

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY
MANAGEMENT
FINANCIAL STATEMENT
WITH INDEPENDENT AUDITOR'S
REPORT THEREON
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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INTRODUCTORY SECTION

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DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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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, 2018

Name	Title
M. Jay Mitchell	Cabinet Secretary
David Ceballes	Deputy Secretary and General Counsel
Sarah Peterson	Chief Financial Officer

FINANCIAL SECTION

INDEPENDENT AUDITOR'S 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, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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

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 2018. 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, 2018. 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, 2018 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, 2018. 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.

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, 2018.

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, 2018, 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 budgetary comparison of the Federal Grants Fund for the year then ended June 30 2018, 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, 2018, 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 7 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the 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 executive orders and schedule of joint powers agreements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

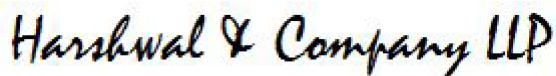
The schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents as schedule of executive orders, and schedule of joint powers agreements are the responsibility of management and were derived from and relate directly to the underlying accounting 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 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 October 29, 2018 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

HARSHWAL & COMPANY LLP

Certified Public Accountants



Albuquerque, New Mexico

October 29, 2018

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018. 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 2018, the Department received \$27,190,337 in program revenue, the majority from nonrecurring federal grants.
- Change in net position for the year-ended June 30, 2018 was \$1,215,055.
- At the end of the current fiscal year, assets decreased primarily due to decreased grant receivables. Liabilities decreased primarily due to decreases in the Department's Overdraft of its Investment in State Treasurer's General Fund Investment Pool.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

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.

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 13 and 14 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 DHSEM funds 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 following funds: General Funds (Fund No. 20050/20380) and Federal Grants Fund (Fund No. 40280), and Capital Projects Fund (Fund No. 89200).

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

The Department of Homeland Security and Emergency Management operates under an annual appropriated budget. A budgetary comparison statement has been provided for its general and federal funds as required supplementary information.

The basic governmental fund financial statements can be found on pages 15 and 17 of this report.

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 21 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) decreased by \$370,882 or by 1%. This change primarily results from decreased investment in state treasurer general fund investment pool and grants receivable from other state agencies. The Department's liabilities have decreased by \$1,857,736. The governmental activities net position increased by \$1,215,055.

The restricted portion \$31,438,439 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 executive orders that can only be used towards specific declared disaster relief efforts.

	<u>Governmental Activities</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ASSETS		
Current and other assets	\$ 37,700,397	\$ 38,071,279
Capital assets	<u>1,511,377</u>	<u>1,783,176</u>
Total assets	<u>39,211,774</u>	<u>39,854,455</u>
LIABILITIES		
Current liabilities	<u>5,625,819</u>	<u>7,483,555</u>
Total liabilities	<u>5,625,819</u>	<u>7,483,555</u>
NET POSITION		
Net investment in capital assets	1,511,377	1,783,176
Restricted for other purposes	31,438,439	30,471,960
Unrestricted	<u>636,139</u>	<u>115,764</u>
Total net position	<u>33,585,955</u>	<u>32,370,900</u>
Total liabilities and net position	<u>\$ 39,211,774</u>	<u>\$ 39,854,455</u>

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

Changes in Net Position

The Department's total revenues of \$27,190,337, total expenses of \$31,100,153, and total general revenues and expenses of \$5,124,871 resulted in a change in net position of \$1,215,055. 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 expenses for the years ended June 30, 2018 and 2017.

	<u>Governmental Activities</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<i>EXPENSES</i>		
Program Expenses:		
Public safety	<u>\$ 31,100,153</u>	<u>\$ 54,970,520</u>
Total expenses	<u>31,100,153</u>	<u>54,970,520</u>
<i>REVENUES</i>		
Program revenues:		
Operating grants	27,129,336	46,222,232
Charges for services	<u>61,001</u>	<u>57,150</u>
Total revenues	<u>27,190,337</u>	<u>46,279,382</u>
<i>GENERAL REVENUES AND (EXPENSES)</i>		
State general fund appropriations	5,946,400	7,323,700
Transfer in		559,376
Gain/(Loss) on disposal of capital assets	(34,518)	
Reversions to state general fund	<u>(787,011)</u>	<u>(26,220)</u>
Total general revenues and expenses	<u>5,124,871</u>	<u>7,856,856</u>
Change in net position	1,215,055	(834,282)
Net position - beginning of year	<u>32,370,900</u>	<u>33,205,182</u>
Net position - end of year	<u>\$ 33,585,955</u>	<u>\$ 32,370,900</u>

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

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 2018, the DHSEM's General Fund is used to account for State General Fund appropriations, fees collected from entities with hazardous waste facilities, and Executive Orders appropriated for disaster response and recovery. The Federal Fund is used to account for federal grants awarded to the agency. Lastly, 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 2018, Department of Homeland Security and Emergency Management's governmental funds reported combined ending fund balances of \$32,256,797, an increase of \$1,477,544 in comparison with the prior year. \$31,438,439 is *restricted* for specific purposes.

The ending fund balance is largely attributable to the Executive Orders State Disasters Fund balance of \$31,438,439. The increase in fund balance is primarily attributed to increases in executive orders from the Governor.

Budget Amendment Highlights

The annual operating budget is approved by the New Mexico Governor. Changes to DHSEM's budget over the course of the year, are subject to the New Mexico Department of Finance and Administration approval. 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 \$251,989,732. There were no unexpected budget variances during the year.

	Final Budget	Actual (Budgetary) Basis	Favourable (Unfavourable) Variance
General fund	\$ 2,591,400	\$ 2,385,878	\$ 205,522
Executive orders state disasters fund	34,936,960	1,356,968	33,579,992
Federal fund	<u>245,333,554</u>	<u>27,129,336</u>	<u>218,204,218</u>
Total for governmental funds	<u>\$ 282,861,914</u>	<u>\$30,872,182</u>	<u>\$ 251,989,732</u>

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

Capital Asset and Debt Administration

Capital Assets

The investment in capital assets consists of buildings and improvements, information technology, furniture and fixtures, equipment and machinery, and automobiles. The following net change occurred in the capital assets during the years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Net capital assets - beginning of year	1,783,176	\$ 1,947,737
Capital assets purchased	84,142	184,992
Current year depreciation/adjustments	(321,423)	(349,553)
Gain/(Loss) on disposal of capital assets	<u>(34,518)</u>	<u></u>
Net capital assets - end of year	<u>\$ 1,511,377</u>	<u>\$ 1,783,176</u>

Consistent with application of GASB No. 34, the Department has recognized depreciation for assets during the fiscal year of \$321,423. 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

DHSEM's fiscal year 2019 budget was approved with an increase in general fund of \$415,600 which will be applied to the majority of the \$435,600 Statewide Mass Notification System/ Department of Information and Technology rate. For fiscal year 2020, DHSEM requested a general fund increase of \$387,600 to cover the remaining balance of the Statewide Mass Notification System/ Department of Information and Technology rate, and to sufficiently pay for DHSEM's personnel costs not covered by federal funds.

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, 2018

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Investment in state treasurer general fund investment pool	\$ 21,379,970
Due from federal government	14,149,697
Due from other state agencies	1,750,000
Due from local governments	406,743
Accounts receivable	1,099
Prepaid and other assets	<u>12,888</u>
Total current assets	<u>37,700,397</u>
Non-current assets:	
Capital assets, net of depreciation	<u>1,511,377</u>
Total assets	<u>39,211,774</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	470,069
Accrued payroll and benefits	141,466
Due to federal government	3,759,386
Due to other state agencies	53,946
Due to state general fund	1,012,526
Other liabilities	6,207
Compensated absences, due within one year	<u>182,219</u>
Total liabilities	<u>5,625,819</u>
NET POSITION	
Net investment in capital assets	1,511,377
Restricted for:	
Executive orders	31,438,439
Unrestricted	<u>636,139</u>
Total net position	<u>33,585,955</u>
Total liabilities and net position	<u><u>\$ 39,211,774</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	<u>Governmental Activities</u>
<i>PROGRAM EXPENSES</i>	
Public safety	<u>\$ 31,100,153</u>
Total program expenses	<u>31,100,153</u>
<i>PROGRAM REVENUES</i>	
Operating grants	27,129,336
Charges for services	<u>61,001</u>
Total program revenues	<u>27,190,337</u>
Net program revenue/(expense)	<u>(3,909,816)</u>
<i>GENERAL REVENUES AND (EXPENSES)</i>	
State general fund appropriations	5,946,400
Gain/(Loss) on disposal of capital assets	(34,518)
Reversions to state general fund	<u>(787,011)</u>
Total general revenues and expenses	<u>5,124,871</u>
Change in net position	1,215,055
Net position - beginning of year	<u>32,370,900</u>
Net position - end of year	<u><u>\$ 33,585,955</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	20050/20380 General Fund	40280 Federal Grants Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Investment in state treasurer general fund investment pool	\$31,791,811	\$	\$ 31,791,811
Due from federal government		14,149,697	14,149,697
Due from other state agencies	1,750,000		1,750,000
Due from local governments	11,216	395,527	406,743
Accounts receivable		1,099	1,099
Prepaid and other assets	<u>1,980</u>	<u>10,908</u>	<u>12,888</u>
Total assets	<u>33,555,007</u>	<u>14,557,231</u>	<u>48,112,238</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Investment in state treasurer general fund investment pool (Overdraft)		10,411,841	10,411,841
Accounts payable	175,735	294,334	470,069
Accrued payroll and benefits	72,329	69,137	141,466
Due to federal government	50,278	3,709,108	3,759,386
Due to other state agencies	50,280	3,666	53,946
Due to state general fund	949,588	62,938	1,012,526
Other liabilities		<u>6,207</u>	<u>6,207</u>
Total liabilities	<u>1,298,210</u>	<u>14,557,231</u>	<u>15,855,441</u>
FUND BALANCES			
Nonspendable:			
Prepaid expenses	951	10,908	11,859
Restricted for:			
Executive orders	31,438,439	0	31,438,439
Unassigned	<u>817,407</u>	<u>(10,908)</u>	<u>806,499</u>
Total fund balance	<u>32,256,797</u>	<u>0</u>	<u>32,256,797</u>
Total liabilities and fund balance	<u>\$33,555,007</u>	<u>\$14,557,231</u>	<u>\$ 48,112,238</u>

The accompanying notes are an integral part of these 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, 2018

	<u>Governmental Funds</u>
Fund balance - Total governmental funds	\$ 32,256,797
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	8,457,134
Accumulated depreciation	(6,945,757)
Accrued compensated absences not treated as an expenditures in governmental funds	<u>(182,219)</u>
Net position of governmental activities	<u><u>\$ 33,585,955</u></u>

The accompanying notes are an integral part of these 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, 2018

	20050/20380	40280	Total
	General	Federal	Governmental
	<u>Fund</u>	<u>Grants Fund</u>	<u>Funds</u>
REVENUES:			
Federal grant revenue	\$	\$27,129,336	\$ 27,129,336
Miscellaneous revenue	<u>61,001</u>	<u> </u>	<u>61,001</u>
Total revenues	<u>61,001</u>	<u>27,129,336</u>	<u>27,190,337</u>
EXPENDITURES:			
Public Safety:			
Current:			
Personal services	1,971,462	2,365,821	4,337,283
Contractual services	185,305	1,116,970	1,302,275
Other costs	1,586,079	23,562,403	25,148,482
Capital outlay	<u> </u>	<u>84,142</u>	<u>84,142</u>
Total expenditures	<u>3,742,846</u>	<u>27,129,336</u>	<u>30,872,182</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(3,681,845)</u>	<u>0</u>	<u>(3,681,845)</u>
OTHER FINANCING SOURCES (USES):			
State general fund appropriations	5,946,400		5,946,400
Reversions to state general fund	<u>(787,011)</u>	<u> </u>	<u>(787,011)</u>
Total other financing sources (uses)	<u>5,159,389</u>	<u>0</u>	<u>5,159,389</u>
Net change in fund balance	1,477,544	0	1,477,544
Fund balance - beginning of year	<u>30,779,253</u>	<u>0</u>	<u>30,779,253</u>
Fund balance - end of year	<u>\$32,256,797</u>	<u>\$ 0</u>	<u>\$ 32,256,797</u>

The accompanying notes are an integral part of these 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, 2018

	<u>Governmental Funds</u>
Net changes in fund balances - Total governmental funds	\$ 1,477,544
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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.</p>	
Capital outlay	84,142
Depreciation expense	(321,423)
Gain/(Loss) on disposal of capital assets	(34,518)
<p>Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
Change in compensated absence balance not recorded in the governmental funds	<u>9,310</u>
Change in net position of governmental activities (statement of activities)	<u><u>\$ 1,215,055</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF REVENUES AND EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET (BUDGET BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
State general fund appropriations	\$ 7,446,400	\$ 7,446,400	\$ 5,946,400	\$ (1,500,000)
Miscellaneous revenue	110,000	110,000	61,001	(48,999)
Total revenues	<u>7,556,400</u>	<u>7,556,400</u>	<u>6,007,401</u>	<u>(1,548,999)</u>
Budgeted fund balance	<u>29,971,960</u>	<u>29,971,960</u>	<u>0</u>	<u>(29,971,960)</u>
Total revenues and budgeted fund balance	<u>37,528,360</u>	<u>37,528,360</u>	<u>6,007,401</u>	<u>(31,520,959)</u>
P 579 EXPENDITURES				
Personnel services and benefits	1,813,100	1,813,100	1,963,239	(150,139)
Contractual services	203,800	203,800	185,305	18,495
Other costs	<u>574,500</u>	<u>574,500</u>	<u>237,334</u>	<u>337,166</u>
Total P 579 expenditures	<u>2,591,400</u>	<u>2,591,400</u>	<u>2,385,878</u>	<u>205,522</u>
EXECUTIVE ORDER EXPENDITURES				
Personnel services and benefits	391,777	391,777	8,223	383,554
Contractual services	53,175	53,175		53,175
Other costs	<u>34,492,008</u>	<u>34,492,008</u>	<u>1,348,745</u>	<u>33,143,263</u>
Total executive order expenditures	<u>34,936,960</u>	<u>34,936,960</u>	<u>1,356,968</u>	<u>33,579,992</u>
Total expenditure	<u>\$ 37,528,360</u>	<u>\$ 37,528,360</u>	<u>3,742,846</u>	<u>\$ 33,785,514</u>
NET CHANGE IN FUND BALANCES (Budgetary Basis)			2,264,555	
REVERSIONS TO STATE GENERAL FUND (Not Budgeted)			<u>(787,011)</u>	
NET CHANGE IN FUND BALANCE (GAAP Basis)			<u>\$ 1,477,544</u>	

The accompanying notes are an integral part of these 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, 2018

	Federal Grants Fund - Special Revenue Fund			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal grant revenue	\$ 245,333,554	\$ 245,333,554	\$ 27,129,336	\$ (218,204,218)
Total revenues	<u>245,333,554</u>	<u>245,333,554</u>	<u>27,129,336</u>	<u>(218,204,218)</u>
Budgeted fund balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenues and budgeted fund balance	<u>245,333,554</u>	<u>245,333,554</u>	<u>27,129,336</u>	<u>(218,204,218)</u>
EXPENDITURES				
Personnel services and benefits	2,678,300	2,678,300	2,365,821	312,479
Contractual services	1,573,600	1,573,600	1,116,970	456,630
Other costs	<u>241,081,654</u>	<u>241,081,654</u>	<u>23,646,545</u>	<u>217,435,109</u>
Total expenditures	<u>\$ 245,333,554</u>	<u>\$ 245,333,554</u>	<u>27,129,336</u>	<u>\$ 218,204,218</u>
NET CHANGE IN FUND BALANCES			<u>\$ 0</u>	

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018.

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. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses gain, 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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018.

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. 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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Assets, Liabilities, and Net Position

Cash and Investments

For the fiscal year ended June 30, 2018, 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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Assets	Years
Buildings and improvements	20 Years
Furniture and fixtures	5 Years
Data processing equipment	4 Years
Equipment and machinery	5 Years
Automobiles	5 Years

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 2018.

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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Postemployment Benefits — State Retiree Health Care Plan

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

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

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

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 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, 2018, the Department has \$11,859 nonspendable fund balances. In addition, the Department has \$31,438,439 in amounts restricted 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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018.
- 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 \$31,438,439 in restricted amounts in accordance with Section 6-7-3 NMSA 1978 for executive orders of state disasters as of June 30, 2018.
- 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, 2018

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.

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 fourth 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, 2018, 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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

The Department has lacked established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the Pool during FY18. 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.

NOTE 4 - INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL

At June 30, 2018, the Department had the following invested in the State General Fund.

Fund	Fund No.	Fair Value June 30, 2018
General fund	20050/20380	\$ 31,791,811
Federal grants fund	40280	<u>(10,411,841)</u>
Total		<u>\$ 21,379,970</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, 2018.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

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

	<u>June 30,</u> <u>2017</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>June 30,</u> <u>2018</u>
ASSETS				
Buildings and improvements	\$ 3,266,201	\$ 33,033	\$	\$ 3,299,234
Data processing equipment	1,588,023	-	(154,223)	1,433,800
Furniture and fixtures	59,952	51,109		111,061
Equipment and machinery	2,048,600	-	(115,561)	1,933,039
Automobiles	<u>1,840,774</u>	<u> </u>	<u>(160,774)</u>	<u>1,680,000</u>
Total assets	<u>8,803,550</u>	<u>84,142</u>	<u>(430,558)</u>	<u>8,457,134</u>
ACCUMULATED DEPRECIATION				
Buildings and improvements	(2,117,654)	(78,572)		(2,196,226)
Data processing equipment	(1,451,779)	(62,339)	130,362	(1,383,756)
Furniture and fixtures	(6,873)	(13,694)		(20,567)
Equipment and machinery	(1,678,076)	(125,595)	111,488	(1,692,183)
Automobiles	<u>(1,765,992)</u>	<u>(41,223)</u>	<u>154,190</u>	<u>(1,653,025)</u>
Total accumulated depreciation	<u>(7,020,374)</u>	<u>(321,423)</u>	<u>396,040</u>	<u>(6,945,757)</u>
Net total	<u>\$ 1,783,176</u>	<u>\$ (237,281)</u>	<u>\$ (34,518)</u>	<u>\$ 1,511,377</u>

The Department does not have any debt related to capital assets. Depreciation expense of \$321,423 is considered a public safety expense.

NOTE 6 - COMPENSATED ABSENCES

The changes in liabilities for compensated absences are as follows:

	<u>Balance,</u> <u>June 30, 2017</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Balance,</u> <u>June 30, 2018</u>	<u>Due within</u> <u>one year</u>
Governmental activities	\$ 191,529	\$ 284,609	\$ (293,919)	\$ 182,219	\$ 182,219
Total	<u>\$ 191,529</u>	<u>\$ 284,609</u>	<u>\$ (293,919)</u>	<u>\$ 182,219</u>	<u>\$ 182,219</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, 2018

NOTE 7 - DUE FROM/TO OTHER STATE AGENCIES

The following amounts are due from other state agencies as of June 30, 2018:

<u>Fund</u>	<u>Agency</u>	<u>Agency Number</u>	<u>Fund Number</u>	<u>Amount</u>	<u>Purpose</u>
20380	Dept of Finance and Administration	34101	85300	\$ 1,750,000	EO-2015-013
	Total			<u>\$ 1,750,000</u>	

The following amounts are due to other state agencies as of June 30, 2018:

<u>Fund</u>	<u>Agency</u>	<u>Agency Number</u>	<u>Fund Number</u>	<u>Amount</u>	<u>Purpose</u>
20380	Public Safety	79000	12802	\$ 50,280	Reimbursements
40280	Energy, Minerals, & Natural Resources	52100	19902	3,421	Reimbursements
40280	Military Affairs	70500	99200	<u>245</u>	Reimbursements
	Total			<u>\$ 53,946</u>	

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 - DUE TO STATE GENERAL FUND

At June 30, 2018, 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, 2018	Amount
2015	\$ 296,626
Executive Orders	650,907
State Warrants	64,993
Total	\$ 1,012,526

NOTE 9 - 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, 2018 and 2017 were \$505,193 and \$448,020, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - 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.

Funding Policy

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

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

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1 municipal police member coverage plans 3, 4 or 5; municipal fire member coverage 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, 2018, 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, 2018, 2017, and 2016 were \$59,472, \$53,870, and \$53,527, respectively, which equal the required contributions for each year.

NOTE 11 - 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 is no pending or known threatened legal proceedings involving material matters to which the Department is a party.

NOTE 12 - 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 EXECUTIVE ORDERS
YEAR ENDED JUNE 30, 2018

Description	Appropriation Period	Original	Balance	New Orders	Current	Adjustments	Reversion	Balance
		Appropriati on	June 30, 2017		Year Expenditure s			June 30, 2018
NMEO 2007-019 1659 Matching Funds	2007-Gov Rescinds	\$ 750,000	\$ 2,806	\$ -	\$ -	\$ -	\$ 2,806	\$ -
NMEO 2007-020 1659 Matching Funds	2007-Gov Rescinds	750,000	215,993	-	-	-	215,993	-
NMEO 2007-022 1659 Matching Funds	2007-Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2008-037 Drought in State (Water Hauls) - Stand Alone	2008-Gov Rescinds	500,000	291,919	-	-	-	-	291,919
NMEO 2008-042 Flooding Disaster in Lincoln Chavez - Matching Funds	2008-Gov Rescinds	750,000	(799,327)	-	(799,327)	-	-	-
NMEO 2008-042A Flooding Disaster in Lincoln Chavez - Matching Funds	2008-Gov Rescinds	750,000	750,000	-	750,000	-	-	-
NMEO 2010-031 Flash Flooding, San Miguel Co. - Stand Alone	2010-Gov Rescinds	200,000	-	-	-	-	-	-
NMEO 2010-034 Flood Damage 1936 Matching McKinley Co. Farmington, Acoma - Matching Funds	2010-Gov Rescinds	750,000	283,020	-	-	-	-	283,020
NMEO 2010-035 Flooding 1936 Matching Mora Co. - Matching Funds	2010-Gov Rescinds	400,000	397,712	-	-	-	-	397,712
NMEO 2010-036 Flooding 1936 Matching Socorro Co. - Matching Funds	2010-Gov Rescinds	750,000	265,174	-	(2,204)	-	-	267,378
NMEO 2010-042 Flooding Kewa Pueblo - Stand Alone	2010-Gov Rescinds	250,000	-	-	-	-	-	-
NMEO 2011-014 1962 Winter Storm - Matching Funds	2011-Gov Rescinds	750,000	417,817	-	-	-	417,817	-
NMEO 2011-040 Wallow Fire Catron County - Stand Alone	2011-Gov Rescinds	200,000	-	-	-	-	-	-
NMEO 2011-047 Track Fire Colfax, Mora, and San Miguel - Stand Alone	2011-Gov Rescinds	200,000	-	-	-	-	-	-
NMEO 2011-053 Las Conchas Fire Los Alamos - Stand Alone	2011-Gov Rescinds	750,000	470,182	-	-	-	-	470,182
NMEO 2011-061 Donaldson Fire Lincoln County - Stand Alone	2011-Gov Rescinds	100,000	-	-	-	-	-	-
NMEO 2011-063 2011 Flood Threat	2011-Gov Rescinds	750,000	(15,225)	-	-	7,616	-	(7,609)
NMEO 2011-075 4047 Cibola and Sandoval - Matching Funds	2011-Gov Rescinds	300,000	300,000	-	-	-	-	300,000
NMEO 2012-007 Flood Potential Due to Wild Fires - Stand Alone	2012-Gov Rescinds	250,000	57,129	-	-	-	-	57,129
NMEO 2012-008 Flooding 4047 Cibola, Los Alamos, and Sandoval Co. - Matching Funds	2012-Gov Rescinds	450,000	38,680	-	-	-	-	38,680
NMEO 2012-014 FMAG 2978 Whitewater Baldy Fire Catron County	2012-Gov Rescinds	500,000	(6,675)	-	-	-	-	(6,675)

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXECUTIVE ORDERS
YEAR ENDED JUNE 30, 2018**

<u>Description</u>	<u>Appropriation Period</u>	<u>Original Appropriati on</u>	<u>Balance June 30, 2017</u>	<u>New Orders</u>	<u>Current Year Expenditure s</u>	<u>Adjustments</u>	<u>Reversion</u>	<u>Balance June 30, 2018</u>
NMEO 2012-015 FMAG 2979 Little Bear Fire Lincoln County - Stand Alone	2012-Gov Rescinds	750,000	115,158	-	-	-	-	115,158
NMEO 2012-018 FMAG Whitewater Baldy and Little Bear Fires, Catron, Grant & Lincoln County - Stand Alone	2012-Gov Rescinds	750,000	187,383	-	844	-	-	186,539
NMEO 2012-032 Flooding Cibola, Los Alamos, and Sandoval Counties - Matching Funds	2012-Gov Rescinds	750,000	54,258	-	-	-	-	54,258
NMEO 2012-038 Hurricane Sandy - Matching Funds	2012-Gov Rescinds	200,000	-	-	-	-	-	-
NMEO 2012-031 2011 Flooding	2013-Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2013-001 Flooding Disaster Lincoln, Los Alamos, Sandoval Counties - Stand Alone	2013-Gov Rescinds	10,500,000	8,794,496	-	-	-	-	8,794,496
NMEO 2013-004 Sub-Freezing Temps Navajo Nations, San Juan, McKinley, Valencia - Stand Alone	2013-Gov Rescinds	100,000	-	-	-	-	-	-
NMEO 2013-008 Tres Lagunas Fire - Stand Alone	2013-Gov Rescinds	750,000	748,540	-	-	-	-	748,540
NMEO 2013-010 Thompson Fire - Stand Alone	2013-Gov Rescinds	500,000	458,525	-	-	-	-	458,525
NMEO 2013-022 Flood Threat - Stand Alone	2013-Gov Rescinds	750,000	448,748	-	-	-	-	448,748
NMEO 2013-027 Emergency Due to Storms and Flooding - Stand Alone	2013-Gov Rescinds	500,000	169,223	-	-	-	-	169,223
NMEO 2013-031 Declaring a Disaster Statewide Due to Flooding - Stand Alone	2013-Gov Rescinds	750,000	49,962	-	4,274	-	-	45,688
NMEO 2013-034 Severe Winter Storms and Freezing Temp. - Stand Alone	2013-Gov Rescinds	100,000	-	-	-	-	-	-
NMEO 2014-004 Flooding Disaster in Lincoln Chavez - Matching Funds	2014-Gov Rescinds	8,000,000	7,482,816	-	49,327	-	-	7,433,489
NMEO 2014-005 Flooding Disaster in Bernalillo - Matching Funds	2014-Gov Rescinds	1,375,000	248,174	-	-	-	-	248,174
NMEO 2014-006 Flooding Disaster in Catron, Chavez, Cibola - Matching Funds	2014-Gov Rescinds	5,500,000	981,676	-	11,805	-	-	969,871
NMEO 2014-013 Monsoonal Flooding - Matching Funds	2014-Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2014-015 Flooding from Hurricane Odile - Matching Funds	2014-Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2015-007 Enhanced Flood Potential - Stand Alone	2015-Gov Rescinds	750,000	725,050	-	-	-	-	725,050
NMEO 2015-008 Providing Additional Funding for Flooding Disaster in Colfax, Eddy, Lea, Lincoln Counties - Matching Funds	2015-Gov Rescinds	7,125,000	441,804	-	24,665	-	-	417,139

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXECUTIVE ORDERS
YEAR ENDED JUNE 30, 2018**

<u>Description</u>	<u>Appropriation Period</u>	<u>Original Appropriati on</u>	<u>Balance June 30, 2017</u>	<u>New Orders</u>	<u>Current Year Expenditure s</u>	<u>Adjustments</u>	<u>Reversion</u>	<u>Balance June 30, 2018</u>
NMEO 2015-013 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	2015-Gov Rescinds	1,750,000	1,604,237	-	49,755	-	-	1,554,482
NMEO 2015-016 Declaring An Emergency in San Juan County Due to Gold King Mine Contaminated Water Release	2015-Gov Rescinds	750,000	520,438	-	-	-	-	520,438
NMEO 2015-017 Declaring an Emergency Throughout New Mexico Due to Monsoon Flooding	2015-Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2015-021 Declaring an Emergency Throughout New Mexico Due to Monsoon Flooding	2015-Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2016-004 Providing Additional Funding for Flooding Emergency Statewide	2016-Gov Rescinds	1,750,000	572,202	-	-	-	-	572,202
NMEO 2016-007 Declaring an Emergency in Bernalillo and Torrance Counties Due to Dog Head Wildfire	2016-Gov Rescinds	750,000	653,758	-	131,725	-	-	522,033
NMEO 2016-021 Timberon Fire	2016-Gov Rescinds	750,000	744,719	-	-	-	-	744,719
NMEO 2016-027 August Monsoon	2016-Gov Rescinds	750,000	749,188	-	5,928	-	-	743,260
NMEO 2016-034 Bloomfield Irrigation Ditch	2016-Gov Rescinds	225,000	49,729	-	-	-	-	49,729
NMEO 2016-035 Winter Storm	2016-Gov Rescinds	1,250,000	187,456	-	-	-	-	187,456
NMEO 2016-036 FY2017 Annual Disaster EO	2016-Gov Rescinds	750,000	700,000	-	166,580	-	-	533,420
NMEO 2017-020 FY2018 Annual Disaster EO	2017-Gov Rescinds	750,000	-	750,000	127,010	-	-	622,990
NMEO 2017-021 Storms & Flooding Roosevelt Co.	2017-Gov Rescinds	750,000	-	750,000	375,000	-	-	375,000
NMEO 2018-001 Southern California Wildfires	2018-Gov Rescinds	700,000	-	700,000	266,313	-	-	433,687
NMEO 2018-002 Northern California Wildfires	2018-Gov Rescinds	385,000	-	385,000	175,233	-	-	209,767
NMEO 2018-003 Hurricane Irma	2018-Gov Rescinds	30,000	-	30,000	8,898	-	-	21,102
NMEO 2018-004 Hurricane Maria	2018-Gov Rescinds	100,000	-	100,000	-	-	-	100,000
NMEO 2018-017 Ute Park Wildfire	2018-Gov Rescinds	750,000	-	750,000	13,315	-	-	736,685
NMEO 2018-020 Soldier Canyon Fire	2018-Gov Rescinds	750,000	-	750,000	-	-	-	750,000
NMEO 2018-021 FY2019 Annual EO	2018-Gov Rescinds	750,000	-	750,000	-	-	-	750,000
Unlocated Difference to EO Restricted Fund Beginning and Ending Balances		-	615,214	-	-	-	-	(895,165)
Total		\$ -	\$ 29,971,959	\$ 4,965,000	\$ 1,359,141	\$ 7,616	\$ 636,616	\$ 31,438,439

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF JOINT POWERS AGREEMENTS
YEAR ENDED JUNE 30, 2018

<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 2018</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, 2018

Federal Agency/Pass-Through Agency	Federal CFDA Number	Amount Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Homeland Security (DHS)			
<i>Federal Emergency Management Agency (FEMA)</i>			
Community Assistance Program	97.023	\$	\$ 114,961
Disaster Grants - Public Assistance	97.036	16,051,881	16,926,893
Hazard Mitigation Grant	97.039	1,936,870	2,134,397
Emergency Management Performance Grants	97.042	1,348,555	5,328,160
Pre-Disaster Mitigation	97.047	58,423	65,155
Homeland Security Grant Program	97.067	<u>3,644,094</u>	<u>2,610,293</u>
Total U.S. Department of Homeland Security (DHS) Federal Emergency Management Agency (FEMA):		<u>23,039,823</u>	<u>27,179,859</u>
U.S. Department of Transportation:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	86,060	124,052
U.S. Department of Energy			
<i>Passed-through NM EMNRD Passed Through New Mexico Energy & Minerals Dept. Transport of Transuranic Wastes to the Waste Isolation Pilot Plan</i>			
States and Tribal Concerns, Proposed Solutions	<u>81.106</u>		<u>66,799</u>
Total Federal Awards Expended		<u>\$ 23,125,883</u>	<u>\$27,370,710</u>

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

NOTE 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.

NOTE 2 - NON CASH ASSISTANCE PROVIDED

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

NOTE 3 - LOANS

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

**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, 2018, 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 October 29, 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 4.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2018-002, 2018-009, 2018-010 and 2018-011.

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.

HARSHWAL & COMPANY LLP
Certified Public Accountants

Harshwal & Company LLP

Albuquerque, New Mexico
October 29, 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 direct and material effect on each of the Department's major federal programs for the year ended June 30, 2018. The Department's major federal programs are identified in the summary of 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.

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 2018-003 for Subrecipient Monitoring and 2018-004 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, 2018.

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 2018-003 for Subrecipient Monitoring and 2018-004 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, 2018.

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 2018-003 for Subrecipient Monitoring and 2018-004 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, 2018.

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 2018-003 for Subrecipient Monitoring and 2018-004 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 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, 2018.

Other Matters

The results of our auditing procedures disclosed other 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 2018-005, 2018-006, 2018-007 and 2018-008. 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.

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 that 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-003 and 2018-004 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 2018-005, 2018-006, 2018-007 and 2018-008 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.

HARSHWAL & COMPANY LLP
Certified Public Accountants

Harshwal & Company LLP

Albuquerque, New Mexico
October 29, 2018

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:	Qualified
Internal control over financial reporting:	
• Material weakness identified?	Yes
• Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS:

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiencies identified not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	Yes

IDENTIFICATION OF MAJOR PROGRAMS:

<u>CFDA 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		\$ 821,121
Auditee qualified as low-risk auditee?		No

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

2018-001 Internal Control over Financial Close and Reporting (Material Weakness) (Prior Year Finding 2017-001)

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.
- An adjustment in the amount of approximately \$22.6M was necessary to correct the fund balance.
- The Department lacks processes and controls to reconcile the Department’s claim to the State General Fund Investment Pool. As of June 30, 2018, the Department’s claim to the State General Fund Investment Pool has not been reconciled with the general ledger, and this resulted in a difference of \$205,949.
- 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, 2018.
- 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 2018.
- 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 \$895K. Furthermore, the Department lacks a process to ensure all executive orders are budgeted and received after the issuance of an executive order.

Although the Department is working on this, there has been no significant progress.

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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-001 Internal Control over Financial Close and Reporting (Material Weakness) (Prior Year Finding 2017-001) (Continued)

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: We recommend management evaluate all aspects of the financial close and reporting process and establish effective internal controls and procedures to ensure timely and accurate financial statement and supporting schedules.

Management's Response: Management concurs with this finding. The Financial Services Unit has been developing a monthly reconciliation process to enable the Department to clear past issues and quickly identify new issues. The department plans to take on a few major projects in FY2019. The projects are: 1) its federal accounts receivable and payable balances (which can only now be done with the completion of auditing and reconciliation of the federal non-disaster grants dating back to 2011, process initiated in January 1, 2017 and due for completion, final draw/payment and final reporting in November 2018); 2) research and process outdated General Fund reversion amounts; and 3) Time & Effort Timesheet via SHARE 9.2.

Corrective action is estimated to be implemented no later than January 1, 2019.

The Administrative Services Bureau Chief, Chief Financial Officer, Financial Services Unit Manager, and the Accounting and Auditing Team will be responsible for this corrective action.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-002 Internal Control over Procurement Cards (Other Matter)

Condition: During our testing of P-card transactions, for 1 out of 27 samples, in the amount of \$578, the P-card was used to pay for an employee's lodging expense.

Criteria: The Department's policy No. #FIN-103 section IV authorized uses of the procurement card or travel procurement card states that travel coordinators may use the travel procurement card to secure lodging reservations for employees. However, travel coordinators may not use the travel procurement card to actually pay for the room.

Cause: Lack of internal controls surrounding the use of P-Cards.

Effect: Non-compliance with the applicable P-Card policy and procedures.

Recommendation: We recommend that the Department review its internal fiscal policy on travel, and provide training to all employees so that they are aware of this policy and abide by it.

Management's Response: Management concurs with this finding. An employee traveled to Washington D.C. on official business with no money/ credit card to pay for his room. With the exception of leaving this employee homeless for a week, management had no other choice than to pay for this employees lodging with the P-Card. Employees have been reminded to plan ahead prior to traveling.

Corrective action was implemented immediately.

All DHSEM Employees 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, 2018

SECTION III - FEDERAL FINDINGS

2018-003 Subrecipient Monitoring (Material Weakness, Material Noncompliance) (Prior Year Finding 2017-002)

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 FY18, 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 FY18, the Department lacked a process to ensure timely reporting by all subgrantees of financial reporting, and performance reporting.
- **All Major Programs** - During FY18, the Department lacked evidence that a risk assessment was performed for some subrecipients as relates to the risk of noncompliance for those subawards subject to the Uniform Guidance.
- **97.036** - During our review, we noted that 9 out of 18 sub-recipient grant files, there was no evidence that the sub-recipient obtained a DUNS number. In addition, for 16 out of 18 sub-recipient grant files, there were missing close out reports, quarterly financial reports, or quarterly performance progress reports; and for 18 sub-recipient grant files, there was no evidence of follow-up on audit findings. In addition, for 3 sub-recipient grant files procurement and contracting documents were missing with respect to the work which is actually being claimed as completed.
- **97.039** - During our review, we noted that 2 out of 5 sub-recipient grant files, there was no evidence that the sub-recipient obtained a DUNS number, and no evidence of follow-up on audit findings. Also, we noted that 3 out of 5 sub-recipient grant files, there were missing quarterly financial reports or quarterly performance progress reports.

STATE OF NEW MEXICO
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YEAR ENDED JUNE 30, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-003 Subrecipient Monitoring (Material Weakness, Material Noncompliance) (Prior Year Finding 2017-002) (Continued)

- **97.042** - During our review, we noted that 6 out of 10 sub-recipient grant files, there was no evidence of follow-up on audit findings. Also, we noted that 7 out of 10 sub-recipient grant files, there were missing close out reports, quarterly financial reports or quarterly performance progress reports.
- **97.067** - During our review, we noted that 10 out of 13 sub-recipient grant files, there was no evidence of follow-up on audit findings. Also, we noted that 11 out of 13 sub-recipient grant files, there were missing quarterly performance progress reports and for 3 out of 13 sub-recipient grant files, there was no documentation of performing site visits or internal desk audits.

Although the Department is working on this, there has been no significant progress.

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: Non-compliance with applicable compliance requirements.

Recommendation: 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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-003 Subrecipient Monitoring (Material Weakness, Material Noncompliance) (Prior Year Finding 2017-002) (Continued)

Management's Response: Management concurs with the finding. On June 30, 2017, the Department signed a new Policy for Sub-Recipient Monitoring (GRA418-Sub-Recipient Monitoring), and on May 1, 2018, the Sub-Recipient Monitoring process went into effect.

Corrective Action was completed on May 1, 2018 and implementation has begun. It is important to note that any grants awarded prior to June 30, 2017 will repeat this finding until closed as these issues are a result of deficiencies in subrecipient monitoring prior to that date.

The Deputy Secretary, All Bureau Chiefs, Grants Management Unit staff, Recovery Unit staff, Mitigation Unit staff, Local Preparedness Unit staff, and Accounting and Auditing Section staff are tasked with this corrective action.

STATE OF NEW MEXICO
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YEAR ENDED JUNE 30, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-004 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) (Prior Year Finding 2017-003)

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 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.
- **All Major Programs** – During FY18, the Department lacked a process to ensure timely reconciliation and closeout of grants as required. The Department is in the process of closing and reconciling grants that are well beyond the grant expiration and are still pending final grant closeout.

This finding remains essentially the same as prior year.

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 de-obligated funds, equipment disposition, and record retention requirements for closed awards.

STATE OF NEW MEXICO
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YEAR ENDED JUNE 30, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-004 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) (Prior Year Finding 2017-003) (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 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 completed its backlog of FFATA Reporting for its Non-Disaster and Mitigation Grants in FY2018. The Department has run into an issue while entering FFATA Reporting for its Public Assistance Grants. The Department is unable to enter FFATA Reporting because Project Worksheet sub-recipients whose sub-grants have expired, no longer obtain an active DUNS Number, nor are these sub-recipients cooperating by reactivating their DUNS Numbers. The GRA416-FFATA Policy became effective June 30, 2017, and all new sub-grants meet the FFATA Reporting requirement.

FFATA corrective action has already been implemented. It is important to note that any public assistance grants awarded prior to FY2018 will repeat this finding until closed as these issues are a result of deficiencies in FFATA Reporting prior to that date and the data is no longer available for entering.

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

Grant Closeout: The Grant Closeout Policy (GRA411) was signed on August 10, 2017. In FY2018, DHSEM closed out the 2016 Emergency Management Program Grant in less than 90 days after the expiration of the grant, and was the only grant due to close out in FY2018. Also in FY2018, the Department reconciled and began the closeout process for all Emergency Management Program Grant awards and Homeland Security Grant Program awards awarded to the Department since 2011, and closed-out two expired Public Assistance grants. In FY2019, the department plans to close all remaining expired grants and continue closing active grants timely.

Grant Closeout corrective action began in FY2017 and will continue through FY2019 until all expired grants are closed. It is important to note that any grants awarded prior to September 1, 2017 will repeat this finding until closed as these issues are a result of deficiencies in grant closeout requirement prior to that date.

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, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-005 Cash Management (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2017-004)

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

- **All Major Programs** - During FY18, the Department was not performing timely drawdowns of federal awards.

The Department has made progress in this area.

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
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SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-005 Cash Management (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2017-004) (Continued)

Management's Response: Management concurs with the finding. The Department has written a new Grant Drawdown Policy (GRA415), effective June 30, 2017, and was implemented in FY2019.

Corrective action has begun and is due to be fully implemented by January 1, 2019.

The Administrative Services Bureau Chief, Grants Management Unit Manager, and the Accounting and Auditing Team 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, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-006 Special Tests and Provisions (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2017-005)

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 of special tests and provisions, we noted that for 2 out of 10 projects that were closed, additional documentation was requested to substantiate completion of the project. Failure to provide this additional documentation would require the applicant to pay back \$76,140 and \$252,235, respectively. However, the files lacked documentation and support as to whether follow-up was done to obtain the requested documentation.

The Department did not make any progress in resolving this finding.

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.

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.

STATE OF NEW MEXICO
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SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-006 Special Tests and Provisions (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2017-005) (Continued)

Management's Response: Management concurs with the finding. On May 1, 2018, the Department adopted and implemented approximately thirty (30) pages of Department procedures in GRA 422 for Disaster Grants – Public Assistance (PA). These PA procedures are designed to improve the Department's compliance with requirements articulated in the Code of Federal Regulation (CFR). Further, in FY 2018, the Department, via Request for Proposals, procured a contractor to install PA grant management software. In FY2019 that software will be implemented and fully functional. The Department's CFR compliant PA procedures will be imbedded into the function of the software during implementation thereby further improving the management, administration and closeout of the Department's federal PA disaster grants. Finally, in accordance with our newly adopted GRA 422 procedures, the Department has already begun separating files per project worksheet which is necessary to correct this issue, and mirror FEMA's award process. The files will contain award, cost, reporting, and closeout documentation.

Corrective action will be assessed and complete by June 30, 2019.

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.

STATE OF NEW MEXICO
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SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-007 Matching Requirements (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2017-006)

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

Condition: During our testing over matching requirements for CFDA 97.036, we noted the following issues related to our sample of 65 closed projects:

- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$236.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$1,265.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$555.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$555.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$844.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$334.
- One instance in which the Department incorrectly drew down federal funds for the state match share in the amount of \$481.

The Department did not make any progress in resolving this finding.

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.

STATE OF NEW MEXICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-007 Matching Requirements (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2017-006) (Continued)

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.

Management's Response: Management concurs with the finding. In FY2016, DHSEM worked with the Department of Finance and Administration and the Department of Information and Technology to create a new fund to properly track federal funds separate from general funds, and update its funding codes to better identify each award on its own. Additionally, on May 1, 2018, the Department adopted and implemented approximately thirty (30) pages of Department procedures in GRA 422 for Disaster Grants – Public Assistance (PA). These PA procedures are designed to improve the Department's compliance with requirements articulated in the Code of Federal Regulation (CFR) and proper coding of grant payments. Further, in FY 2018, the Department, via Request for Proposals, procured a contractor to install PA grant management software. In FY2019 that software will be implemented and fully functional. The Department's CFR compliant PA procedures will be imbedded into the function of the software during implementation thereby further improving the process by which coding is inserted and approved when paying the Department's subrecipients.

Corrective action is due to be complete by June 30, 2019. It is important to note that any grants payments released prior to July 1, 2016 will repeat this finding until reconciled and closed as these issues are a result of deficiencies in grant coding prior to that date.

The Cabinet Secretary, Deputy Secretary, Administrative Services Bureau Chief, Response and Recovery Bureau Chief, Grant Management Unit Manager, Financial Services Unit Manager, and Recovery Unit Manager are tasked with ensuring the department continues these practices as required by FEMA.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION III – FEDERAL FINDINGS (CONTINUED)

2018-008 Emergency Manager Training (Significant Deficiency, Instance of Noncompliance) (Prior Year Finding 2017-007)

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. This finding remains the same as prior year.

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.

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 FY2018. On July 26, 2016, the Cabinet Secretary signed the Department's Training Policy and Procedure (PER510-TRAINING), and on May 31, 2018, he signed the Exercise Policy. 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.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

OTHER FINDINGS

2018-009 User System Access (Compliance and Other Matters) (Prior Year Finding 2017-009)

Condition: During our internal control testing over user access to the SHARE system, we noted eight of the eleven employees tested did not have their access disabled promptly after their termination date. The Department did not make any progress in resolving this finding.

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.

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

Management's Response: Management concurs with this finding. As part of the SPO Consolidation, the Department needs to work with the State Personnel Office to identify a process to ensure all SHARE access is removed promptly upon termination of an employee.

Corrective action for this finding will be completed by January 1, 2019.

The DHSEM's Cabinet Secretary, Deputy Secretary, Bureau Chiefs, the Chief Financial Officer, General Services Unit Manager and SPO will be 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, 2018

OTHER FINDINGS (CONTINUED)

2018-010 Untimely Reversion to the State General Fund (Compliance and Other Matters) – (Prior Year Finding 2017-010)

Condition: As of June 30, 2018, the Department reported amounts payable to the State General Fund in the amount of approximately \$1,012,000, 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, FY16, FY17, and FY18 and accrued any amounts payable to the State General Fund. The Department did not make any progress in resolving this finding.

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.

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, and revert amounts as required. The Cabinet Secretary signed FIN112-Fund Reversion Policy and Procedure on June 30, 2017, and a new de-obligations process has been put in place to ensure Executive Order funds related to de-obligations be reverted timely.

Corrective action is set to be completed by January 1, 2019.

The Administrative Services Bureau Chief, and Financial Services Unit Manager are task 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, 2018

OTHER FINDINGS (CONTINUED)

2018-011 Untimely Deposit of Cash Receipts (Compliance and Other Matters) – (Prior Year Finding 2017-011)

Condition: During testing over cash receipts, we noted that two out of thirty samples, in the amount of \$399 and \$173 respectively, were not deposited at the bank within 24 hours of receipt. The Department did not make any progress in resolving this finding.

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 Department 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. Three checks were received on March 26, 2018; a deposit was prepared on March 28, 2018 but did not make it to the bank for deposit until March 29, 2018. All parties who process cash receipts will be reminded of our policy, procedure and process to 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, Accounting and Auditing Team, Mail Runner and Processor, 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
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

2017-001 Internal Control over Financial Close and Reporting (Material Weakness) – Repeated

SECTION III – FEDERAL FINDINGS

2017-002 Subrecipient Monitoring (Material Weakness, Material Noncompliance) – Repeated

2017-003 Federal Grant Reporting and Grant Closeout – (Material Weakness, Material Noncompliance) – Repeated

2017-004 Cash Management (Significant Deficiency, Instance of Noncompliance) – Repeated

2017-005 Special Tests and Provisions – Large Project Closeouts (Significant Deficiency, Instance of Noncompliance) – Repeated

2017-006 Matching Requirements (Significant Deficiency, Instance of Noncompliance) – Repeated

2017-007 Emergency Manager Training (Significant Deficiency, Instance of Noncompliance) – Repeated

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

SECTION IV – OTHER FINDINGS

2017-008 Untimely Audit Report (Compliance and Other Matters) - Resolved

2017-009 User System Access (Compliance and Other Matters) – Repeated

2017-010 Untimely Reversion to the State General Fund (Compliance and Other Matters) – Repeated

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

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

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
EXIT CONFERENCE
JUNE 30, 2018**

An exit conference was held with the Department on October 25, 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:

Representing New Mexico Department of Homeland Security

M. Jay Mitchell (via phone)	Cabinet Secretary
David Ceballes	Deputy Secretary
Sarah Peterson	ASB Chief/CFO
Jennifer Sievers	Accountant/Auditor
Juanita Abeyta	Grants Manager
Craig Bacon	IT and GSU Manager
Rosalita M. Whitehair	Recovery Unit Manager

Representing Harshwal & Company, LLP

Sanwar Harshwal (via phone)	Managing Partner (CPA)
Mariem Tall	Audit Manager
Albert Hwu	Senior Auditor
Ken K. Lukusa	Staff Auditor

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.