State Treasurer General Fund Investment Pool Overdraft	\$ 1,201,070
Accounts Payable	1,106,503
Accrued Payroll and Benefits	156,084
Due to State General Fund	973,078
Due to Other State Agencies	67,118
Due to Federal Government	3,788,173
Compensated Absences, Due Within One Year	191,529
Total Liabilities	<u>7,483,555</u>
NET POSITION	
Net Investment in Capital Assets	1,783,176
Restricted	
Special Appropriations	500,000
Executive Orders	29,971,960
Unrestricted	115,764
Total Net Position	<u>32,370,900</u>
Total Liabilities and Net Position	<u><u>\$ 39,854,455</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Governmental Activities
EXPENSES	
Public Safety	\$ 54,970,520
Total Program Expenses	54,970,520
PROGRAM REVENUES	
Operating Grants	46,222,232
Charges for Services	57,150
Total Program Revenues	46,279,382
Net Program Expense	(8,691,138)
GENERAL REVENUES AND (EXPENSES)	
State General Fund Appropriations	7,323,700
Transfers In	559,376
Reversions to State General Fund	(26,220)
Total General Revenues and Expenses	7,856,856
CHANGE IN NET POSITION	(834,282)
Net Position - Beginning of Year	33,205,182
NET POSITION - END OF YEAR	\$ 32,370,900

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2017**

	20050/20380	40280	89200	Total
	General	Federal	Capital	Governmental
	Fund	Grants Fund	Projects Fund	Funds
ASSETS				
Investment in State General Fund Investment Pool	\$ 30,265,941	\$ -	\$ -	\$ 30,265,941
Due from Other State Agencies	1,750,000	6,595	-	1,756,595
Due from Federal Government	-	36,300,365	-	36,300,365
Other Assets	1,927	12,392	-	14,319
	<u>1,927</u>	<u>12,392</u>	<u>-</u>	<u>14,319</u>
Total Assets	<u>\$ 32,017,868</u>	<u>\$ 36,319,352</u>	<u>\$ -</u>	<u>\$ 68,337,220</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Investment in State Treasurer General Fund Investment Pool (Overdraft)	\$ -	\$ 31,467,011	\$ -	\$ 31,467,011
Accounts Payable	192,656	913,847	-	1,106,503
Accrued Payroll and Benefits	64,035	92,049	-	156,084
Due to State General Fund	910,710	62,368	-	973,078
Due to Other State Agencies	51,263	15,855	-	67,118
Due to Federal Government	19,951	3,768,222	-	3,788,173
Total Liabilities	<u>1,238,615</u>	<u>36,319,352</u>	<u>-</u>	<u>37,557,967</u>
Fund Balances:				
Restricted for:				
Special Appropriations	500,000	-	-	500,000
Executive Orders	29,971,960	-	-	29,971,960
Unassigned	307,293	-	-	307,293
Total Fund Balances	<u>30,779,253</u>	<u>-</u>	<u>-</u>	<u>30,779,253</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 32,017,868</u>	<u>\$ 36,319,352</u>	<u>\$ -</u>	<u>\$ 68,337,220</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$	30,779,253
 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.		
Cost of Capital Assets		8,803,550
Accumulated Depreciation		(7,020,374)
Total Capital Assets, Net		1,783,176
 Long-Term and Other Liabilities:		
Compensated Absences Payable		(191,529)
Total Long-Term and Other Liabilities		(191,529)
 Net Position of Governmental Activities (Statement of Net Position)	 \$	 32,370,900

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	20050/20380	40280	89200	Total
	General	Federal	Capital	Governmental
	Fund	Grants Fund	Projects	Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
Federal Grant Revenue	\$ -	\$ 46,222,232	\$ -	\$ 46,222,232
Miscellaneous Revenue	57,150	-	-	57,150
Total Revenues	<u>57,150</u>	<u>46,222,232</u>	<u>-</u>	<u>46,279,382</u>
EXPENDITURES				
Public Safety:				
Current:				
Personal Services	1,690,080	2,275,838	-	3,965,918
Contractual Services	217,166	919,487	-	1,136,653
Other Costs	6,088,744	42,841,915	559,376	49,490,035
Capital Outlay	-	184,992	-	184,992
Total Expenditures	<u>7,995,990</u>	<u>46,222,232</u>	<u>559,376</u>	<u>54,777,598</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(7,938,840)	-	(559,376)	(8,498,216)
OTHER FINANCING SOURCES (USES)				
State General Fund Appropriations	7,323,700	-	-	7,323,700
Other Financing Sources - Transfers In	-	-	559,376	559,376
Reversions to State General Fund	(26,220)	-	-	(26,220)
Total Other Financing Sources (Uses)	<u>7,297,480</u>	<u>-</u>	<u>559,376</u>	<u>7,856,856</u>
NET CHANGE IN FUND BALANCE	(641,360)	-	-	(641,360)
Fund Balance - Beginning of Year	<u>31,420,613</u>	<u>-</u>	<u>-</u>	<u>31,420,613</u>
FUND BALANCE - END OF YEAR	<u>\$ 30,779,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,779,253</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Net Changes in Fund Balances - Total Governmental Funds
(Statement of Revenues, Expenditures, and Changes in Fund Balances) \$ (641,360)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	184,992
Depreciation Expense	(349,553)
Excess of Capital Outlay Over Depreciation Expense	<u>(164,561)</u>

Change in Compensated Absence Balance Not Recorded in the Governmental Funds	<u>(28,361)</u>
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Change in Net Position of Governmental Activities (Statement of Activities) \$ (834,282)

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL –
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	General Fund			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Funds	\$ -	\$ -	\$ -	\$ -
General Funds	7,323,700	7,323,700	7,323,700	-
Other State Funds	110,000	110,000	57,150	(52,850)
Inter-Agency Transfers	-	-	-	-
Total Revenues	<u>7,433,700</u>	<u>7,433,700</u>	<u>7,380,850</u>	<u>(52,850)</u>
BUDGETED FUND BALANCE	<u>31,156,781</u>	<u>31,156,781</u>	<u>-</u>	<u>(31,156,781)</u>
TOTAL REVENUES AND BUDGETED FUND BALANCE	<u>\$ 38,590,481</u>	<u>\$ 38,590,481</u>	<u>\$ 7,380,850</u>	<u>\$ (31,209,631)</u>
P 579 EXPENDITURES				
Personnel Services and Benefits	\$ 788,200	\$ 1,724,200	\$ 1,690,080	\$ 34,120
Contractual Services	181,400	250,000	216,195	33,805
Other Costs	1,739,100	734,500	668,856	65,644
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 2,708,700</u>	<u>\$ 2,708,700</u>	<u>\$ 2,575,131</u>	<u>\$ 133,569</u>
SPECIAL APPROPRIATION EXPENDITURES				
Personnel Services and Benefits	\$ -	\$ -	\$ -	\$ -
Contractual Services	-	-	-	-
Other Costs	750,000	750,000	250,000	500,000
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 250,000</u>	<u>\$ 500,000</u>
EXECUTIVE ORDER EXPENDITURES				
Personnel Services and Benefits	\$ 100,000	\$ 100,000	\$ -	\$ 100,000
Contractual Services	1,000	1,000	971	29
Other Costs	35,030,781	35,030,781	5,169,888	29,860,893
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 35,131,781</u>	<u>\$ 35,131,781</u>	<u>\$ 5,170,859</u>	<u>\$ 29,960,922</u>
ALL EXPENDITURES				
Personnel Services and Benefits	\$ 888,200	\$ 1,824,200	\$ 1,690,080	\$ 134,120
Contractual Services	182,400	251,000	217,166	33,834
Other Costs	37,519,881	36,515,281	6,088,744	30,426,537
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 38,590,481</u>	<u>\$ 38,590,481</u>	<u>7,995,990</u>	<u>\$ 30,594,491</u>
NET CHANGE IN FUND BALANCES (Budgetary Basis)			<u>\$ (615,140)</u>	
REVERSIONS TO STATE GENERAL FUND (Not Budgeted)			\$ (26,220)	
NET CHANGE IN FUND BALANCE (GAAP Basis)			<u>\$ (641,360)</u>	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL –
FEDERAL GRANTS FUND – SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2017**

	Federal Grants Fund - Special Revenue Fund			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Funds	\$ 149,071,231	\$ 149,460,940	\$ 46,222,232	\$ (103,238,708)
General Funds	-	-	-	-
Other State Funds	-	-	-	-
Inter-Agency Transfers	-	-	-	-
Total Revenues	<u>149,071,231</u>	<u>149,460,940</u>	<u>46,222,232</u>	<u>(103,238,708)</u>
 Budgeted Fund Balance	 -	 -	 -	 -
 Total Revenues and Budgeted Fund Balance	 <u>\$ 149,071,231</u>	 <u>\$ 149,460,940</u>	 46,222,232	 <u>\$ (103,238,708)</u>
 EXPENDITURES				
Personnel Services and Benefits	\$ 4,476,800	\$ 4,476,800	2,275,838	\$ 2,200,962
Contractual Services	1,741,000	1,741,000	919,487	821,513
Other Costs	142,853,431	143,243,140	43,026,907	100,216,233
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 149,071,231</u>	<u>\$ 149,460,940</u>	<u>46,222,232</u>	<u>\$ 103,238,708</u>
 NET CHANGE IN FUND BALANCES			 <u>\$ -</u>	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Department is presented to assist in the understanding of the Department's financial statements. The financial statements and notes are the representation of the Department's management, who is responsible for their integrity and objectivity. The financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to agencies of the state government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The State of New Mexico Department of Homeland Security and Emergency Management was established by the Homeland Security and Emergency Management Department Act enacted at the 2007 session of the 48th New Mexico State Legislature and codified at Sections 9-28-1 to 9-28-7 NMSA.

The Department is responsible for all of New Mexico's Homeland Security and Emergency Management efforts. As stated in the Act, the purpose of this Department is to provide comprehensive and coordinated preparedness, mitigation, prevention, protection, and response and recovery for emergencies and disasters; act as the central primary coordinating agency for the state and its political subdivisions in response to emergencies, disasters, and acts or threats of terrorism; and act as the conduit for federal assistance and cooperation in response to emergencies, disasters, and acts or threats of terrorism.

The chief executive of the Department is the Cabinet Secretary, who is appointed by the Governor of the State of New Mexico. This position has decision-making authority, the power to designate management, and primary accountability of fiscal matters. The Department is a department of the State of New Mexico, and these financial statements include all funds, programs, and activities of operations of only those *Statewide Human Resources, Accounting and Management Reporting System* (SHARE) funds over which the Department Cabinet Secretary has oversight responsibility.

Based upon the application of the criteria in GASB Codification, the Department had no component units as of June 30, 2017.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Department. The Department's governmental activities are supported by general fund appropriations from the State of New Mexico. The Department has no business-type activities.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and appropriations. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied and related costs are incurred. Appropriations are recorded at the time the money is made available to a specific fund.

In the government-wide statement of net position, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The Department's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Department's general fund appropriations are shown as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Department did not have any funds classified as proprietary for the year ended June 30, 2017.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements of time, reimbursement, and contingencies imposed by the provider are met.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Unavailable revenue is reported as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Department reports the following major governmental funds:

The General Fund is the Department's operating fund. The fund numbers in the Statewide Human Resource Accounting and Management Reporting System (SHARE) are funds 20050 and 20380. It is used to account for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in some other fund. Effective for FY17 the Department presented the Executive Order Fund (20380) within the general fund, as it doesn't have revenues to meet the definition of a special revenue fund. The general fund is a reverting fund.

The Federal Grants Fund (SHARE fund 40280) was established to account for specific revenue sources awarded pursuant to grant agreements. This fund was created under the authority of the New Mexico Department of Finance and Administration.

The Capital Projects Fund (SHARE fund 89200) was established to account for capital projects funded with Severance Tax Bonds.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position

Cash and Investments

For the fiscal year ended June 30, 2017, all of the Department's cash was maintained on deposit with the State Treasurer's General Fund Investment Pool (SGFIP). The State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended. State law requires the New Mexico Department of Finance and Administration to complete the reconciliations of balances and accounts kept by the New Mexico State Treasurer's Office. The Department does not have a separate bank account.

Federal Grants Receivable

Receivable balances at fiscal year-end represent an excess of modified accrual basis expenditures over cash reimbursements received to date. Unearned revenue balances represent an overdraw of cash (advances) in excess of modified accrual basis expenditures. Receivable or unearned balances caused by differences in the timing of cash reimbursements and expenditures will be reversed or returned to the grantor in the remaining grant period. Determining the amount of expenditures reimbursable by the federal government requires management to estimate allowable costs to be charged to the federal government. As a result, management provides an allowance for potential contractual allowances for federal revenue. Any changes in these estimates are recorded in the period that the estimate is changed.

Capital Assets and Depreciation

Capital assets purchased or acquired are carried at historical costs or estimated historical costs. Contributed assets are recorded at the fair values 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. The State's capitalization policy (i.e. the dollar value above which asset acquisitions are added to the capital accounts) is \$5,000 per section 12-6-10 NMSA 1978. There is no debt related to the capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value, as follows:

Buildings	20 Years
Furniture and Fixtures	5 Years
Data Processing Equipment	4 Years
Equipment and Machinery	5 Years
Automobiles	5 Years

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position (Continued)

Compensated Absences

Up to thirty (30) days of accrued annual leave earned and not taken may be carried forward to the next calendar year. Any accrued leave in excess of 30 days is forfeited. Upon termination of employment, employees are compensated for accumulated annual leave as of the date of termination, up to thirty (30) days. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50% of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. The compensated absences payable is included in the government-wide financial statements.

When applicable, the compensated absence liability is presented in two parts in the government-wide financial statements: a current portion and long-term portion. The current portion is the amount *estimated* to be expended during fiscal year 2017.

Pensions

The Department, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such this information will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflow and outflow of resources of the primary government will be contained in the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501. For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to /deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Classification Policies and Procedures

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, 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

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position (Continued)

Fund Balance Classification Policies and Procedures (Continued)

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. Unassigned fund balances represent the residual amount of fund balance after all classifications described above have been considered. As of June 30, 2017, the Department has no nonspendable fund balances. In addition, the Department has \$30,471,960 in amounts restricted for special appropriations and in accordance with Section 6-7-3 NMSA 1978 for executive orders.

Spending Policy Disclosure

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the Department's policy to use restricted resources first. When expenditures are incurred for purposes for which committed, assigned, and unassigned resources are available, it is the Department's policy to spend committed resources first. The Department has no authority to establish a minimum fund balance. This is the prerogative of the State Legislature and the Executive (Governor) Branch.

Net Position Classifications

The statement of net position displays net position amounts in the following three components:

- 1) *Net investment in capital assets.* This classification of net position consists of capital assets net of accumulated depreciation as of June 30, 2017.
- 2) *Restricted.* This classification consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. The Department has \$30,471,960 in restricted amounts for special appropriations related to statewide projects and in accordance with Section 6-7-3 NMSA 1978 for executive orders of state disasters as of June 30, 2017.
- 3) *Unrestricted.* This classification consists of all other net position amounts that do not meet the definition of "restricted" or "net investment in capital assets."

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The state Legislature makes annual appropriations to the Department. Annual appropriations lapse at fiscal year-end unless otherwise specified in the legislation. Legal compliance is monitored through the establishment of a budget and a financial control system that permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the category level. Budgeted category amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration (DFA) within the limitations as specified in the General Appropriation Act.

No 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 DFA State Budget Division reviews and approves the operating budget, which becomes effective on July 1. All subsequent budget adjustments must Per the General Appropriation Act, Laws of 2007, Chapter 28, Section 3, item N, "For the purpose of administering the General Appropriation Act of 2007 and approving operating budgets, the State of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the Department of Finance and Administration." The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely must be paid out of the next year's budget.

Encumbrances related to single year appropriations lapse at year-end. Appropriation periods are sometimes for periods in excess of twelve months (multiple-year appropriations). When multiple-year appropriation periods lapse, the authority for the budget also lapses and encumbrances can no longer be charged to that budget. The legal level of budgetary control is at the appropriation unit level.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 STATE GENERAL FUND INVESTMENT POOL

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

The comprehensive cash reconciliation model, which compares aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is now in its third year. This process has been reviewed multiple times by the IPAs during the audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's Comprehensive Annual Financial Report. The reviews have deemed the process to be sound and the Department fully compliant with the requirements of the monthly process. As of June 30, 2017, the Department of Finance and Administration provides the following assertions:

1. Resources held in the pool were equivalent to the corresponding business unit claims on those resources.
2. All claims as recorded in SHARE shall be honored at face value.

The Department has lacked established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the Pool during FY17. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

State law (Section 8-6-3 NMSA 1978) requires the Department's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

At June 30, 2017, the Department had the following invested in the State General Fund Investment Pool:

<u>Fund</u>	<u>Fund No.</u>	<u>Fair Value June 30, 2017</u>
General Fund	20050/20380	\$ 30,265,941
Federal Grants	40280	(31,467,011)
Capital Projects Fund	89200	-
Total		<u>\$ (1,201,070)</u>

Interest Rate Risk: The State Treasurer's General Fund Investment Pool does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The New Mexico State Treasurer's General Fund Investment Pool is not rated for credit risk.

For additional GASB 40 disclosure information regarding the investment in the New Mexico State Treasurer's General Fund Investment Pool, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2017.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS

A summary of changes in capital asset and accumulated depreciation balance is as follows:

	June 30, 2016	FY17 Additions	FY17 Deletions/ Adjustments	June 30, 2017
Assets:				
Buildings	\$ 3,266,201	\$ -	\$ -	\$ 3,266,201
Data Processing Equipment	1,539,863	36,209	11,951	1,588,023
Furniture and Fixtures	27,059	32,893	-	59,952
Equipment and Machinery	1,932,710	115,890	-	2,048,600
Automobiles	1,840,774	-	-	1,840,774
Total Assets	<u>8,606,607</u>	<u>184,992</u>	<u>11,951</u>	<u>8,803,550</u>
Accumulated Depreciation:				
Buildings and Improvements	(2,039,344)	(78,310)	-	(2,117,654)
Data Processing Equipment	(1,387,935)	(51,893)	(11,951)	(1,451,779)
Furniture and Fixtures	(902)	(5,971)	-	(6,873)
Equipment and Machinery	(1,517,878)	(160,198)	-	(1,678,076)
Automobiles	(1,712,811)	(53,181)	-	(1,765,992)
Total Accumulated Depreciation	<u>(6,658,870)</u>	<u>(349,553)</u>	<u>(11,951)</u>	<u>(7,020,374)</u>
Net Total	<u>\$ 1,947,737</u>	<u>\$ (164,561)</u>	<u>\$ -</u>	<u>\$ 1,783,176</u>

The Department does not have any debt related to capital assets. Depreciation expense of \$349,553 is considered a public safety expense.

NOTE 6 COMPENSATED ABSENCES

The changes in liabilities for compensated absences are as follows:

	Balance, June 30, 2016	Increase	(Decrease)	Balance, June 30, 2017	Due Within One Year
Governmental Activities	\$ 163,168	\$ 115,402	\$ (87,041)	\$ 191,529	\$ 191,529
Net Total	<u>\$ 163,168</u>	<u>\$ 115,402</u>	<u>\$ (87,041)</u>	<u>\$ 191,529</u>	<u>\$ 191,529</u>

The General Fund is typically used to liquidate compensated absences balances.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DUE FROM/TO OTHER STATE AGENCIES

The following amounts are due from other state agencies as of June 30, 2017:

Fund	Agency	Agency Number	Fund Number	Amount	Purpose
20050	Dept of Finance and Administration	34103	85300	\$1,750,000	EO-2015-013
40280	Energy, Minerals, & Natural Resources	\$ 52,100	\$ 19,902	6,595	Reimbursable Grant Expenditures
	Total			<u>\$1,756,595</u>	

The following amounts are due to other state agencies as of June 30, 2017:

Fund	Agency	Agency Number	Fund Number	Amount	Purpose
20380	Public Safety	79000	12802	\$ 50,280	Reimbursements
20050	Military Affairs	70500	99200	845	Reimbursements
20050	Border Authority	41700	05600	138	Reimbursements
40280	Border Authority	41700	05600	138	Reimbursements
40280	Military Affairs	70500	99200	1,090	Reimbursements
20050	Border Authority	92400	05700	14,627	Reimbursements
	Total			<u>\$ 67,118</u>	

NOTE 8 INTERAGENCY TRANSFERS

The following interagency transfers occurred during FY17:

To Fund	Agency	Agency Number	From Fund	Amount	Purpose
89200	BOF-Dept. of Finance and Administration	34103	TBD-BOF	\$ 559,376	STB Projects
	Total			<u>\$ 559,376</u>	

NOTE 9 DUE TO STATE GENERAL FUND

At June 30, 2017, the amount due to the State General Fund is made up of the following fiscal year reversions and stale dated warrants:

Year Ending June 30,	Amount
2015	\$ 296,626
2016	-
Executive Orders	612,028
Stale Warrants	64,424
Total	<u>\$ 973,078</u>

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 PENSION PLAN – PUBLIC EMPLOYEES’ RETIREMENT ASSOCIATION

Plan Description

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

Funding Policy

The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2017 and 2016 were \$448,020 and \$455,686, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 11 POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective date, in which 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.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 11 POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plans 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$53,870, \$53,527, and \$58,347, respectively, which equal the required contributions for each year.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 RISK MANAGEMENT

The Department is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure, or use a combination of both. Risk management expenditures for the Department are accounted for in the general fund. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the Department is a party.

NOTE 13 CONTINGENCIES

The Department receives funding pursuant to various grant programs. The grant programs are often subject to periodic audits by grantor agencies, the purpose of which is to ensure compliance with the specific conditions of the grant that, if not met, could require the Department to refund amounts received by the grantor agencies. The Department believes it is in compliance with such conditions.

The Department is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the proceedings cannot be predicted, the Department believes that any potential liability would be covered through insurance, supplemental appropriations, or would be immaterial to the financial statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF SPECIAL APPROPRIATIONS
YEAR ENDED JUNE 30, 2017**

Authority	Appropriation Expiration	Original Appropriation	Current Year Reversions	Current Year Expenditures	Previous Year's Expenditures	Appropriation Expired	Unexpended Portion	Restricted Fund Balance
Laws of 2016, Ch 11 HB 2	6/30/2017	\$ 250,000	\$ -	\$ 250,000	\$ -	\$ -	\$ -	\$ -
Laws of 2015, Ch 3 SB 1	6/30/2019	500,000	-	-	-	-	500,000	500,000
		<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXECUTIVE ORDERS
YEAR ENDED JUNE 30, 2017**

Description	Appropriation Period	Original Appropriation	Audit Balance June 30, 2016	New Orders	Current Year Expenditures	Adjustments	Reversion	Balance, June 30, 2017
NMEO 07-19 1659 Matching Funds	2007 - Gov Rescinds	\$ 750,000	\$ 1,403	\$ -	\$ -	\$ 1,403	\$ -	\$ 2,806
NMEO 07-20 1659 Matching Funds	2007 - Gov Rescinds	750,000	392,794	-	(185,537)	8,737	-	215,993
NMEO 07-22 1659 Matching Funds	2007 - Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 08-37 Drought in State (Water Hauls) - Stand Alone	2008 - Gov Rescinds	500,000	291,919	-	-	-	-	291,919
NMEO 08-42 Flooding Disaster in Lincoln Chavez - Matching Funds	2008 - Gov Rescinds	750,000	-	-	-	(799,327)	-	(799,327)
NMEO 08-42a Flooding Disaster in Lincoln Chavez - Matching Funds	2008 - Gov Rescinds	750,000	-	-	-	750,000	-	750,000
NMEO 10-31 Flash Flooding, San Miguel Co. - Stand Alone	2010 - Gov Rescinds	200,000	105,061	-	-	-	(105,061)	-
NMEO 10-034 Flood Damage 1936 Matching McKinley Co., Farmington, Acoma - Matching Funds	2010 - Gov Rescinds	750,000	283,020	-	-	-	-	283,020
NMEO 10-035 Flooding 1936 Matching Mora Co. - Matching Funds	2010 - Gov Rescinds	400,000	397,712	-	-	-	-	397,712
NMEO 10-036 Flooding 1936 Matching Socorro Co. - Matching Funds	2010 - Gov Rescinds	750,000	265,174	-	-	-	-	265,174
NMEO 10-042 Flooding Kewa Pueblo - Stand Alone	2010 - Gov Rescinds	250,000	-	-	-	-	-	-
NMEO 11-014 1962 Winter Storm - Matching Funds	2011 - Gov Rescinds	750,000	417,817	-	-	-	-	417,817
NMEO 11-040 Wallow Fire Catron County - Stand Alone	2011 - Gov Rescinds	200,000	-	-	-	-	-	-
NMEO 11-047 Track Fire Colfax, Mora, and San Miguel - Stand Alone	2011 - Gov Rescinds	200,000	-	-	-	-	-	-
NMEO 11-053 Las Conchas Fire Los Alamos - Stand Alone	2011 - Gov Rescinds	750,000	470,180	-	-	-	-	470,180
NMEO 11-061 Donaldson Fire Lincoln County - Stand Alone	2011 - Gov Rescinds	100,000	-	-	-	-	-	-
NMEO 11-063 2011 Flood Threat	2011 - Gov Rescinds	750,000	-	-	-	(15,219)	-	(15,219)
NMEO 12-007 Flood Potential Due to Wild Fires - Stand Alone	2012 - Gov Rescinds	250,000	59,703	-	-	(2,574)	-	57,129
NMEO 12-008 Flooding 4047 Cibola, Los Alamos, and Sandoval Co. - Matching Funds	2012 - Gov Rescinds	450,000	247,025	-	-	(208,345)	-	38,680
NMEO 11-075 4047 Cibola and Sandoval - Matching Funds	2011 - Gov Rescinds	300,000	164,101	-	-	135,899	-	300,000
NMEO 12-014 FMAG 2978 Whitewater Baldy Fire Catron County	2012 - Gov Rescinds	500,000	166,811	-	-	(173,486)	-	(6,675)
NMEO 12-015 FMAG 2979 Little Bear Fire Lincoln County - Stand Alone	2012 - Gov Rescinds	750,000	288,672	-	-	(173,514)	-	115,158
NMEO 12-018 FMAG Whitewater Baldy and Little Bear Fires, Catron, Grant & Lincoln County - Stand Alone	2012 - Gov Rescinds	750,000	198,191	-	-	(10,808)	-	187,383
NMEO 12-032 Flooding Cibola, Los Alamos, and Sandoval Counties - Matching Funds	2012 - Gov Rescinds	750,000	157,985	-	-	(103,727)	-	54,258
NMEO 12-038 Hurricane Sandy - Matching Funds	2012 - Gov Rescinds	200,000	-	-	-	-	-	-
NMEO 13-001 Flooding Disaster Lincoln, Los Alamos, Sandoval Counties - Stand Alone	2013 - Gov Rescinds	10,500,000	8,783,688	-	-	10,808	-	8,794,496
NMEO 13-004 Sub-Freezing Temps Navajo Nations, San Juan, McKinley, Valencia - Stand Alone	2013 - Gov Rescinds	100,000	-	-	-	-	-	-
NMEO 13-008 Tres Lagunas Fire - Stand Alone	2013 - Gov Rescinds	750,000	748,540	-	-	-	-	748,540
NMEO 13-010 Thompson Fire - Stand Alone	2012 - Gov Rescinds	500,000	458,525	-	-	-	-	458,525
NMEO 13-022 Flood Threat - Stand Alone	2013 - Gov Rescinds	750,000	448,747	-	-	-	-	448,747
NMEO 2014-004 Flooding Disaster in Lincoln Chavez - Matching Funds	2014 - Gov Rescinds	8,000,000	7,967,075	-	(484,259)	-	-	7,482,816
NMEO 2014-006 Flooding Disaster in Catron, Chavez, Cibola - Matching Funds	2014 - Gov Rescinds	5,500,000	1,322,434	-	(340,759)	-	-	981,675
NMEO 2014-005 Flooding Disaster in Bernalillo - Matching Funds	2014 - Gov Rescinds	1,375,000	316,737	-	(68,563)	-	-	248,174
NMEO 2014-013 Monsoonal Flooding - Matching Funds	2014 - Gov Rescinds	750,000	(27,009)	-	-	27,009	-	-
NMEO 2014-015 Flooding from Hurricane Odile - Matching Funds	2014 - Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2013-034 Severe Winter Storms and Freezing Temp. - Stand Alone	2013 - Gov Rescinds	100,000	-	-	-	-	-	-
NMEO 2013-031 Declaring a Disaster Statewide Due to Flooding - Stand Alone	2013 - Gov Rescinds	750,000	316,009	-	(264,730)	(1,317)	-	49,962

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXECUTIVE ORDERS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Description	Appropriation Period	Original Appropriation	Audit Balance June 30, 2016	New Orders	Current Year Expenditures	Adjustments	Reversion	Balance, June 30, 2017
NMEO 2013-027 Emergency Due to Storms and Flooding - Stand Alone	2013 - Gov Rescinds	\$ 500,000	\$ 169,223	\$ -	\$ -	\$ -	\$ -	\$ 169,223
NMEO 2015-008 Providing Additional Funding for Flooding Disaster in Colfax, Eddy, Lea, Lincoln Counties - Matching Funds	2015 - Gov Rescinds	7,125,000	984,694	-	(542,890)	-	-	441,804
NMEO 2015-007 Enhanced Flood Potential - Stand Alone	2015 - Gov Rescinds	750,000	725,050	-	-	-	-	725,050
NMEO 2015-003 Providing Additional Funding for Flooding Disaster in Bernalillo, Colfax, Sandoval, Sierra, Socorro, and Luna Counties; the Cochiti, Kewa, Sandia, San Felipe Pueblos; and the Navajo Nation	2016 - Gov Rescinds	1,750,000	1,618,185	-	(13,948)	-	-	1,604,237
NMEO 2015-016 Declaring An Emergency in San Juan County Due to Gold King Mine Contaminated Water Release	2016 - Gov Rescinds	750,000	545,168	-	(24,730)	-	-	520,438
NMEO 2015-017 Declaring an Emergency Throughout New Mexico Due to Monsoon Flooding	2016 - Gov Rescinds	750,000	435,746	-	(435,746)	-	-	-
NMEO 2015-021 Declaring an Emergency Throughout New Mexico Due to Severe Winter Storms and Freezing Temperatures	2016 - Gov Rescinds	750,000	191,288	-	(191,288)	-	-	-
NMEO 2016-004 Providing Additional Funding for Flooding Emergency Statewide	2016 - Gov Rescinds	750,000	750,000	1,000,000	(1,177,798)	-	-	572,202
NMEO 2016-007 Declaring an Emergency in Bernalillo and Torrance Counties Due to Dog Head Wildfire	2016 - Gov Rescinds	750,000	745,113	-	(91,357)	-	-	653,756
NMEO 2016-021 Timberon Fire	2017 - Gov Rescinds	750,000	-	750,000	(5,281)	-	-	744,719
NMEO 2016-027 August Monsoon	2017 - Gov Rescinds	750,000	-	750,000	(812)	-	-	749,188
NMEO 2016-034 Bloomfield Irrigation Ditch	2017 - Gov Rescinds	225,000	-	225,000	(175,271)	-	-	49,729
NMEO 2016-035 Winter Storm	2017 - Gov Rescinds	1,250,000	-	1,250,000	(1,062,544)	-	-	187,456
NMEO 2016-036 FY17 Annual Disaster EO	2017 - Gov Rescinds	750,000	-	750,000	(50,000)	-	-	700,000
Unlocated Difference to EO Restricted Fund Balance		-	-	-	-	-	-	615,214
			<u>\$ 30,406,781</u>	<u>\$ 4,725,000</u>	<u>\$ (5,115,514)</u>	<u>\$ (554,460)</u>	<u>\$ (105,061)</u>	<u>\$ 29,971,960</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF JOINT POWERS AGREEMENTS
YEAR ENDED JUNE 30, 2017**

<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning & Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2017</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent & Responsible Reporting Entity</u>
None							

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Amount Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Homeland Security (DHS): Federal Emergency Management Agency (FEMA):			
Community Assistance Program	97.023	\$ 18,254	\$ 91,395
Disaster Grants - Public Assistance	97.036	32,444,693	33,237,957
Hazard Mitigation Grant	97.039	1,581,996	2,059,457
Emergency Management Performance Grants	97.042	2,451,430	4,354,035
Pre-Disaster Mitigation	97.047	28,965	31,969
Homeland Security Grant Program	97.067	<u>5,444,343</u>	<u>6,110,737</u>
Total U.S. Department of Homeland Security (DHS): Federal Emergency Management Agency (FEMA):		41,969,681	45,885,550
U.S. Department of Transportation:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	146,053	203,545
U.S. Department of Energy - Passed-through NM EMNRD Passed Through New Mexico Energy & Minerals Dept.			
Transport of Transuranic Wastes to the Waste Isolation Pilot Plan: States and Tribal Concerns, Proposed Solutions	81.106	<u>-</u>	<u>133,137</u>
Total Federal Awards Expended		<u>\$ 42,115,734</u>	<u>\$ 46,222,232</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Department of Homeland Security and Emergency Management (Department) and is presented on a modified accrual basis of accounting, which is the same basis of accounting used in preparation of the government fund financial statements. The Department has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

2. Noncash Assistance Provided

The Department did not receive any noncash federal assistance during the year.

3. Loans

The Department does not have any loans outstanding with the Federal government at June 30, 2017.



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

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the New Mexico Department of Homeland Security and Emergency Management (the Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the related budgetary comparisons and have issued our report thereon dated January 10, 2018. Our report included various qualified opinions because of the matters described in the "*Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund (Including Budgetary Comparison) and Federal Grants Fund*" paragraph in our report starting on page 3.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, which we consider to be a material weakness: 2017-001.

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor

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 2017-008, 2017-009, 2017-010, 2017-011, and 2017-012.

The Department's Response to Findings

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Department's 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.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
January 10, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor
Santa Fe, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Department of Homeland Security and Emergency Management's (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2017. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Department's compliance.

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor

Basis for Qualified Opinion on Disaster Grants — Public Assistance (CFDA 97.036)

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Disaster Grants — Public Assistance (CFDA 97.036) as described in finding numbers 2017-002 for Subrecipient Monitoring and 2017-003 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Qualified Opinion on Disaster Grants — Public Assistance (CFDA 97.036)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Disaster Grants — Public Assistance (CFDA 97.036) for the year ended June 30, 2017.

Basis for Qualified Opinion on Emergency Management Performance Grants (CFDA 97.042)

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Emergency Management Performance Grants (CFDA 97.042) as described in finding numbers 2017-002 for Subrecipient Monitoring and 2017-003 Reporting. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Qualified Opinion on Emergency Management Performance Grants (CFDA 97.042)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Emergency Management Performance Grants (CFDA 97.042) for the year ended June 30, 2017.

Basis for Qualified Opinion on Homeland Security Grant Program (CFDA 97.067)

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Homeland Security Grant Program (CFDA 97.067) as described in finding numbers 2017-002 for Subrecipient Monitoring and 2017-003 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Qualified Opinion on Homeland Security Grant Program (CFDA 97.067)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Homeland Security Grant Program (CFDA 97.067) for the year ended June 30, 2017.

Basis for Qualified Opinion on Hazard Mitigation Grant (CFDA 97.039)

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Hazard Mitigation Grant (CFDA 97.039) as described in finding numbers 2017-002 for Subrecipient Monitoring and 2017-003 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor

Qualified Opinion on Hazard Mitigation Grant (CFDA 97.039)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Hazard Mitigation Grant (CFDA 97.039) for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-004, 2017-005, 2017-006, 2016-007, and 2017-013. Our opinion on each major federal program is not modified with respect to these matters.

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

Subsequent to the original issuance of our opinion, we identified a clerical error in the original issuance of our opinion. Major program CFDA 97.039 was properly identified and audited as a major program; however, our original opinion inadvertently omitted the modified opinion for this major program. The major program was properly reported in the submission of subsequent data collection form as a major program with a modified opinion. The only changes made to the report and opinion in the re-issuance of this opinion is the proper inclusion of the opinion for CFDA program 97.039.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal

Mr. Jay Mitchell, Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Wayne A. Johnson, New Mexico State Auditor

control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-004, 2017-005, 2017-006, 2017-007, and 2017-013 to be significant deficiencies.

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

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



CliftonLarsonAllen LLP

Albuquerque, New Mexico
January 10, 2018

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Modified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditors’ report issued on compliance for major programs: Modified

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

Identification of major programs:

CFDA

<u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants – Public Assistance
97.042	Emergency Management Performance Grants
97.067	Homeland Security Grant Program
97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish between type A and type B programs \$1,386,667

Auditee qualified as low-risk auditee? yes no

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

2017-001 Internal Control over Financial Close and Reporting (Material Weakness) (Prior Year Finding 2016-001)

Condition: The Department lacks an effective internal control structure over financial close and reporting to allow for timely and accurate financial reporting. During our audit, the following issues were noted related to the Department's financial close and reporting process:

- Numerous balance sheet accounts reported balances unchanged from the prior year that should have changed. The Department lacks controls to ensure all accounts are reconciled during the year or at year-end.
- The capital project fund (89200) required an audit adjustment in the amount of approximately \$68,000 to correct prior year revenue improperly recorded as current year income. Without the adjustment revenue would have been overstated.
- An adjustment in the amount of approximately \$3.5M was necessary to correct the fund balance and the voucher payable account.
- The Department lacks processes and controls to reconcile the Department's claim to the State General Fund Investment Pool.
- During our testing over accounts payable, there were numerous material adjustments proposed by the auditor and recorded by the Department.
- The Department was unable to provide sufficient audit evidence regarding the accuracy, completeness, and valuation of the federal accounts receivable/payable balance as of June 30, 2017.
- The Department was unable to provide sufficient audit evidence regarding the accuracy, completeness, and valuation of the amount due to the State General Fund or any related reversions as of June 30, 2017.
- The Department utilizes an Excel worksheet as a subsidiary record for tracking the various executive order appropriations and related activity. The worksheet provided to the auditors contained numerous variances in the beginning and ending balance when compared to a roll forward from prior year. In addition, the ending balances per the trial balance in fund 20380 compared to the subsidiary records have a variance of approximately \$600K. Furthermore, the Department lacks a process to ensure all executive orders are budgeted and received after the issuance of an executive order.
- We noted numerous transactions within the travel advance account that appear to be more than one year old that have not been cleared. The Department was unable to provide documentation that travel advances are reconciled or any documentation to support the accuracy of the account.
- The Department lacks processes and controls to reconcile the Department's payroll data from the HCM module to the Department's general ledger.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2017-001 Internal Control over Financial Close and Reporting (Material Weakness) (Prior Year Finding 2016-001) (Continued)

Criteria: NMAC 2.20.5.8 requires agencies to ensure that all reporting of financial information be timely, complete, and accurate. NMSA 1978 §6-5-2 requires state agencies to comply with the model accounting practices established by the Financial Control Division, and the administrative head of each agency to ensure that the model accounting practices are followed.

Cause: Lack of established internal controls and processes over financial reporting to ensure timely and accurate financial reporting.

Effect: The Department's financial statements contained material misstatements which required adjustments. Without established and effective internal controls and year end reconciliation procedures the Department's balances lack certainty as to the accuracy of the balances.

Recommendation: The Department established internal control policies effective June 30, 2017. We recommend that the Department fully implement its established internal controls and processes to allow for timely and accurate reporting, as well as compliance with all applicable state and federal laws and regulations.

Management's Response: Management concurs with this finding. The need for two Accountant and Auditor positions was identified in FY2016; one for the Grants Management Unit and one for the Financial Services Unit. Both positions have been filled, the Grants Management Unit Accountant and Auditor position in April 2016, and the Financial Services Unit Accountant and Auditor in November 2016. The Department's goal is to implement a monthly reconciliation and other process to ensure all financial information is reported timely, complete, and accurately.

Corrective action is estimated to be implemented no later than June 30, 2018.

The Chief Financial Officer, Financial Services Unit Manager, Grants Management Unit Manager and both Accountant and Auditors are tasked with this corrective action.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III - FEDERAL FINDINGS

2017-002 Subrecipient Monitoring (Material Weakness, Material Noncompliance) (Prior Year Finding 2016-003)

Federal Programs:

CFDA 97.036-Disaster Grants – Public Assistance

CFDA 97.039-Hazard Mitigation- Public Assistance

CFDA 97.042-Emergency Management Performance Grants

CFDA 97.067-Homeland Security Grant Program

Federal Agency: U.S. Department of Homeland Security/FEMA

Federal Award Number/Year: Various

Questioned Costs: None

Condition: During FY17, the Department lacked proper subrecipient monitoring procedures. The following issues were noted during our audit:

- **All Major Programs** - §200.331 requires the pass-through entity to follow up with the subgrantee on any deficiencies pertaining to the federal award and ensure that the subrecipient takes timely and appropriate action. However, the Department lacked a process for all federal programs to review the audits of subrecipients that would allow the Department to identify any potential deficiencies that would require follow-up.
- **All Major Programs** - During FY17, the Department lacked a process to ensure timely reporting by all subgrantees of financial reporting, performance reporting, and inventory reporting.
- **All Major Programs** - During FY17, the Department lacked evidence that a risk assessment was performed for any subrecipients as relates to the risk of noncompliance for those subawards subject to the Uniform Guidance.
- **97.036** - During our review of 9 subrecipient grant files, there was no evidence that timely quarterly financial reports were being submitted by the subgrantee. In addition, there was no evidence in the sub award that the pass-through entity obtained a DUNS number in three of the files.
- **97.039** - During our review of 5 subrecipient grant files, there was no evidence that timely quarterly financial reports were being submitted by the subgrantee on four files.
- **97.042** - During our review of 10 subrecipient grant files, there was no evidence that timely quarterly financial reports were being submitted by the subgrantee on three files.
- **97.067** - During our review of 8 subrecipient grant files, there was no evidence that timely quarterly financial reports were being submitted by the subgrantee on two files.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III - FEDERAL FINDINGS (CONTINUED)

2017-002 Subrecipient Monitoring (Material Weakness, Material Noncompliance) (Prior Year Finding 2016-003) (Continued)

Criteria: Per §200.331, all pass-through entities must evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. In addition, the pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Pass-through entity monitoring of the subrecipient must include:

- (1) Reviewing financial and performance reports required by the pass-through entity.
- (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
- (3) Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management Decision.

Cause: Lack of established internal controls and procedures over financial grant management to ensure compliance with applicable compliance requirements.

Effect: None compliance with applicable compliance requirements.

Recommendation: We recognize the agency has established a policy over sub-grant recipient files effective June 29, 2017. We recommend that the Department create effective internal controls and procedures over subrecipient monitoring and tracking that allow for compliance with all applicable federal laws, regulations, and compliance requirements of various federal grants.

Management's Response: Management concurs with the finding. On June 30, 2017, the Department signed a new Policy and Procedure for Sub-Recipient Monitoring (GRA418-Sub-Recipient Monitoring). In FY2018, processes will be developed to ensure Policy and Procedure GRA418 is implemented correctly.

Corrective Action has already begun and is due to be complete by June 30, 2018.

The Deputy Secretary, All Bureau Chiefs, the Grants Management Unit Manager, Recovery Officer, State Hazard Mitigation Officer, Local Preparedness Manager, Grant Analysts, and Sub-Grant Analysts are tasked with this corrective action.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III - FEDERAL FINDINGS (CONTINUED)

2017-003 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) (Prior Year Finding 2016-004)

Federal Programs:

CFDA 97.036-Disaster Grants – Public Assistance

CFDA 97.039-Hazard Mitigation- Public Assistance

CFDA 97.042-Emergency Management Performance Grants

CFDA 97.067-Homeland Security Grant Program

Federal Agency: U.S. Department of Homeland Security/FEMA

Federal Award Number/Year: Various

Questioned Costs: None

Condition: During our testing over reporting we noted the following issues:

- **All Major Programs** – As previously reported to the Department during a FEMA Region VI monitoring visit, the Department is not in compliance with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements through at least fiscal year 2017.
- **All Major Programs** – During FY17, the Department lacked a process to ensure timely reconciliation and closeout of grants as required. The Department has numerous grants which the Department will be reconciling and that are well beyond the grant expiration and are still pending final grant closeout.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: Per §200.302 Financial Management, the state's and the other nonfederal entity's financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions. Further, the financial management system of each nonfederal entity must provide accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements. Pursuant to 44 C.F.R. § 13.50(b) reports, within 90 days after the expiration or termination of the grant, the grantee must submit all financial, performance, and other reports required as a condition of the grant. In order to close an award, grantees must be current on, and have submitted, all required reports per the terms and conditions of the grant award. Once the grant has officially been closed, the grantee will receive a Grant Adjustment Notice (GAN) which will provide information regarding the amount of any deobligated funds, equipment disposition, and record retention requirements for closed awards.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III - FEDERAL FINDINGS (CONTINUED)

2017-003 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) (Prior Year Finding 2016-004) (Continued)

Cause: Lack of established internal controls and procedures over financial grant management to ensure timely compliance with applicable compliance requirements.

Effect: Noncompliance with the applicable compliance requirements.

Recommendation: We recognize the agency has established a policy over grant closeout effective June 29, 2017. We recommend that the Department effectively implement internal controls and procedures that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

Management's Response: Management concurs with the finding.

FFATA Reporting: The requirement to enter FFATA Reporting began with any grants awarded on or after July 1, 2010. The Department had not entered a single report until September 2016, and will continue its efforts until complete. Policy and Procedure (GRA416-FFATA) was written and signed effective June 30, 2017. This Policy and Procedure requires each Sub-Grant analyst to enter FFATA Sub-grant information upon award, and the Grant Analyst and Grant Manager will complete final submission for each grant awarded.

FFATA corrective action has already begun. Grants awarded after June 30, 2017 will be entered immediately upon subgrant award. Grants awarded July 1, 2010 through June 30, 2017 will continue to be entered until complete.

The Administrative Services Bureau Chief, Grants Management Unit Manager, Grant Analysts, and Sub-Grant Analysts are tasked with this corrective action.

Grant Closeout: The Policy and Procedure for Grant Closeout (GRA411-Grant Closeouts) was signed on August 10, 2017. In FY2017, the Department compiled a list of grants to be closed, 18 grants total. A handful of expired grants have been closed out and staff continues closeout efforts on the others.

Grant Closeout corrective action began in FY2017 and will continue through FY2018 until all expired grants are closed.

The Administrative Services Bureau Chief, Grants Management Unit Manager, and Grants Management Unit Staff are tasked with this corrective action.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III - FEDERAL FINDINGS (CONTINUED)

2017-004 Cash Management (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2016-006)

Federal Programs:

CFDA 97.036-Disaster Grants – Public Assistance

CFDA 97.039-Hazard Mitigation- Public Assistance

CFDA 97.042-Emergency Management Performance Grants

CFDA 97.067-Homeland Security Grant Program

Federal Agency: U.S. Department of Homeland Security/FEMA

Federal Award Number/Year: Various

Questioned Costs: None

Condition: During our audit, we encountered the following issues related to cash management and federal drawdowns:

- **All Major Programs** - During FY17, the Department was not performing timely drawdowns of federal awards.
- **97.036 / 97.039** - During our review of 6 drawn down packets, we noted one instance in which the Department incorrectly drew down federal funds as Public Assistance grant in the amount of \$7,768, which was associated with Hazard Mitigation grant.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: Per §200.303, the nonfederal entity must: (a) Establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Cause: Lack of established internal controls and procedures over financial grant management to ensure timely compliance with applicable compliance requirements.

Effect: Noncompliance with the applicable compliance requirements.

Recommendation: We recognize the Department has been working with FEMA to reconcile grants in an effort to be removed from controlled draws. We recommend that the Department continue working toward implementing effective internal controls and procedures that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III - FEDERAL FINDINGS (CONTINUED)

2017-004 Cash Management (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2016-006) (Continued)

Management's Response: Management concurs with the finding. The Department has implemented a new Policy and Procedure (GRA415-Grant Drawdowns), effective June 30, 2017, and will be performing monthly draws by June 30, 2018. Additionally, the monthly reconciliation, due to begin no later than June 30, 2018, will identify errors in coding which will reduce the chances of incorrect draws from happening.

Corrective action has begun and is due to be fully implemented by June 30, 2018.

The Administrative Services Bureau Chief, Grants Management Unit Manager, and both Accountant and Auditors are tasked with this corrective action.

2017-005 Special Tests and Provisions (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2016-007)

Federal Program:

CFDA 97.036-Disaster Grants – Public Assistance

Federal Agency: U.S. Department of Homeland Security/FEMA

Federal Award Number/Year: Various

Questioned Costs: None

Condition: During our testing over special tests, we noted one of the five large projects that were closed and indicated funds in the amount of approximately \$37,000 were due back to the Department and federal government; however, the file lacked documentation and support as to whether the funds were actually received from the local government.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: Per the compliance supplement, for large projects, the state is required to make an accounting to FEMA of eligible costs. Similarly, the subgrantee must make an accounting to the state. In submitting the accounting, the entity is required to certify that reported costs were incurred in performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-state agreement, and that payments for that project were made in accordance with the 44 CFR section 13.21 payment provisions.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL FINDINGS (CONTINUED)

**2017-005 Special Tests and Provisions (Significant Deficiency, Instance of Noncompliance)
(Prior Year Finding 2016-007) (Continued)**

Cause: Lack of established internal controls and procedures over financial grant management to ensure timely compliance with applicable compliance requirements.

Effect: Noncompliance with the applicable compliance requirements.

Recommendation: We recommend that the Department continue working toward implementing effective internal controls and procedures that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

Management's Response: Management concurs with the finding.

The Department plans to create a process and checklist for Public Assistance subgrant files to ensure grant compliance. Files will be kept by project worksheet to mirror FEMA's award process. The files will contain award, cost, reporting, and closeout documentation. Additionally, a grant management system has been selected and will assist in the proper management of Public Assistance grants and subgrants.

Corrective action will be assessed and complete by December 31, 2018.

The Cabinet Secretary, Deputy Secretary, Administrative Services Bureau Chief, Response and Recovery Bureau Chief, Grant Management Unit Manager, Financial Services Unit Manager, and Recovery Officer are tasked with this corrective action.

2017-006 Matching Requirements (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2016-008)

Federal Programs:

CFDA 97.036-Disaster Grants – Public Assistance

Federal Agency: U.S. Department of Homeland Security/FEMA

Federal Award Number/Year: Various

Questioned Costs: None

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL FINDINGS (CONTINUED)

2017-006 Matching Requirements (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2016-008) (Continued)

Condition: During our testing over matching requirements for CFDA 97.036, we noted the following issues related to our sample of 60 closed projects:

- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$225 and one instance in which the Department incorrectly drew down \$8,330 from the state match fund instead of drawing from the federal grant.

In addition, we noted the following exceptions during our review of files in addition to the 60 reviewed above:

- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$338.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$5,067.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$552.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$481.
- One payment with 3 instances in which the Department incorrectly drew down federal funds for the state match share in the amounts of \$327, \$236, \$335.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: Per §200.303, the nonfederal entity must: (a) establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Cause: Lack of established internal controls and procedures over financial grant management to ensure compliance with applicable compliance requirements.

Effect: Noncompliance with the applicable compliance requirements.

Recommendation: We recommend that the Department continue working toward implementing effective internal controls and procedures that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL FINDINGS (CONTINUED)

2017-006 Matching Requirements (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2016-008) (Continued)

Management's Response: Management concurs with the finding. In FY2017, the Department implemented a process for non-disaster grants which requires match to be provided prior to disbursement of federal funds. Also, in FY2017, a Request for Proposal was processed and a grant management system was selected and will assist in the proper management of Public Assistance grants and subgrants. This system will be used to track federal, state, and local/subrecipient shares. Implementation is expected to take place on October 2, 2018, to align with the state of the new federal fiscal year.

Corrective action has begun and total implementation is due to be complete by December 31, 2018.

The Cabinet Secretary, Deputy Secretary, Administrative Services Bureau Chief, Response and Recovery Bureau Chief, Grant Management Unit Manager, Financial Services Unit Manager, and Recovery Officer are tasked with this corrective action.

2017-007 Emergency Manager Training (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2016-009)

Federal Program: CFDA 97.042-Emergency Management Performance Grants

Federal Agency: U.S. Department of Homeland Security/FEMA

Federal Award Number/Year: Various

Questioned Costs: None

Condition: During our testing over allowed payroll costs for the Emergency Management Performance Grant (EMPG), we noted that the required exercises and training for EMPG funded personnel were not being met as required for all funded personnel as required.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: Per the grant agreement, all EMPG-funded personnel shall participate in no less than three exercises in a 12-month period and should complete certain training requirements and record proof of completion.

Cause: Lack of established internal controls and procedures over financial grant management to ensure timely compliance with applicable compliance requirements.

Effect: Noncompliance with the applicable compliance requirements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL FINDINGS (CONTINUED)

**2017-007 Emergency Manager Training (Significant Deficiency, Instance of Noncompliance)
(Prior Year Finding 2016-009) (Continued)**

Recommendation: We recommend that the Department continue working toward implementing effective internal controls and procedures that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

Management's Response: Management concurs with this finding. The Department recognizes the training and exercise requirements were not met in FY2017. On July 26, 2016, the Cabinet Secretary signed the Department's Training Policy and Procedure (PER510-TRAINING), and it is currently working on an exercise policy and procedure. These policies and procedures ensure all department employees understand their responsibilities with regard to training and exercise requirements. The Department has seen an increase in training and exercise attendance and compliance over the last couple years.

Corrective Action has been implemented and will be a continuous effort.

All DHSEM employees are tasked with this corrective action.

2017-013 Allowed Costs (Significant Deficiency, Instance of Noncompliance)

Federal Program: CFDA 97.042-Emergency Management Performance Grants

Federal Agency: U.S. Department of Homeland Security/FEMA

Federal Award Number/Year: Various

Questioned Costs: None

Condition: During our testing over allowed costs for the Emergency Management Performance Grant (EMPG), we identified two instances of paid vouchers that did not include authorization to pay.

Criteria: Per §200.400, the non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.

Cause: Lack of established internal controls and procedures over financial grant management to ensure compliance with applicable compliance requirements.

Effect: Noncompliance with the applicable compliance requirements.

Recommendation: We recommend that the Department continue working toward implementing effective internal controls and adequate review procedures that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION III – FEDERAL FINDINGS (CONTINUED)

2017-013 Allowed Costs (Significant Deficiency, Instance of Noncompliance) (Continued)

Management's Response: Management concurs with the finding. The Department's current process is to approve payment, in writing, on all invoices before processing payment. The process will be reviewed and revised if necessary. Staff will be reminded of the process and informed if the process changes.

Corrective action has been implemented and will be reviewed by June 30, 2018.

The Administrative Services Bureau Chief, Financial Services Unit Manager, and Financial Specialist are responsible for corrective action.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

OTHER FINDINGS

2017-008 Untimely Audit Report (Compliance and Other Matters) – (Prior Year Finding 2016-011)

Condition: The Department's FY17 audit was not submitted by the due date of November 1, 2017.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: Per the NM State Audit Rule the FY17 audit was due November 1, 2017.

Cause: Lack of established internal controls and procedures.

Effect: Noncompliance with applicable regulations.

Recommendation: We recommend that the Department continue working on implementing effective internal controls and establishing procedures to assist for timely completion of their annual audit.

Management's Response: Management concurs with the finding. The Department was unable to submit the June 30, 2017 Audit Report due to the previous year's audit not being completed until September 1, 2017. Management expects to deliver a timely Audit Report for period ending June 30, 2018.

Corrective action will be implemented by the NM State Audit Rule deadline for period ending 06/30/2018.

The Administrative Services Bureau Chief, Financial Services Unit Manager, and the Financial Accountant and Auditor are tasked with this corrective action.

2017-009 User System Access (Compliance and Other Matters) (Prior Year Finding 2016-012)

Condition: During our internal control testing over user access to the SHARE system, we noted two of the six employees tested did not have their access disabled promptly after their termination date.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: The Department should have effective controls and procedures in place to ensure user system access is promptly disabled upon termination of the employee from the Department to prevent unauthorized access.

Cause: Lack of established internal controls and procedures over user access.

Effect: Possible unauthorized access to the Department's system.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

OTHER FINDINGS (CONTINUED)

**2017-009 User System Access (Compliance and Other Matters) (Prior Year Finding 2016-012)
(Continued)**

Recommendation: We recognize that the Department has worked on establishing internal controls and procedures over user access during onboarding and termination process. We recommend that the agency review all current user access and implement controls for timely termination of user access.

Management's Response: Management concurs with this finding. A process will be put in place and SHARE Access information will be included on the Department's entrance and exit forms for employee hires and separations.

Corrective action for this finding will be completed by June 30, 2018.

The Cabinet Secretary, Deputy Secretary, Bureau Chiefs, the Chief Financial Officer, and General Services Unit Manager will be tasked with this corrective action.

**2017-010 Untimely Reversion to the State General Fund (Compliance and Other Matters) –
(Prior Year Finding 2016-013)**

Condition: As of June 30, 2017, the Department reported amounts payable to the State General Fund in the amount of approximately \$973,000, of which approximately \$331,000 is related to reversions prior to FY16. In addition, the Department has not yet calculated or determined all applicable reversions for FY15 and FY16 and accrued any amounts payable to the State General Fund.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the findings from the prior year due to the delay and significant issues with the FY16 and FY17 audit.

Criteria: Subsection A of Section 6-5-10 NMSA 1978 requires "all unreserved, undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30 shall revert by September 30 to the general fund. The division may adjust the reversion within 45 days of release of the audit report for that fiscal year." Failure to transfer reverting funds timely in compliance with the statute requires an audit finding.

Cause: Lack of established internal controls and procedures.

Effect: Noncompliance with applicable regulations.

Recommendation: We recommend that the Department implement adequate internal controls and procedures to allow for timely and accurate reporting, as well as compliance with all applicable state regulations.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

OTHER FINDINGS (CONTINUED)

2017-010 Untimely Reversion to the State General Fund (Compliance and Other Matters) (Prior Year Finding 2016-013) (Continued)

Management's Response: Management concurs with this finding. The Department will research the amount in the Due To State General Fund account and General Fund balances for Fiscal Years 2015 and 2016, and revert amounts as required. The Cabinet Secretary signed FIN112-Fund Reversion Policy and Procedure on June 30, 2017.

Corrective action is set to be complete by June 30, 2018.

The Administrative Services Bureau Chief, the Financial Services Unit Manager, and the Financial Accountant and Auditor are task with this corrective action.

2017-011 Untimely Deposit of Cash Receipts (Compliance and Other Matters)

Condition: During testing over cash receipts, we noted one cash receipt, in the amount of \$286, which was not deposited within 24 hours of receipt.

Criteria: According to the Manual of Model Accounting Practices (MAPs) Section FIN 2.1, all cash received by agencies must be recorded timely and accurately in accordance with state statute. NMSA 6-10-3 states that state agencies receiving any money in cash or by check deliver or remit to the state treasurer such receipts before the close of the next succeeding business day after the receipt of the money.

Cause: Lack of established internal controls and procedures over timely deposits.

Effect: Noncompliance with applicable regulations.

Recommendation: We recommend that the agency implement internal control over cash receipts to ensure timely deposits. In addition, that the Department effectively cross-train additional staff while maintaining proper segregations of duties.

Management's Response: Management concurs with the finding. A new process was adopted beginning FY2017, and a Policy and Procedure FIN 101-Cash Receipts was revised on June 30, 2017. All cash receipts received by the Department are required to be logged and deposited by close of the next business day. This process and Policy and Procedure will ensure compliance with Section 6-10-3 (I) NMSA 1978 Payment of state money into treasury; suspense funds.

Corrective action has been implemented.

The Administrative Services Bureau Chief, Financial Services Unit Manager, Grants Management Unit Manager, both Accountant and Auditors, and all DHSEM employees who receive cash receipts for the Department are tasked with this corrective action.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

OTHER FINDINGS (CONTINUED)

2017-012 Chief Procurement Officer Registration (Compliance and Other Matters)

Condition: During FY17, the Department did not maintain a registered Chief Procurement Officer for several months following the departure of their previous CPO mid-year.

Criteria: Per Section 1.4.1.94, each state agency and local public body shall provide to the state purchasing agent the name of the state agency's or local public body's chief procurement officer. Chief Procurement officer duties, responsibilities, and obligations. On and after July 1, 2015, only certified chief procurement officers may: (1) make determinations, including determinations regarding exemptions, pursuant to the Procurement Code; (2) issue purchase orders and authorize small purchases pursuant to the Procurement Code; and (3) approve procurement pursuant to the Procurement Code; (4) provided that, persons using procurement cards may continue to issue purchase orders and authorize small purchases.

Cause: Staff turnover and lack of established internal controls.

Effect: Noncompliance with applicable regulations.

Recommendation: We understand that the Department currently has two employees who completed and registered as Chief Procurement Officer's for the Department. We recommend that the Department maintain at least two CPO's to ensure coverage if staff turnover should occur.

Management's Response: Management concurs with the finding. The Department's trained and registered CPO resigned mid-year, leaving the Department without a trained employee to register. The need for a policy and procedure has been identified.

Corrective action will be implemented by June 30, 2018.

The Administrative Services Bureau Chief, Financial Services Unit Manager, and Financial Services Unit employees are responsible for the implementation of this corrective action.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

2016-001 Internal Control over Financial Close and Reporting (Material Weakness) – Repeated

2016-002 Internal Control over Capital Asset Management (Material Weakness) – Resolved

SECTION III – FEDERAL FINDINGS

2016-003 Subrecipient Monitoring (Material Weakness, Material Noncompliance) – Repeated

2016-004 Federal Grant Reporting and Grant Closeout – Repeated

2016-005 Period of Availability (Material Weakness, Material Noncompliance) – Resolved

2016-006 Cash Management (Significant Deficiency, Instance of Noncompliance) – Repeated

2016-007 Special Tests and Provisions – Large Project Closeouts (Significant Deficiency, Instance of Noncompliance) – Repeated

2016-008 Matching Requirements (Significant Deficiency, Instance of Noncompliance) – Repeated

2016-009 Emergency Manager Training (Significant Deficiency, Instance of Noncompliance) – Repeated

SECTION IV – OTHER FINDINGS

2016-010 Internal Controls over Cash Receipts (Compliance and Other Matters) – Resolved

2016-011 Untimely Audit Report and Data Collection Submission (Compliance and Other Matters) – Repeated

2016-012 User System Access (Compliance and Other Matters) – Repeated

2016-013 Untimely Reversion to the State General Fund (Compliance and Other Matters) – Repeated

2016-014 Travel and Per Diem (Compliance and Other Matters) – Resolved

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
EXIT CONFERENCE
JUNE 30, 2017**

An exit conference was held with the Department on January 9, 2018. The conference was held at the Department's offices in Santa Fe, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

NEW MEXICO DEPARTMENT OF HOMELAND SECURITY

M. J. Mitchell, Cabinet Secretary
David Ceballes, Deputy Secretary
Sarah J. Peterson, ASB Chief/CFO
Jennifer Sievers, Accountant/Auditor
Duncan Sill, Grants Manager
Craig Bacon, GSU Manager
Johanna Kehoe, FSU Manager

CLIFTONLARSONALLEN LLP

Matt Bone, CPA, CGFM, CGMA, Principal
Elizabeth Nunez, CPA, Senior Associate

PREPARATION OF FINANCIAL STATEMENTS

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