

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019



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**STATE OF NEW MEXICO
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, 2019**

Jackie Lindsey, Cabinet Secretary

Kelly Hamilton, Deputy Secretary

Sarah Peterson, Chief Financial Officer



INDEPENDENT AUDITORS' REPORT

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, 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, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

Mr. Kelly Hamilton, Acting Cabinet Secretary
 State of New Mexico
 Department of Homeland Security and Emergency Management
 and Mr. Brian S. Colón, New Mexico State Auditor

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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
Severance Tax Bonds	Unmodified
GF Capital Outlay	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, 2019. 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, and 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, 2019. 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, 2019 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, 2019. The amount by which this departure would affect the liabilities, other financing uses (reversions), fund balance, net position of the General Fund, and governmental activities has not been determined.

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, New Mexico State Auditor

Management was unable to provide the budgeted amounts for the Executive Orders within the General Fund by expenditure category for the remaining unexpended balance from prior years, which is required to prepare the budgetary comparison on a budgetary basis as of and for the year ended June 30, 2019.

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, 2019, and the respective changes in financial position and budgetary comparison of the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Federal Grants Fund Budgetary Comparison, Severance Tax Bonds, and GF Capital Outlay as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the budgetary comparison statements, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2019, 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.

As discussed in Note 12, the beginning fund balance and net position required a restatement to correct a misstatement in the June 30, 2018 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 6 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, New Mexico State Auditor

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The 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, schedule of joint powers agreements, and schedule of capital appropriations 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, schedule of joint powers agreements, and schedule of capital appropriations 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, schedule of joint powers agreements, and schedule of capital appropriations 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 March 31, 2020 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
March 31, 2020

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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, 2019. 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, mitigate and recover from, 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 Federal Department of Homeland Security's 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 2019, the Department received \$24.7 million in revenue, the majority from non-recurring federal grants.
- Change in net position for the year-ended June 30, 2019 was a \$742 thousand reduction.
- Reflective of General Fund appropriations that are in the process of being distributed to counties, municipalities and subordinate government entities, fiscal year 2019 assets increased by \$8.1 million.

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. 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 fashion consistent with a private-sector business.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

The *Statement of Activities* presents information showing how the government's net position changed during the fiscal year presented. 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, for example, employee earned but unused vacation and revenue where cash will be collected in future periods.

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

Fund financial statements. A *fund* is an independent accounting entity with a self-balancing set of accounts. Use of fund accounting facilitates control over restricted and designated resources and demonstrates compliance with legal and contractual provisions. All Department funds are classified as governmental funds.

Governmental Funds. *Governmental funds* are used to account for the same activities 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 is useful in assessing a government's near-term financing needs.

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 accounting records in the Statewide Human Resources, Accounting and Management Reporting (SHARE) System, the State's Enterprise Resource Planning System. The Department maintains the following funds: General Fund (Fund No. 20050/20380), Federal Grants Fund (Fund No. 40280), Severance Tax Bonds Fund (Fund No. 89200), and GF Capital Outlay (Fund No. 93100).

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 grants funds as required supplementary information.

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

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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

Government-wide Financial Analysis

As mentioned, changes in net position over time serves as a useful indicator of a government's financial position. In the case of Department of Homeland Security and Emergency Management, current assets (excluding capital assets) increased by \$8.2 million or 22%. This change was driven by increased event-related general fund appropriations. The Department's liabilities, the result of pass-through, increased by \$9.7 million. The governmental activities net position decreased by \$1.6 million.

The restricted portion of \$31.1 million of Department of Homeland Security and Emergency Management's net position represents resources that are subject to external restrictions on how they may be used, such as special appropriations (executive orders) that can only be used towards specific declared disaster relief efforts.

	<u>Governmental Activities</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Current and Other Assets	\$ 45,916,628	\$ 37,700,397
Capital Assets	1,347,028	1,511,377
Total Assets	<u>\$ 47,263,656</u>	<u>\$ 39,211,774</u>
Current Liabilities	\$ 15,296,122	\$ 5,625,819
Total Liabilities	15,296,122	5,625,819
Net Position:		
Net Investment in		
Capital Assets	1,347,028	1,511,377
Restricted for:		
Other Purposes	31,098,722	31,438,439
Unrestricted	(478,216)	636,139
Total Net Position	<u>31,967,534</u>	<u>33,585,955</u>
Total Liabilities, Deferred		
Inflows of Resources,		
and Net Position	<u>\$ 47,263,656</u>	<u>\$ 39,211,774</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

Changes in Net Position

The Department's total revenues of \$24.7 million, plus total general revenues and expenses of a positive \$14.5 million, less total expenses of \$39.9 million and a restatement net position of \$0.9 million resulted in a reduction in net position of \$1.6 million. The Department had an increase in executive order revenue and program expenses from the prior year.

The table shows the summarized revenues and expenditures for the years ended June 30, 2019 and 2018.

	<u>Governmental Activities</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
REVENUES		
Program Revenues:		
Operating Grants	\$ 24,659,996	\$ 27,129,336
Charges for Services	57,695	61,001
Total Revenues	<u>24,717,691</u>	<u>27,190,337</u>
EXPENSES		
Program Expenses:		
Public Safety	<u>39,971,246</u>	<u>31,100,153</u>
Total Expenses	39,971,246	31,100,153
GENERAL REVENUES AND (EXPENSES)		
General Fund Appropriation	16,921,000	5,946,400
Transfers In	200,300	-
Gain/(loss) on Disposal of Capital Assets	-	(34,518)
Reversions to State General Fund - Executive Orders - Various	<u>(2,609,782)</u>	<u>(787,011)</u>
Total General Revenues and Expenses	<u>14,511,518</u>	<u>5,124,871</u>
CHANGE IN NET POSITION	(742,037)	1,215,055
Net Position - Beginning of Year	<u>33,585,955</u>	<u>32,370,900</u>
Net Position - Restatement	<u>(876,384)</u>	<u>-</u>
Net Position - As Restated	<u>32,709,571</u>	<u>32,370,900</u>
NET POSITION - END OF YEAR	<u><u>\$ 31,967,534</u></u>	<u><u>\$ 33,585,955</u></u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

Financial Analysis of the Government's Funds

As previously mentioned, the Department applies fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of Department'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. Specifically, *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 2019, the Department'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. The Severance Tax Bonds and GF Capital Outlay Funds account for the capital projects allocated to the Department from the two different revenue sources to assist local entities with match funding for federally awarded hazard mitigation projects.

As of the end of fiscal year 2019, Department of Homeland Security and Emergency Management's governmental funds reported combined ending fund balances of \$30.9 million, a \$1.4 million decrease from the prior year. The entire amount is *restricted* for specific purposes largely attributable to the Executive Orders State Disasters Fund.

Budget Amendment Highlights

The annual operating budget is approved by the New Mexico Governor. During the year, changes to the Department's budget are subject to approval by the New Mexico Department of Finance and Administration and in some cases the Legislative Finance Committee. 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. There were no unfavorable budget variances during the year.

	Final Budget	Actual (Budgetary) Basis	Favorable (Unfavorable) Variance
General Fund	\$ 5,452,000	\$ 3,481,606	\$ 1,970,394
Executive Order Fund	28,397,158	11,339,125	17,058,033
Federal Fund	101,866,781	24,658,117	77,208,664
Total for Governmental Funds	<u>\$ 135,715,939</u>	<u>\$ 39,478,848</u>	<u>\$ 96,237,091</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

Capital Asset and Debt Administration

Capital Assets

The investment in capital assets consists of buildings, equipment, information technology, furniture and fixtures, and motor vehicles. The following net change occurred in the capital assets during the years ended June 30, 2019 and 2018.

	2019	2018
Net Capital Assets - Beginning of Year	\$ 1,511,377	\$ 1,783,176
Capital Assets Purchased	80,434	84,142
Current Year Depreciation/Adjustments	(244,783)	(321,423)
Gain/(Loss) on Disposal of Capital Assets	-	(34,518)
Net Capital Assets - End of Year	<u>\$ 1,347,028</u>	<u>\$ 1,511,377</u>

The Department recognized depreciation on capitalized assets of \$244.8 thousand during the fiscal year. The summary of changes in capital asset and accumulated depreciation balances can be found in Note 4 of the financial statements.

Economic Factor and Next Year's Budgets

DHSEM's fiscal year 2021 budget was approved with an increase in general fund of \$328 thousand which will be applied to increase staffing. Funding for IT upgrades, vehicle, and furniture replacement totaling \$1.5 million was also included in the appropriation bill. However, the potential impact of COVID-19 pandemic on the state budget remains to be seen.

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, 2019**

	<u>Governmental Activities</u>
ASSETS	
ASSETS	
Current Assets:	
Investment in State General Fund Investment Pool	\$ 26,381,349
Due from Federal Government	18,873,128
Due from Other State Agencies	168,300
Due from Local Governments	480,207
Prepaid and Other Assets	13,644
Total Current Assets	<u>45,916,628</u>
Noncurrent Assets:	
Capital Assets, Net of Depreciation	<u>1,347,028</u>
Total Assets	<u><u>\$ 47,263,656</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts Payable	\$ 291,998
Accrued Payroll and Benefits	210,008
Due to Federal Government	6,575,834
Due to Other State Agencies	614,209
Due to Higher Education Institutions	7,903
Due to Local Governments	6,306,554
Due to State General Fund	944,680
Other Liabilities	87,737
Compensated Absences, Due Within One Year	257,199
Total Liabilities	<u>15,296,122</u>
NET POSITION	
Net Investment in Capital Assets	1,347,028
Restricted for:	
Special Appropriations	1,758,989
Executive Orders	29,339,733
Unrestricted	<u>(478,216)</u>
Total Net Position	<u>31,967,534</u>
Total Liabilities and Net Position	<u><u>\$ 47,263,656</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Governmental Activities
PROGRAM EXPENSES	
Public Safety	\$ 39,971,246
Total Program Expenses	39,971,246
PROGRAM REVENUES	
Operating Grants	24,659,996
Charges for Services	57,695
Total Program Revenues	24,717,691
Net Program Expense	(15,253,555)
GENERAL REVENUES AND (EXPENSES)	
General Fund Appropriation	16,921,000
Transfers In	200,300
Reversions to State General Fund - Executive Orders - Various	(2,609,782)
Total General Revenues and Expenses	14,511,518
CHANGE IN NET POSITION	(742,037)
Net Position - Beginning of Year	33,585,955
Restatement	(876,384)
Net Position - Beginning of Year, Restated	32,709,571
NET POSITION - END OF YEAR	\$ 31,967,534

See accompanying Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2019

	Major Funds				Total Governmental
	20050/20380 General Fund	40280 Federal Grants Fund	89200 Severance Tax Bonds	93100 GF Capital Outlay	
ASSETS					
Investment in State Treasurer General					
Fund Investment Pool	\$ 34,223,495	\$ -	\$ -	\$ 1,840,000	\$ 36,063,495
Due from Federal Government	-	18,873,128	-	-	18,873,128
Due from Other State Agencies	-	-	168,300	-	168,300
Due from Local Governments	27,551	452,656	-	-	480,207
Prepays and Other Assets	-	13,644	-	-	13,644
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 34,251,046</u>	<u>\$ 19,339,428</u>	<u>\$ 168,300</u>	<u>\$ 1,840,000</u>	<u>\$ 55,598,774</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Investment in State Treasurer General					
Fund Investment Pool (Overdraft)	-	9,513,846	168,300	-	9,682,146
Accounts Payable	291,998	-	-	-	291,998
Accrued Payroll and Benefits	118,127	91,881	-	-	210,008
Due to Federal Government	302,520	6,273,314	-	-	6,575,834
Due to Other State Agencies	-	614,209	-	-	614,209
Due to Higher Education Institutions	-	7,903	-	-	7,903
Due to Local Governments	3,024,994	3,281,560	-	-	6,306,554
Due to State General Fund	881,742	62,938	-	-	944,680
Other Liabilities	520	6,206	-	81,011	87,737
Total Liabilities	<u>4,619,901</u>	<u>19,851,857</u>	<u>168,300</u>	<u>81,011</u>	<u>24,721,069</u>
Fund Balance:					
Nonspendable:					
Prepaid Expenses	-	13,644	-	-	13,644
Restricted for:					
Special Appropriations	-	-	-	1,758,989	1,758,989
Executive Orders	29,339,733	-	-	-	29,339,733
Unassigned	291,412	(526,073)	-	-	(234,661)
Total Fund Balance	<u>29,631,145</u>	<u>(512,429)</u>	<u>-</u>	<u>1,758,989</u>	<u>30,877,705</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 34,251,046</u>	<u>\$ 19,339,428</u>	<u>\$ 168,300</u>	<u>\$ 1,840,000</u>	<u>\$ 55,598,774</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)	\$	30,877,705
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Cost of Capital Assets		8,305,063
Accumulated Depreciation		<u>(6,958,035)</u>
Total Capital Assets		1,347,028
<p>Accrued compensated absences not treated as an expenditure in Governmental Funds</p>		
		<u>(257,199)</u>
Net Position of Governmental Activities	\$	<u><u>31,967,534</u></u>

See accompanying Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	Major Funds				Total Governmental Funds
	20050/20380 General Fund	40280 Federal Grants Fund	89200 Severance Tax Bonds	93100 GF Capital Outlay	
REVENUES					
Federal Grant Revenue	\$ -	\$ 24,659,996	\$ -	\$ -	\$ 24,659,996
Miscellaneous Revenue	57,660	35	-	-	57,695
Total Revenues	<u>57,660</u>	<u>24,660,031</u>	<u>-</u>	<u>-</u>	<u>24,717,691</u>
EXPENDITURES					
Public Safety:					
Current:					
Personal Services	2,156,007	2,578,112	-	-	4,734,119
Contractual Services	191,170	1,560,798	-	-	1,751,968
Other Costs	12,470,112	20,445,973	168,300	81,011	33,165,396
Capital Outlay	5,321	75,113	-	-	80,434
Total Expenditures	<u>14,822,610</u>	<u>24,659,996</u>	<u>168,300</u>	<u>81,011</u>	<u>39,731,917</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(14,764,950)	35	(168,300)	(81,011)	(15,014,226)
OTHER FINANCING SOURCES (USES)					
General Fund Appropriation	15,081,000	-	-	1,840,000	\$ 16,921,000
Transfers in - Other Agencies	32,000	-	-	-	32,000
Transfers in - STB	-	-	168,300	-	168,300
Reversions to State General Fund - Executive Orders - Various	(2,609,782)	-	-	-	(2,609,782)
Total Other Financing Sources (Uses)	<u>12,503,218</u>	<u>-</u>	<u>168,300</u>	<u>1,840,000</u>	<u>14,511,518</u>
NET CHANGE IN FUND BALANCE	(2,261,732)	35	-	1,758,989	(502,708)
Fund Balance - Beginning of Year	32,256,797	-	-	-	32,256,797
Restatement	(363,920)	(512,464)	-	-	(876,384)
Fund Balance - Beginning of Year as Restated	<u>31,892,877</u>	<u>(512,464)</u>	<u>-</u>	<u>-</u>	<u>31,380,413</u>
FUND BALANCE - END OF YEAR	<u>\$ 29,631,145</u>	<u>\$ (512,429)</u>	<u>\$ -</u>	<u>\$ 1,758,989</u>	<u>\$ 30,877,705</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Net Changes in Fund Balances - Total Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$ (502,708)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Outlay	80,434
Depreciation Expense	(244,783)

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.

Change in compensated absence balance not recorded in the governmental funds	(74,980)
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Change in Net Position of Governmental Activities (Statement of Activities)	\$ (742,037)
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**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL –
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
REVENUES				
General Fund Appropriation	\$ 24,481,000	\$ 24,481,000	\$ 15,081,000	\$ (9,400,000)
Inter-Agency Transfers	32,000	32,000	32,000	-
Miscellaneous Revenue	55,000	55,000	57,660	2,660
Total Revenues	<u>24,568,000</u>	<u>24,568,000</u>	<u>15,170,660</u>	<u>(9,397,340)</u>
BUDGETED FUND BALANCE	<u>9,281,158</u>	<u>9,281,158</u>	<u>-</u>	<u>(9,281,158)</u>
Total Revenues and Budgeted Fund Balance	<u>\$ 33,849,158</u>	<u>\$ 33,849,158</u>	<u>\$ 15,170,660</u>	<u>\$ (18,678,498)</u>
P-759 EXPENDITURES				
Personnel Services and Benefits	\$ 2,137,200	\$ 2,037,200	\$ 1,924,528	\$ 112,672
Contractual Services	125,000	125,000	96,916	28,084
Other Costs	3,189,800	3,289,800	1,460,162	1,829,638
Total P-759 Expenditures	<u>\$ 5,452,000</u>	<u>\$ 5,452,000</u>	<u>\$ 3,481,606</u>	<u>\$ 1,970,394</u>
EXECUTIVE ORDER EXPENDITURES				
Personnel Services and Benefits	\$ 966,777	\$ 966,777	\$ 231,479	\$ 735,298
Contractual Services	152,175	152,175	94,254	57,921
Other Costs	27,278,206	27,278,206	11,013,392	16,264,814
Total Executive Order Expenditures	<u>\$ 28,397,158</u>	<u>\$ 28,397,158</u>	<u>\$ 11,339,125</u>	<u>\$ 17,058,033</u>
ALL EXPENDITURES				
Personnel Services and Benefits	\$ 3,103,977	\$ 3,003,977	\$ 2,156,007	\$ 847,970
Contractual Services	277,175	277,175	191,170	86,005
Other Costs	30,468,006	30,568,006	12,473,554	18,094,452
Total Expenditures	<u>\$ 33,849,158</u>	<u>\$ 33,849,158</u>	<u>14,820,731</u>	<u>\$ 19,028,427</u>
NET CHANGE IN FUND BALANCE (Budgetary Basis)			349,929	
REVERSIONS TO STATE GENERAL FUND (Not Budgeted)			(2,609,782)	
REQUEST TO PAY PRIOR YEAR BILLS				
FY18 Bills Paid in 2019			<u>(1,879)</u>	
NET CHANGE IN FUND BALANCE (GAAP Basis)			<u>\$ (2,261,732)</u>	

See accompanying Notes to Financial Statements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL –
FEDERAL GRANTS FUND – SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2019

Federal Grants Fund - Special Revenue Fund				
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Federal Grant Revenue	\$ 93,648,657	\$ 101,866,781	\$ 24,659,996	\$ (77,206,785)
Miscellaneous Revenue	-	-	35	35
Total Revenues	93,648,657	101,866,781	24,660,031	(77,206,750)
Budgeted Fund Balance	-	-	-	-
Total Revenues and Budgeted Fund Balance	\$ 93,648,657	\$ 101,866,781	24,660,031	\$ (77,206,750)
EXPENDITURES				
Personnel Services and Benefits	\$ 2,842,400	\$ 3,056,615	2,578,112	\$ 478,503
Contractual Services	2,187,600	2,403,951	1,560,798	843,153
Other Costs	88,618,657	96,406,215	20,519,207	75,887,008
Total Expenditures	\$ 93,648,657	\$ 101,866,781	24,658,117	\$ 77,208,664
NET CHANGE IN FUND BALANCE (Budgetary Basis)			\$ 1,914	
REQUEST TO PAY PRIOR YEAR BILLS				
FY18 Bills Paid in 2019			(1,879)	
NET CHANGE IN FUND BALANCE (GAAP Basis)			\$ 35	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in the understanding of the Department's financial statements. The financial statements and notes are the assertions of the Department's management, who is solely responsible for their integrity and objectivity. The financial statements of the Department have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to state and local governments. 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 an agency within the primary government, the State of New Mexico. The Department has no component units.

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, the Cabinet Secretary, 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. These financial statements are limited to those funds, programs, and activities of operations which the Department Cabinet Secretary has oversight responsibility.

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 related only to government-type activities. The Department's governmental activities are supported by general fund appropriations from the State of New Mexico. The Department has no business-type or fiduciary activities.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported 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 or fiduciary for the year ended June 30, 2019.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The Department reports the following major governmental funds:

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

The Federal Grants Fund (40280) – 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.

Severance Tax Bonds (89200) – This Capital Project fund was established to account for the sale of severance tax bonds to provide funds for various waste handling projects. The fund is a reverting fund. Source of funding: Severance tax bonds.

GF Capital Outlay (93100) – This fund was established to account for Capital Outlay projects utilizing General Fund Appropriations. The fund is reverting.

Assets, Liabilities, and Net Position

Cash and Investments

For the fiscal year ended June 30, 2019, 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.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

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 during 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. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The State's capitalization policy (i.e. the dollar value above which asset acquisitions are added to the capital accounts) is \$5,000 per section 12-6-10 NMSA 1978. There is no debt related to the capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives with no salvage value assigned. Useful life by asset classification is presented below.

Buildings and Improvements	20 Years
Furniture and Fixtures	5 Years
Data Processing Equipment	4 Years
Equipment and Machinery	5 Years
Motor Vehicles	5 Years

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position (Continued)

Compensated Absences

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

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

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, 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, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position (Continued)

Postemployment Benefits – State Retiree Health Care Plan

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, 2019 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, 2019, the Department has \$13,644 nonspendable fund balances. In addition, the Department has \$29,339,733 in amounts restricted in accordance with Section 6-7-3 NMSA 1978 for executive orders as well as \$1,758,989 for special appropriations.

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, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Position (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, 2019.
- 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.
- 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 requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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. For the purpose of administering the General Appropriation Act of 2019, 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.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budgets and Budgetary Accounting (Continued)

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 INVESTMENT IN THE 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.

A reconciliation of claims on the SGFIP to the related assets managed by STO assets is performed monthly. There is no material difference between the two amounts.

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 SGFIP managed by the New Mexico State Treasurer's Office.

At June 30, 2019, the Department had the following invested in the State General Fund:

Fund	Fund No.	Fair Value June 30, 2019
General Fund	20050/20380	\$ 34,223,495
Federal Grants Fund	40280	(9,513,846)
Severance Tax Bonds Fund	89200	(168,300)
GF Capital Outlay Fund	93100	1,840,000
Total		<u>\$ 26,381,349</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.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

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, 2019.

NOTE 4 CAPITAL ASSETS

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

	June 30, 2018	Additions	Deletions/ Adjustments	June 30, 2019
Assets:				
Buildings and Improvements	\$ 3,299,234	\$ -	\$ -	\$ 3,299,234
Data Processing Equipment	1,433,800	38,903	-	1,472,703
Furniture and Fixtures	111,061	-	-	111,061
Equipment and Machinery	1,933,039	-	-	1,933,039
Motor Vehicles	1,680,000	41,531	(232,505)	1,489,026
Total Assets	<u>8,457,134</u>	<u>80,434</u>	<u>(232,505)</u>	<u>8,305,063</u>
Accumulated Depreciation:				
Buildings and Improvements	(2,196,226)	(79,633)	-	(2,275,859)
Data Processing Equipment	(1,383,756)	(33,576)	-	(1,417,332)
Furniture and Fixtures	(20,567)	(22,212)	-	(42,779)
Equipment and Machinery	(1,692,183)	(78,496)	-	(1,770,679)
Motor Vehicles	(1,653,025)	(30,866)	232,505	(1,451,386)
Total Accumulated Depreciation	<u>(6,945,757)</u>	<u>(244,783)</u>	<u>232,505</u>	<u>(6,958,035)</u>
Net Total	<u>\$ 1,511,377</u>	<u>\$ (164,349)</u>	<u>\$ -</u>	<u>\$ 1,347,028</u>

The Department does not have any debt related to capital assets. Depreciation expense of \$244,783 is considered a public safety expense.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 COMPENSATED ABSENCES

The changes in liabilities for compensated absences are as follows:

	Balance, June 30, 2018	Increase	(Decrease)	Balance, June 30, 2019	Due Within One Year
Governmental Activities	\$ 182,219	\$ 145,353	\$ (70,373)	\$ 257,199	\$ 257,199
Net Total	<u>\$ 182,219</u>	<u>\$ 145,353</u>	<u>\$ (70,373)</u>	<u>\$ 257,199</u>	<u>\$ 257,199</u>

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

NOTE 6 DUE FROM/TO OTHER STATE AGENCIES

The following amounts are due from other state agencies as of June 30, 2019:

Fund	Agency	Agency Number	Fund Number	Amount	Purpose
89200	Dept. of Finance and Administration	34101		\$ 168,300	STB Reimbursement
	Total			<u>\$ 168,300</u>	

The following amounts are due to other state agencies as of June 30, 2019:

Fund	Agency	Agency Number	Fund Number	Amount	Purpose
40280	Energy, Minerals and Natural Resources	52100	21300	\$ 610,543	Reimbursements
40280	Energy, Minerals and Natural Resources	52100	19902	3,421	Reimbursements
40280	Military Affairs	70500	99200	245	Reimbursements
	Total			<u>\$ 614,209</u>	

NOTE 7 DUE TO STATE GENERAL FUND

At June 30, 2019, the amount due to the State General Fund is made up of the following fiscal year reversions and stale dated warrants:

Description	Amount
June 30, 2015	\$ 296,625
Executive Orders	583,061
Stale Warrants	64,994
Total	<u>\$ 944,680</u>

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 PENSION PLAN – PUBLIC EMPLOYEES’ RETIREMENT ASSOCIATION

Plan Description

Most 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, 2019 was \$534,137, which is equal to the required contribution for the year.

NOTE 9 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 the event the time period required for employee and employer contributions shall become the period of time between the employer’s effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

**NOTE 9 POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4, or 5; municipal fire member coverage plan 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, 2019, 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, 2019, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary and 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, 2014, 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 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, 2019 was \$62,876, which is equal to the required contribution for the year.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 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 11 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.

NOTE 12 RESTATEMENTS

The June 30, 2018 financial statements understated expenditures to the Executive Order Fund (20380) within the General Fund in the amount of \$238,286 related to payment of commissioned services in fiscal year 2019 for a prior year bill. Also, the June 30, 2018 financial statements understated expenditures to the Executive Order Fund (20380) within the General Fund and the Federal Grants Fund (40280) in the amount of \$125,634 and \$512,464, respectively, related to revenue received in and reconciliations of grants from prior years. The following summarizes the restatements required to the beginning fund balance and net position of the Department.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 RESTATEMENTS (CONTINUED)

Fund 20050/20380 (General Fund)

Beginning fund balance, July 1, 2018	\$ 32,256,797
Restatement	<u>(363,920)</u>
Beginning fund balance, July 1, 2018, as restated	<u>\$ 31,892,877</u>

Fund 40280 (Federal Grants Fund)

Beginning fund balance, July 1, 2018	\$ -
Restatement	<u>(512,464)</u>
Beginning fund balance, July 1, 2018, as restated	<u>\$ (512,464)</u>

NOTE 13 SUBSEQUENT EVENT

After year end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Department, COVID-19 may impact various parts of its 2020 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel. Management believes the Department is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events continue to evolve.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXECUTIVE ORDERS
YEAR ENDED JUNE 30, 2019**

Description	Appropriation Period	Original Appropriation	Balance		Current Year			Reversion	Balance June 30, 2019
			June 30, 2018, as Restated	New Orders	Expenditures	Adjustments			
NMEO 2007-019 1659 Matching Funds	2007 - Gov Rescinds	\$ 750,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
NMEO 2007-020 1659 Matching Funds	2007 - Gov Rescinds	750,000	-	-	-	-	-	-	
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	-	-	-	-	-	-	
NMEO 2008-042a Flooding Disaster in Lincoln Chavez - Matching Funds	2008 - Gov Rescinds	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	-	(1,996)	-	-	281,024	
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	-	-	-	-	265,174	
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	-	-	-	-	-	-	
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	(7,609)	-	-	-	(1)	(7,610)	
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	-	-	-	(49,519)	7,610	
NMEO 2012-008 Flooding 4047 Cibola, Los Alamos, and Sandoval Co. - Matching Funds	2012 - Gov Rescinds	450,000	38,680	-	652	-	-	39,332	
NMEO 2012-014 FMAG 2978 Whitewater Baldy Fire Catron County	2012 - Gov Rescinds	500,000	(6,675)	-	-	-	-	(6,675)	
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	186,539	-	-	-	-	186,539	
NMEO 2012-031 2011 Flooding	2013 - Gov Rescinds	750,000	-	-	-	-	-	-	
NMEO 2012-032 Flooding Cibola, Los Alamos, and Sandoval Counties - Matching Funds	2012 - Gov Rescinds	750,000	53,606	-	-	-	-	53,606	
NMEO 2012-038 Hurricane Sandy - Matching Funds	2012 - Gov Rescinds	200,000	-	-	-	-	-	-	
NMEO 2013-001 Flooding Disaster Lincoln, Los Alamos, Sandoval Counties - Stand Alone	2013 - Gov Rescinds	10,500,000	8,442,448	-	(312,855)	-	-	8,129,593	
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	2012 - 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	36,675	-	(6,847)	-	-	29,828	
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	7,433,489	-	-	-	-	7,433,489	
NMEO 2014-005 Flooding Disaster in Bernalillo - Matching Funds	2014 - Gov Rescinds	1,375,000	254,673	-	-	-	-	254,673	
NMEO 2014-006 Flooding Disaster in Catron, Chavez, Cibola - Matching Funds	2014 - Gov Rescinds	5,500,000	963,369	-	5,775	-	-	969,144	
NMEO 2014-013 Monsoonal Flooding - Matching Funds	2014 - Gov Rescinds	750,000	-	-	-	-	-	-	

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXECUTIVE ORDERS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Description	Appropriation Period	Original Appropriation	Balance		Current Year Expenditures	Adjustments	Reversion	Balance June 30, 2019
			June 30, 2018, as Restated	New Orders				
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	417,139	-	287	-	-	417,426
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	1,554,482	-	214,251	-	-	1,768,733
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 Severe Winter Storms and Freezing Temperatures	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	522,033	-	(692)	-	-	521,341
NMEO 2016-021 Timberon Fire	2017 - Gov Rescinds	750,000	744,719	-	(407)	-	-	744,312
NMEO 2016-027 August Monsoon	2017 - Gov Rescinds	750,000	743,260	-	(59,445)	-	-	683,815
NMEO 2016-034 Bloomfield Irrigation Ditch	2017 - Gov Rescinds	225,000	49,729	-	-	-	-	49,729
NMEO 2016-035 Winter Storm	2017 - Gov Rescinds	1,250,000	187,456	-	(750)	-	-	186,706
NMEO 2016-036 FY2017 Annual Disaster EO	2017 - Gov Rescinds	750,000	533,420	-	(113,725)	-	-	419,695
NMEO 2017-020 FY2018 Annual Disaster EO	2017 - Gov Rescinds	750,000	622,990	-	(16,957)	-	-	606,033
NMEO 2017-021 Storms & Flooding Roosevelt Co.	2017 - Gov Rescinds	750,000	375,000	-	(133)	-	-	374,867
NMEO 2018-001 Southern California Wildfires	2018 - Gov Rescinds	700,000	433,687	-	(71,733)	-	-	361,954
NMEO 2018-002 Northern California Wildfires	2018 - Gov Rescinds	385,000	209,767	-	-	-	-	209,767
NMEO 2018-003 Hurricane Irma	2018 - Gov Rescinds	30,000	21,102	-	-	-	-	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	736,685	-	(96,193)	-	-	640,492
NMEO 2018-020 Soldier Canyon Fire	2018 - Gov Rescinds	750,000	-	750,000	(141)	-	-	749,859
NMEO 2018-021 FY2019 Annual EO	2018 - Gov Rescinds	750,000	-	750,000	(449,894)	-	-	300,106
NMEO 2018-041 Valencia County Flooding	2018 - Gov Rescinds	750,000	-	750,000	(80,442)	-	-	669,558
NMEO 2018-042 Santa Fe County Flooding	2018 - Gov Rescinds	750,000	-	750,000	(907)	-	-	749,093
NMEO 2018-043 Hurricane Odile Supplemental (4199)	2018 - Gov Rescinds	7,125,000	-	7,125,000	(6,276,464)	-	-	848,536
NMEO 2018-050 Luna/Socorro Monsoon Flooding	2018 - Gov Rescinds	300,000	-	300,000	(1,909)	-	-	298,091
NMEO 2018-051 Socorro County Monsoon Flooding	2018 - Gov Rescinds	250,000	-	250,000	(1,571)	-	-	248,429
NMEO 2018-056 July 2018 California Fire	2018 - Gov Rescinds	672,000	-	672,000	(356,012)	-	-	315,988
NMEO 2018-057 Nov. 2018 California Fire	2018 - Gov Rescinds	869,000	-	869,000	(48,306)	-	-	820,694
NMEO 2019-008 Severe Winter Storms	2019 - Gov Rescinds	5,150,000	-	-	-	-	-	-
NMEO 2019-009 Severe Wind Events, Tornadoes, Hail Damage and Electric Power Outages	2019 - Gov Rescinds	750,000	-	-	-	-	-	-
NMEO 2019-014 Rio Arriba and Sandoval Counties Due to to Flooding and Severe Storms	2019 - Gov Rescinds	2,500,000	-	-	-	-	-	-
NMEO 2019-016 State Emergency and Disaster Relief Funds	2019 - Gov Rescinds	750,000	-	-	-	-	-	-
Unallocated balance from FY2019 audit adjustments to be allocated in FY2020		-	-	-	(3,325,113)	-	(27,190)	(3,352,303)
Unlocated Difference to EO Restricted Fund Beginning and Ending Balances		-	604,835	-	-	-	-	(339,475)
			<u>\$ 31,074,519</u>	<u>\$ 12,216,000</u>	<u>\$ (11,001,529)</u>	<u>\$ -</u>	<u>\$ (2,609,782)</u>	<u>\$ 29,339,733</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF JOINT POWERS AGREEMENTS
YEAR ENDED JUNE 30, 2019**

<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 2019</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 CAPITAL APPROPRIATIONS
YEAR ENDED JUNE 30, 2019**

Severance Tax Bonds Projects - Fund 89200

Laws	Chapter	Amount Authorized	Amount De-Authorized	Art in Public Places	Amount Available	Expenditures Reported Prior Years (unaudited)	Expenditures Reported Current Year	Amount Reverted	06/30/19 Balance Available
2014	66	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ (627,585)	\$ -	\$ -	\$ 372,415
2015	3	250,000	-	-	250,000	-	(168,300)	-	81,700
2016	81	750,000	-	-	750,000	-	-	-	750,000
Total Severance Tax Bond		<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ (627,585)</u>	<u>\$ (168,300)</u>	<u>\$ -</u>	<u>\$ 1,204,115</u>

General Fund Capital Outlay Projects - Fund 93100

2019	277	\$ 1,840,000	\$ -	\$ -	\$ 1,840,000	\$ -	\$ (81,011)	\$ -	\$ 1,758,989
Total General Fund		<u>\$ 1,840,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,840,000</u>	<u>\$ -</u>	<u>\$ (81,011)</u>	<u>\$ -</u>	<u>\$ 1,758,989</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Amount Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Homeland Security (DHS): Federal Emergency Management Agency (FEMA):				
Community Assistance Program	97.023		\$ 63,177	\$ 180,503
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		6,104,528	7,549,972
Hazard Mitigation Grant	97.039		1,039,204	1,158,985
Emergency Management Performance Grants	97.042		1,329,470	4,089,587
Fire Management Assistance Grant	97.046		5,527,599	5,527,599
Pre-Disaster Mitigation	97.047		27,089	57,832
Homeland Security Grant Program	97.067		<u>5,279,206</u>	<u>5,851,045</u>
Total U.S. Department of Homeland Security (DHS) Federal Emergency Management Agency (FEMA):			19,370,273	24,415,523
U.S. Department of Transportation:				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		139,065	164,565
U.S. Department of Energy - Passed-through NM EMNRD Passed Through New Mexico Energy & Minerals Dept. Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions				
	81.106	WIPP19	<u>33,002</u>	<u>79,908</u>
Total Federal Awards Expended			<u>\$ 19,542,340</u>	<u>\$ 24,659,996</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

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 NONCASH 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, 2019.



**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. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, 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, 2019, 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 March 31, 2020. Our report included various qualified opinions because of the matters described in the "*Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund (Including Budgetary Comparison) and Federal Grants Fund*" paragraph in our report starting on page 3.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding 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. However, as described in the accompanying schedule of findings and questioned costs], we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-001 through 2019-006 to be material weaknesses.

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, New Mexico State Auditor

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-007 to be a significant deficiency.

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 2019-016 through 2019-025.

The Department's Responses 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 responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



CliftonLarsonAllen LLP

Albuquerque, New Mexico
March 31, 2020



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

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, 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, 2019. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, New Mexico State Auditor

Basis for Qualified Opinion on Disaster Grants — Public Assistance (Presidentially Declared Disasters) (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 (Presidentially Declared Disasters) (CFDA 97.036) as described in finding numbers 2019-010 for Cash Management, 2019-013 for Reporting, and 2019-015 for Subrecipient Monitoring. 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 (Presidentially Declared Disasters) (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 (Presidentially Declared Disasters) (CFDA 97.036) for the year ended June 30, 2019.

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 2019-010 for Cash Management, 2019-013 for Reporting, and 2019-015 for Subrecipient Monitoring. 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, 2019.

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 2019-010 for Cash Management, 2019-013 for Reporting, and 2019-015 for Subrecipient Monitoring. 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, 2019.

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 2019-010 for Cash Management, 2019-013 for Reporting, and

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, New Mexico State Auditor

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

2019-015 for Subrecipient Monitoring. 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, 2019.

Basis for Qualified Opinion on Fire Management Assistance Grant (CFDA 97.046)

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Fire Management Assistance Grant (CFDA 97.046) as described in finding numbers 2019-013 for Reporting and 2019-015 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Qualified Opinion on Fire Management Assistance Grant (CFDA 97.046)

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 Fire Management Assistance Grant (CFDA 97.046) for the year ended June 30, 2019.

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 2019-008, 2019-009, 2019-011, 2019-012 and 2019-014. 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 responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Mr. Kelly Hamilton, Acting Cabinet Secretary
State of New Mexico
Department of Homeland Security and Emergency Management
and Mr. Brian S. Colón, New Mexico State Auditor

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 2019-010, 2019-013, and 2019-015 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 2019-008, 2019-009, 2019-011, 2019-012 and 2019-014 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 responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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



CliftonLarsonAllen LLP

Albuquerque, New Mexico
March 31, 2020

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Qualified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? x yes none reported
3. Noncompliance material to financial statements noted? x yes no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified? x yes none reported
2. Type of auditors’ report issued on compliance for major federal programs: Qualified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
97.039	Hazard Mitigation Grant
97.042	Emergency Management Performance Grants
97.046	Fire Management Assistance Grant
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes x no

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

2019 – 001 Preparation of the Schedule of Expenditures of Federal Awards

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: During our review of declared disasters, we noted the Department incorrectly assigned Federal expenditures to a few CFDA numbers. Also, numerous audit adjustments were proposed to reconcile the Federal revenue to the Federal expenditures.

Criteria or specific requirement: According to § 200.510 Financial Statements, the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule must provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

Context: During our review of declared disasters, we noted the following exceptions relating to the preparation of the schedule of expenditures of Federal awards (SEFA):

- Federal expenditures in the amount of approximately \$5.5 million related to CFDA 97.046 Fire Management Assistance Grant were incorrectly assigned to CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters).
- Federal expenditures in the amount of approximately \$394K related to CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters) were incorrectly assigned to CFDA 97.039 Hazard Mitigation Grant.
- Numerous audit adjustments were proposed to reconcile the Federal revenue to the Federal expenditures.

Effect: The SEFA provided to us for test work was materially misstated resulting in an incorrect major program determination. The SEFA and major program determination were updated resulting in an additional major program to test for fiscal year 2019. Also, Federal revenue and Federal expenditures were misstated in the Department's financial statements.

Cause: The Department incorrectly evaluated information when assigning CFDA numbers to Federal expenditures. Also, the Department did not verify the CFDA numbers against the FEMA Award Letter or other applicable supporting documentation. The Department is not recording necessary entries.

Recommendation: We recommend the Department implement a process and establish adequate internal controls surrounding the preparation of the SEFA to ensure the completeness and accuracy of the supplementary information presented in the financial statements. We recommend the process include an update to the Department's Funding Code Key with a column for the applicable CFDA number associated with the fund and department code utilized by the Department for tracking Federal expenditures. Also, we recommend a review of the SEFA by someone independent of the preparer for final verification of completeness and accuracy.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

2019 – 001 Preparation of the Schedule of Expenditures of Federal Awards (Continued)

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate.

2019 – 002 (Previous 2018-001) Internal Control Over Financial Close and Reporting

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: The Department lacks an effective internal control structure over financial close and reporting to allow for timely, complete, and accurate financial reporting.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Criteria or specific requirement: According to NMSA 1978 §6.-5-2, the Financial Control Division (the division) shall issue a manual of model accounting practices containing the procedures and policies. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed. According to FIN 16 General Accounting Practices in the Manual of Model Accounting Practices, all reporting of financial information must be timely, complete and accurate, to the state agency's management and to oversight agencies and entities. Also, according to the Department of Finance and Administration (DFA) 2019 Fiscal Year End Close, the Board of Finance Due Date for draw requests is August 1st.

Context: 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.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

2019 – 002 (Previous 2018-001) Internal Control Over Financial Close and Reporting (Continued)

Context (Continued):

- Numerous balance sheet accounts reported balances unnatural from the normal debit and credit balances of the account.
- The Department lacks processes and controls to reconcile the Department's claim to the State General Fund Investment Pool and to reconcile the Department's payroll data.
- An audit adjustment in the amount of approximately \$2.7M was proposed to correct fund balances.
- 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, 2019.
- The capital project fund (89200) required an audit adjustment in the amount of \$168,300 to record current year revenue and receivable for a draw request in fiscal year 2019.
- The Department lacks an effective process to accurately identify year-end liabilities in a timely manner.
- The Department is unable to provide sufficient audit evidence related the Federal grant receivables/payables.

Effect: State agency's management and other agencies and entities are not able to rely on the financial information presented by the Department due to untimely, incomplete, and inaccurate financial reporting. The Department is not in compliance with applicable financial reporting policies and requirements of the State.

Cause: Overall, the Department lacks an effective control environment that allows for timely and accurate financial reporting.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number is 2018-001.

Recommendation: We recommend the Department implement effective policies, procedures, and controls to ensure financial information is timely, complete, and accurate. This should entail a monthly review process of significant balance sheet accounts as well as a year-end review process of all accounts to ensure transactions are properly captured and reported in the accounting records. We recommend the Department train its employees on the requirements set forth in the Manual of Model Accounting Practices as well as any other DFA instructions related to fiscal year end close. Also, we recommend the Department monitor employee compliance with policies, procedures, and controls and document noncompliance with the corrective action taken.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section II – Financial Statement Findings (Continued)

2019 – 002 (Previous 2018-001) Internal Control Over Financial Close and Reporting (Continued)

Views of responsible officials (Continued):

organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate. However, the Organization will immediately implement quarterly balance sheet reviews to identify dormant and unusual account balance.

2019 – 003 (Previous 2018-001) Federal Accounts Receivable and Payables

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: The Department is unable to provide sufficient audit evidence regarding the accuracy, completeness, and valuation of the Federal accounts receivable/payable balance as of June 30, 2019.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Criteria or specific requirement: According to NMSA 1978 §6.-5-2, the Financial Control Division (the division) shall issue a manual of model accounting practices containing the procedures and policies. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed. According to FIN 16 General Accounting Practices in the Manual of Model Accounting Practices, all reporting of financial information must be timely, complete and accurate, to the state agency's management and to oversight agencies and entities.

Context: We noted the following during our testing:

- 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, 2019.
- An audit adjustment to the Federal Grants Fund (40280) in the approximate amount of \$1.5M was proposed to reverse a fiscal year 2019 entry posted that duplicated a Due From Local Governments and a Due to Federal Government originally posted in fiscal year 2017.

Effect: State agency's management and other agencies and entities are not able to rely on the financial information presented by the Department due to untimely, incomplete, and inaccurate financial reporting. The Federal Government may continue to have the Department on controlled draws or

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

2019 – 003 (Previous 2018-001) Federal Accounts Receivable and Payables (Continued)

Cause: Overall, the Department lacks an effective control environment that allows for timely and accurate financial reporting and accounting of the Department's Federal accounts receivable/payable balance.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number is 2018-001.

Recommendation: We realize the Department has been working on this finding over the last several years. We recommend the Department make the resolution of this finding a priority in fiscal year 2020. We recommend the Department work closely with the FEMA to establish a going forward point for the reconciliation of grants and the Federal accounts receivable/payable balance. We recommend the Department train its staff on the various aspects of financial grant management including the specific requirement of the grants for which the Department receives Federal funding.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate. However, the organization will immediately implement quarterly balance sheet reviews to identify dormant and unusual account balance. The Department also will more fully use the surveillance tools available in SHARE to ensure transactions are recorded timely and correctly.

2019 – 004 Controls over Due to Local Governments and Accounts Payable

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: The Department lacks adequate controls and processes related to the Department's ability to process invoices in a timely manner to its subgrantees and vendors and the ability to accurately identify the proper year-end payables accrual.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

2019 – 004 Controls over Due to Local Governments and Accounts Payable (Continued)

Criteria or specific requirement: According to NMSA 1978 §6.-5-2, the Financial Control Division (the division) shall issue a manual of model accounting practices containing the procedures and policies. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed. According to FIN 16 General Accounting Practices in the Manual of Model Accounting Practices, all reporting of financial information must be timely, complete and accurate, to the state agency's management and to oversight agencies and entities.

According to the Department's methodology for grant accruals, payables are accrued as follows:

- Review by Program Analyst/Sub-Grant Analyst (top right hand corner of the invoice) prior to 8/31/2019. If no review by Program Analyst/Sub-Grant Analyst, then review by Grant Specialist/Sub-Grant Analyst (bottom of invoice – right above Grant Unit Manager signature/date) prior to 8/31/2019.
- Costs incurred by the subgrantee as of 6/30/2019.

Per 2.20.6.8 NMAC, all accounting systems, including subsidiary systems, shall record transactions timely, completely, and accurately. All payments to vendors shall be accurate and timely and be for services already rendered or goods received and accepted by the state agency as complying with the contract or purchase order.

Context: During our audit, we noted the following issues related to the Department's due to local governments and accounts payable process:

- During our review of Journal ID 19AUD79509, we noted invoices totaling an approximate amount of \$1.6 million with a Grant Manager approval date anywhere from greater than 30 days up to 248 days from the Department's receipt date of the invoice. Also, we noted two instances in which the Department did not notate the receipt date of the invoice via a stamp or handwritten notation. As such, we were unable to determine the timeliness of the Grant Manager's review. The two invoices total an approximate amount of \$17,945.
- During our review of subsequent disbursements, we noted the following:
 - Improperly included vouchers in due to local governments for a total approximate amount of \$331K.
 - Improperly excluded vouchers in due to local governments and accounts payable for a total approximate amount of \$1.5M and \$81K, respectively.
- During our review of Journal ID 19CFR79547, we noted the Department accrued approximately \$311K of accounts payable related to goods and services received as of June 30, 2019, for which invoices had not been received. However, we noted that only approximately \$163K of this accrual had been paid as of October 31, 2019, thus approximately \$148K remains outstanding +120 days after year-end.

Effect: State agency's management and other agencies and entities are not able to rely on the financial information presented by the Department due to untimely, incomplete, and inaccurate financial reporting. Potential misstatement of due to local governments and accounts payable and related expenditure accounts.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

2019 – 004 Controls over Due to Local Governments and Accounts Payable (Continued)

Cause: The Department lacks policies, procedures, and controls to ensure subgrantee and vendor invoices are marked when received and reviewed within a sufficient amount of time for recognition to the accounting records and payment to the subgrantee. The Department did not properly review all subsequent disbursements for potential accrual to the accounting records. Also, insufficient determination of good and services received as of June 30, 2019, for which invoices have not been received.

Recommendation: We recommend the Department implement effective policies, procedures, and controls to ensure financial information is timely, complete, and accurate. This should entail a monthly review process of significant balance sheet accounts as well as a year-end review process of all accounts to ensure transactions are properly captured and reported in the accounting records. We recommend the Department train its employees on the requirements set forth in the Manual of Model Accounting Practices as well as any other DFA instructions related to fiscal year end close and Department methodology. Also, we recommend the Department monitor employee compliance with policies, procedures, and controls and document noncompliance with the corrective action taken.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate.

2019 – 005 (Previous 2018-001) Controls over Executive Orders

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: The Department lacks adequate controls and processes related to the accounting and financial reporting of the Executive Orders as accounted for in the Executive Orders Fund (20380).

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

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Section II – Financial Statement Findings (Continued)

2019 – 005 (Previous 2018-001) Controls over Executive Orders (Continued)

Criteria or specific requirement: According to NMSA 1978 §6.-5-2, the Financial Control Division (the division) shall issue a manual of model accounting practices containing the procedures and policies. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed. According to FIN 16 General Accounting Practices in the Manual of Model Accounting Practices, all reporting of financial information must be timely, complete and accurate, to the state agency's management and to oversight agencies and entities.

Context: We noted the following during our testing:

- 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 \$339K. Furthermore, the Department lacks a process to ensure all executive orders are budgeted and received after the issuance of an executive order.
- An audit adjustment in the amount of \$1.75M for Executive Order #2015-013 was proposed to relieve the receivable and reduce the revenue as the revenue was already recorded in fiscal year 2016.
- An audit adjustment in the approximate amount of \$256K was proposed to reverse a fiscal year 2019 entry posted that duplicated a Due From Local Governments and a Due to State General Fund originally posted in fiscal year 2017.

Effect: State agency's management and other agencies and entities are not able to rely on the financial information presented by the Department due to untimely, incomplete, and inaccurate financial reporting. Potential misstatement of the Executive Orders.

Cause: The Department lacks controls to ensure all accounts are reconciled during the year or at year-end.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number is 2018-001.

Recommendation: We recommend the Department implement effective policies, procedures, and controls to ensure financial information is timely, complete, and accurate. This should entail a monthly review process of significant balance sheet accounts as well as a year-end review process of all accounts to ensure transactions are properly captured and reported in the accounting records. We recommend the Department train its employees on the requirements set forth in the Manual of Model Accounting Practices as well as any other DFA instructions related to fiscal year end close. Also, we recommend the Department monitor employee compliance with policies, procedures, and controls and document noncompliance with the corrective action taken.

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Section II – Financial Statement Findings (Continued)

2019 – 005 (Previous 2018-001) Controls over Executive Orders (Continued)

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate. However, the organization will immediately implement quarterly balance sheet reviews to identify dormant and unusual account balance.

2019 – 006 Prior Period Restatements

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

Condition: During our audit, it came to our attention that certain entries posted to the accounting records represented prior period transactions.

Criteria or specific requirement: According to NMSA 1978 §6.-5-2, the Financial Control Division (the division) shall issue a manual of model accounting practices containing the procedures and policies. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed. According to FIN 16 General Accounting Practices in the Manual of Model Accounting Practices, all reporting of financial information must be timely, complete and accurate, to the state agency's management and to oversight agencies and entities.

Context: We noted the following during our audit:

- The Department recorded expenditures to the Executive Order Fund (20380) in an approximate amount of \$238K related to commissioned services in October 2015. The approximate amount of \$238K included interest, penalty, and fees in an approximate amount of \$87K.

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Section II – Financial Statement Findings (Continued)

2019 - 006 Prior Period Restatements (Continued)

Context (Continued):

- The Department recorded expenditures to the following funds and for the following approximate amounts based upon revenues received in prior years and grant reconciliations related to the grant year 2013:
 - Executive Order Fund (20380) for \$126K
 - Federal Grants Fund (40280) for \$512K

Effect: Prior to the adjustment, fund balance was overstated in the Department's financial statements and in SHARE.

Cause: The Department lacks effective policies, procedures, and controls to make payments and reconcile grants in a timely manner.

Recommendation: We recommend the Department implement effective policies, procedures, and controls to ensure payments are made and grant reconciliations complete in timely manner. This includes previous recommendations related to training employees on the requirements set forth in the Manual of Model Accounting Practices as well as any other DFA instructions related to fiscal year end close. This also includes the Department prioritizing the reconciliation and closure of grants in a timely manner.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate. However, the organization will immediately implement quarterly balance sheet reviews to identify dormant and unusual account balance and will take steps to identify prior period adjustments and record them as such.

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YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

2019 – 007 Capital Assets

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Condition or specific requirement: During the audit, we noted a number of adjustments posted to the accounting records related to capital assets.

Criteria: According to NMSA 1978 §6.-5-2, the Financial Control Division (the division) shall issue a manual of model accounting practices containing the procedures and policies. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed. According to FIN 16 General Accounting Practices in the Manual of Model Accounting Practices, all reporting of financial information must be timely, complete and accurate, to the state agency's management and to oversight agencies and entities.

According to GASB 51 Accounting and Financial Reporting for Intangible Assets, Outlays incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following: (a) Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project (b) Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity and (c) Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset. Outlays related to activities in the application development stage should be capitalized. Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational.

Context: We noted the following during our audit:

- The Department identified improperly recorded capital assets additions in the approximate amount of \$36,621.
- An audit adjustment in the amount of \$9,630 was recorded to the accounting records for an additional improper capital assets addition.
- An audit adjustment in the amount of \$33,582 was recorded to the accounting records for improperly excluded capital assets additions related to internally generated software.

Effect: Possible misstatements of the financial statements or misappropriation of the Department's assets.

Cause: Overall, the Department lacks an effective control environment that allows for timely and accurate financial reporting.

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Section II – Financial Statement Findings (Continued)

2019 – 007 Capital Assets (Continued)

Recommendation: We recommend the Department establish effective controls necessary to ensure capital assets additions are properly recorded to the financial records. This includes training staff on the capital assets threshold and properly recognizing capital assets additions when reviewing financial transactions.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate.

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Section III – Findings and Questioned Costs – Major Federal Programs

2019 – 008 Allowable Activities and Costs – Cash Disbursements

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

Federal program title and CFDA Number:

Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

Award Period: Various

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: According to §200.303 Internal controls of 2 CFR Part 200, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: During our testing, we noted four invoices were not approved by program staff and two disbursements did not have supporting detail.

Questioned costs: \$4,936

Context: During our testing, we noted the following exceptions:

- For 4 of 48 disbursements reviewed totaling an approximate amount of \$11,672, the Department's program staff did not sign/initial and date the OK to Pay stamp evidencing review and approval of the invoice prior to the disbursement.
- For 2 of 48 disbursements reviewed totaling an approximate amount of \$4,936, the Department was unable to provide the contractor's time detail evidencing the activity charged to the grant.

Cause: The program staff neglected to sign and date the OK to Pay stamp prior to the processing of the invoice for payment. Also, the Department did not maintain documentation supporting charges to the grant.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible under or over charges to the grants.

Recommendation: We recommend the Department design controls to ensure an adequate review process is in place related to disbursements which includes ensuring charges to grants are documented and supported.

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 008 Allowable Activities and Costs – Cash Disbursements (Continued)

Views of responsible officials: Management concurs with audit finding. Processing of grant related invoices has been consolidated under a single processor who is aware of the documentation and signoff requirements. Additionally, voucher approval is limited to two supervisors to ensure policies are complied with; this will occur immediately. The Agency CFO will lead this effort.

2019 – 009 Allowable Activities and Costs – Payroll Disbursements

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

Federal program title and CFDA Number:

Hazard Mitigation Grant – CFDA 97.039

Emergency Management Performance Grants – CFDA 97.042

Award Period: Various

Type of Finding:

- Significant Deficiency in Internal Control over Compliance

- Other Matters

Criteria or specific requirement: According to §200.303 Internal Controls of 2 CFR Part 200, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. According to §200.430 Compensation—personal services of 2 CFR Part 200, costs of compensation are allowable to the extent the costs are reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities and follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies. According to the Department's FIN-114 Payroll Allocation Policy, DHSEM staff working on more than one (1) project or grant throughout the day must ensure that time allocated to a specific grant is accurately reflected in the daily written record and ultimately in the SHARE payroll system with appropriate notation in the comment box.

Condition: During our testing, we noted the Department is not maintaining adequate records to support the payroll costs charged to the grant.

Questioned costs: \$7,091

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 009 Allowable Activities and Costs – Payroll Disbursements (Continued)

Context: During our testing, we noted the following exceptions:

- CFDA 97.039
 - For 4 of 4 disbursements reviewed totaling an approximate amount of \$6,630, we noted the grant hours per the time sheet did not agree to the hours allocated to the grant in SHARE. A factor in the discrepancy is the comp time charged to the grant. The Hazard Mitigation program is not performing a final review of the hours charged to the grant to ensure reasonableness according to the actual hours worked on the grant.

- CFDA 97.042
 - For 7 of 34 disbursements reviewed totaling an approximate amount of \$7,091, we noted the employees' percent allocation of hours charged to the grant was not consistent with the percent allocation of 50% for other employees working on the same grant. The Department was unable to provide documentation to support the allocation of payroll costs charged to the grant.

Cause: Management oversight.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible under or over charges to the grants.

Recommendation: We recommend the Department design controls to ensure an adequate review process is in place related to the payroll costs charged to the grants. This review should be no less than quarterly and no more than semi-annual and include a final review of the hours charged to the grant against the actual hours worked on the grant by the employee to ensure overall reasonableness of the payroll costs charged to the grants.

Views of responsible officials: Management agrees with this finding. Beginning in April 2020, the agency will have established a bi-weekly payroll allocation review process where each employee's default payroll allocation is reviewed by bureau supervisors for awareness and accuracy. Corrections and updates are made prior to the running of the current payroll cycle.

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 010 (Previous 2018-005) Cash Management

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

Federal program title and CFDA Number:

Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

Hazard Mitigation Grant – CFDA 97.039

Emergency Management Performance Grants – CFDA 97.042

Homeland Security Grant Program – CFDA 97.067

Award Period: Various

Type of Finding:

- Material Weakness in Internal Control over Compliance
- Material Noncompliance (Modified Opinion)

Criteria or specific requirement: According to §200.303 Internal controls of 2 CFR Part 200, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Specific to the Department, Federal drawdowns are completed quarterly with the reporting process.

Condition: During our testing, we noted the Department was not performing timely drawdowns of Federal awards.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Questioned costs: \$32,588

Context: During our testing, we noted drawdowns were not requested within the quarterly reporting process. We noted the following exceptions:

- CFDA 97.036
 - One drawdown was requested three months subsequent to the quarterly reporting due date.
 - One drawdown was requested seven months subsequent to the quarterly reporting due date.

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 010 (Previous 2018-005) Cash Management (Continued)

Context (Continued):

- CFDA 97.039
 - One drawdown was requested three and six months subsequent to the quarterly reporting due date.
 - One drawdown was requested four and seven months subsequent to the quarterly reporting due date.
 - One drawdown requested contained expenditures from fiscal year 2016 through May 31, 2019. The drawdown occurred in June 2019.
- CFDA 97.042
 - One drawdown requested contained expenditures from fiscal year 2017. The drawdown occurred in December 2018. Also, we were unable to agree this drawdown to the documentation provided to us nor to the general ledger.
- CFDA 97.067
 - One drawdown requested contained expenditures from fiscal year 2017. The drawdown occurred in July 2018.
 - Two drawdowns were requested four months subsequent to the quarterly reporting due date.

Cause: The Department continued to have staff turnover. Also, the Department lacks established internal controls and procedures over financial grant management to ensure timely compliance with applicable compliance requirements.

Effect: The auditor noted instances of noncompliance. Noncompliance results in delayed reimbursement of eligible Federal expenditures.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number is 2018-005.

Recommendation: We recognize the Department has been working with FEMA to reconcile grants in an effort to be removed from controlled draws, as applicable. We recommend the Department work towards establishing and implementing a monthly drawdown process which includes updating of the Department's Policy No. GRA 415 Grant Drawdowns.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 010 (Previous 2018-005) Cash Management (Continued)

Views of responsible officials (Continued):

requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate. However, recent staff hires in the grant accounting area will facilitate more timely billing and draw downs.

2019 – 011 (Previous 2018-007) Matching

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

Federal program title and CFDA Number:

Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

Fire Management Assistance Grant – CFDA 97.046

Award Period: Various

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: According to §200.303 Internal controls of 2 CFR Part 200, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: During our testing, we noted the Department was not meeting the applicable State share of the matching requirement.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Questioned costs: None

Context: During our testing, we noted the following exceptions:

- CFDA 97.036 – For two of seven subrecipient payments reviewed totaling an approximate project amount of \$299,952, the Department incorrectly recorded Federal funds for the state match share in the amount of \$22,140.
- CFDA 97.046 – For one of five subrecipient payments reviewed totaling an approximate amount of \$45,773, the Department incorrectly recorded Federal funds for the state match share in the approximate amount of \$11,443.

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 011 (Previous 2018-007) Matching (Continued)

Cause: The program staff are not performing a thorough review at the time of each subrecipient payment to ensure state match requirements are met at the time of each payment. Also, if there are errors in the state match share from previous payments, then the program staff are not ensuring the amount of the state match share is adjusted at the time of final payment to meet the state match share requirement.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible under or over charges to the grants.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number is 2018-007.

Recommendation: We recommend the Department design controls to ensure an adequate review process is in place related to subrecipient payments. The review process should include monitoring of the match at each time of the subrecipient payment as well as at the time of final payment to ensure the state match share requirement is met.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate. In the interim, the agency will develop focused stewardship reports to enhance monitoring of this critical requirement.

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 012 Period of Performance

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

Federal program title and CFDA Number:

Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

Hazard Mitigation Grant – CFDA 97.039

Emergency Management Performance Grants – CFDA 97.042

Homeland Security Grant Program – CFDA 97.067

Award Period: Various

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Criteria or specific requirement: According to §200.303 Internal controls of 2 CFR Part 200, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. According to FEMA Public Assistance Program Management and Grant Closeout Standard Operating Procedure, the Grantee has the authority to approve time extensions as outlined by FEMA. The Regional Administrator must approve, in writing, all time extensions that are beyond the Grantee's authority. NEMIS/EMMIE and any other appropriate reporting mechanisms should capture the time extension date. According to the Department's GRA 418 Sub-Recipient Monitoring Policy, the Recovery Officer and the Sub-Grant Analyst will obtain all Final Reports and approve of them under the direction of the Recovery Bureau Chief or Manager. Final Reports are due no later than 90 days after the end of the period of performance.

Condition: During our testing, we noted the following:

- CFDA 97.036 – Three instances in which the Department did not make timely requests of project time extensions. Also, we noted nine instances in which the Department made subrecipient payments past the 90 day closeout period.
- CFDA 97.039 – Five instances in which the Department did not send the FEMA Close-out Request cover letter within 90-days after the end of the sub-grant period of performance.
- CFDA 97.042 – One instance in which the sub-grantee invoice was not signed by the Grant Manager authorizing the payment. Also, we noted one instance in which a cost was incorrectly charged to the grant.
- CFDA 97.067 – Two instances in which the Department did not pay an obligation within 90 days after the end date of the period of performance.

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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 012 Period of Performance (Continued)

Questioned costs: \$8,250

Context: During our testing, we noted the following exceptions:

- CFDA 97.036
 - The Department did not make timely requests of project time extensions for 3 of 10 projects reviewed resulting in FEMA denying the Department's request. FEMA's denial was due to that all of the work for the projects was completed in 2016.
 - The Department made subrecipient payments for 9 out of 10 projects past the 90 day closeout period.
- CFDA 97.039
 - The Department did not send the FEMA Close-out Request cover letter to the FEMA within 90-days after the end of the sub-grant period of performance for 5 of 5 subrecipient files reviewed. As of 11/4/2019, the FEMA Close-out Request cover letter had not been sent to the FEMA with the latest 90-day close-out date of 4/29/2019.
- CFDA 97.042
 - For one of three sub-grantee invoices included in the eight disbursements reviewed and totaling an approximate amount of \$8,274, we noted the Department's Grant Unit Manager did not sign the sub-grantee invoice authorizing payment.
 - For 1 of 11 disbursements reviewed for which the obligation had not been paid as of the end of performance, we noted the cost of approximately \$820 was charged to the 2017 grant rather than the 2018 grant.
- CFDA 97.067
 - For two of five costs for which the obligation had not been paid as of the end of performance, we noted the Department did not pay the obligation by the required liquidation date of 11/29/2018. Actual liquidation date was 12/3/2018 totaling an amount of \$8,250.

Cause: The Department continues to experience staff changes.

Effect: The auditor noted instances of noncompliance. Noncompliance results in delayed close-out of grants with potential for decreased Federal funding. Also, noncompliance results in ineligible reimbursement costs.

Recommendation: We recognize the Department has been working with FEMA to reconcile grants in an effort to close them. 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. This should include establishing a timeline of grant closures with realistic goals set and achievable by the Department to ensure the Department is monitoring open grants and making progress towards closing them or requesting the necessary time extensions from FEMA in a timely manner. Also, we recommend the Department closely monitor the liquidation of obligations to ensure within the 90-day closeout period.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 012 Period of Performance (Continued)

Views of responsible officials: Management concurs with audit finding. The Agency Grant Manager will lead an effort to review current processes and determine if they adequately address risks. If adequate the Grant Manager will assess where process compliance has broken down and take steps to address those breakdowns. While current social distancing requirements and response efforts will slow down progress this effort will commence immediately and the goal is to ensure this concern is addressed prior to the next audit.

2019 – 013 (Previous 2018-004) Reporting

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

Federal program title and CFDA Number:

Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

Hazard Mitigation Grant – CFDA 97.039

Emergency Management Performance Grants – CFDA 97.042

Homeland Security Grant Program – CFDA 97.067

Fire Management Assistance Grant – CFDA 97.046

Award Period: Various

Type of Finding:

- Material Weakness in Internal Control over Compliance
- Material Noncompliance (Modified Opinion)

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 013 (Previous 2018-004) Reporting (Continued)

Criteria or specific requirement: According to §200.302 Financial management of 2 CFR Part 200, the state's and the other non-Federal 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 non-Federal entity must provide accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements. According to §200.303 Internal controls of 2 CFR Part 200, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition: During our testing, we noted the following:

- The Department was unable to provide the required Federal financial reports.
- The Department was unable to provide supporting documentation for submitted Federal financial reports.
- The Department is not completing all the required elements of the Federal financial reports.
- The Department continues to reconcile and close grants that are well beyond the grant expiration.
- The Department is not in compliance with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements through at least fiscal year 2019.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Questioned costs: Unknown

Context: During our testing, we noted the following exceptions:

- CFDA 97.036
 - Federal financial reports for one out of four quarters were unable to be provided to us.
 - The documentation supporting the cumulative cash disbursements for three out of four quarters of Federal financial reports was unable to be provided to us.
 - The Department did not complete the recipient share section of the Federal financial reports for three out of four quarters.
- CFDA 97.039
 - Federal financial reports for one out of four quarters were unable to be provided to us.
 - The documentation supporting the cumulative cash disbursements for three out of four quarters of Federal financial reports was unable to be provided to us.
 - The Department did not complete the recipient share section of the Federal financial reports for three out of four quarters.
 - The Department did not submit Federal financial reports for DR-4047 for the quarter ending 3/31/2019 and DR-5184 for quarters ending 12/31/2018 and 3/31/2019.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 013 (Previous 2018-004) Reporting (Continued)

Context (Continued):

- CFDA 97.042
 - Two out of five Federal financial reports were unable to be provided to us.
 - The documentation supporting the cumulative cash disbursements for three out of three Federal financial reports was unable to be provided to us.
 - The Department did not complete the recipient share section for two out of three Federal financial reports.
- CFDA 97.067
 - The documentation supporting the cumulative cash disbursements for four out of five Federal financial reports was unable to be provided to us.
 - The Department did not complete the recipient share section for five out of five Federal financial reports.
- CFDA 97.046
 - Federal financial reports for one out of four quarters were unable to be provided to us.
 - The documentation supporting the cumulative cash disbursements for three out of four quarters of Federal financial reports was unable to be provided to us.
 - The Department did not complete the recipient share section of the Federal financial reports for three out of four quarters.
- All
 - 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.
 - 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.

Cause: The Department continued to have staff turnover with program staff unaware of the information that should be filled out on the Federal financial reports. Also, the Department lacks established internal controls and procedures over financial grant management to ensure submitted reports and the documentation used to prepare the reports are maintained in the files of the Department.

Effect: The auditor noted instances of noncompliance. Noncompliance results in delayed reimbursement of eligible Federal expenditures.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number is 2018-004.

Recommendation: We recommend the Department review the instructions for completion of the Federal financial reports with training provided to the program staff preparing and reviewing the Federal financial reports to ensure submitted reports are complete. We recommend the Department implement effective processes and procedures to maintain the submitted reports and the documentation used to prepare the reports in the files of the Department.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 013 (Previous 2018-004) Reporting (Continued)

Recommendation (Continued): We recognize the Department has been working on meeting compliance with the FFATA reporting. We recommend the Department continue its efforts to ensure the FEMA does not re-issue this finding in its next monitoring visit.

We recognize the Department has been working with FEMA to reconcile grants in an effort to close them. 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. This should include establishing a timeline of grant closures with realistic goals set and achievable by the Department to ensure the Department is monitoring open grants and making progress towards closing them.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness timing of resolution of this issue is currently indeterminate.

2019 – 014 Procurement and Suspension and Debarment

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

Federal program title and CFDA Number:

Emergency Management Performance Grants – CFDA 97.042

Fire Management Assistance Grant – CFDA 97.046

Award Period: Various

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 014 Procurement and Suspension and Debarment (Continued)

Criteria or specific requirement: 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award requires compliance with the provisions of procurement and suspension and debarment. The Department should have internal controls designed to ensure compliance with these provisions.

Condition: During our testing over procurement and suspension and debarment, we noted the following:

- CFDA 97.042 – In two instances, the Department was unable to locate the procurement files.
- CFDA 97.046 – In one instance, the Department did not perform the suspension and debarment check prior to entering into the transaction with the subrecipient.

Questioned costs: None

Context: During our testing, we noted the following exceptions:

- CFDA 97.042
 - For two of five procurement transactions, the Department was unable to locate the procurement files.
 - For three of four procurement transactions, the Department did not review the vendors for Federal suspension and debarment prior to entering into a contract with the vendors.
 - For one of four procurement transactions, the Department was unable to provide evidence of Federal suspension and debarment check prior to entering into a contract with the vendor.
- CFDA 97.046
 - For one of one subrecipient transactions, the Department entered into agreement with the subrecipient prior to checking for Federal suspension and debarment. Agreement signed 3/19/2019. However, the check for Federal suspension and debarment completed on 6/21/2019.

Cause: The Department lacks established internal controls and procedures over financial grant management. The Department utilized vendors awarded by the State Purchasing Department under a Statewide Price Agreement. The Department is not included in the award process. The Department was under the assumption that the State Purchasing Division completed the Federal suspension and debarment checks during the award process. However, upon confirmation with the State Purchasing Department, it reviews the New Mexico suspension and debarment. However, the agency is required to check for Federal suspension and debarment. For the one of one subrecipient transactions, the Department did not save the check for Federal suspension and debarment prior to entering into the transaction. As such, the check was done at the time of the Department's audit of the file.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible Federal funds provided to ineligible vendors.

**STATE OF NEW MEXICO
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Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 014 Procurement and Suspension and Debarment (Continued)

Recommendation: We recommend the Department implement an adequate process to maintain procurement files. We recommend the Department continue to utilize a checklist to document its check of vendor Federal suspension and debarment with implementation of an adequate review process to ensure the check is completed, documented on the checklist, and the results of the check maintained in the subgrantee file. We recommend this process to include all contracts awarded with Federal funds including contracts awarded under a Statewide Price Agreement. Furthermore, we recommend the Department's suspension and debarment process be written into a formal procedure.

Views of responsible officials: Management concurs with audit finding. The CFO and CPO will immediately locate and document sources of federal debarment information. Both the federal and state sources of this information will be accessed ensure compliance with this requirement.

2019 – 015 (Previous 2018-003) Subrecipient Monitoring

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

Federal program title and CFDA Number:

Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

Hazard Mitigation Grant – CFDA 97.039

Emergency Management Performance Grants – CFDA 97.042

Homeland Security Grant Program – CFDA 97.067

Fire Management Assistance Grant – CFDA 97.046

Award Period: Various

Type of Finding:

- Material Weakness in Internal Control over Compliance
- Material Noncompliance (Modified Opinion)

Criteria or specific requirement: According to §200.331 Requirements for pass-through entities of 2 CFR Part 200, 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.

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YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 015 (Previous 2018-003) Subrecipient Monitoring (Continued)

Criteria or specific requirement (Continued):

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.

Department Policy No. GRA 418 Sub-Grant Recipient Monitoring effective June 30, 2017 establishes and implements policy and procedures for the Department staff engaged in the Department's sub-grant recipient monitoring process. For Mitigation Sub-Grant Monitoring, the Mitigation Specialist shall review the local progress quarterly reports due to the Department. For Non-Disaster Sub-Grant Recipient Monitoring, the Program Manager shall review the local progress quarterly reports due to the Department. Specific to Pre Monitoring Requirements and Considerations, Department Program Staff shall perform risk-based assessments and apply the assessment to all of the Department's approved sub-recipients for monitoring purposes and risk designation.

Condition: During our testing, we noted the Department did not have adequate internal controls in place to ensure compliance with subrecipient monitoring.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Questioned costs: None

Context: During our testing, we noted the following exceptions:

- All
 - 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.
 - The Department lacked a process to ensure timely reporting by subgrantees of financial reporting and performance reporting.
 - The Department lacked evidence that a risk assessment was performed for subrecipients as relates to the risk of noncompliance for those subawards subject to the Uniform Guidance.
- CFDA 97.036 – Reviewed six subrecipient files.
- CFDA 97.039 – Reviewed six subrecipient files.
- CFDA 97.042 – Reviewed ten subrecipient files.
- CFDA 97.067 – Reviewed eight subrecipient files.
- CFDA 97.046 – Reviewed five subrecipient files.

**STATE OF NEW MEXICO
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YEAR ENDED JUNE 30, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 015 (Previous 2018-003) Subrecipient Monitoring (Continued)

Cause: The Program Staff were unaware of the Department's Sub-Grant Recipient Monitoring policy until fiscal year 2020. As such, the program staff were not operating under the Sub-Grant Recipient Monitoring policy. Also, the Department lacks established internal controls and procedures over financial grant management to ensure compliance with applicable compliance requirements.

Effect: The lack of internal controls over this compliance requirement provides an opportunity for noncompliance. The auditor noted instances of material noncompliance. Noncompliance results in possible Federal funds provided to ineligible subrecipients.

Repeat Finding: The finding is a repeat of a finding in the immediately prior year. Prior year finding number is 2018-003.

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

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness timing of resolution of this issue is currently indeterminate.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section IV – Other Findings

2019 – 016 Internal Control over Cash Receipts (Compliance and Other Matters) (Prior Year Finding 2018-011)

Criteria or specific requirement: According to the Manual of Model Accounting Practices (MAPs) Section FIN 2.1 Timely Depositing of Cash, all cash received by agencies must be timely deposited into the state treasury or accounts thereof in accordance with state statute. NMSA 1978 §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. According to the Department's Policy No. FIN 101 Cash Receipts, cash receipts shall be immediately logged. The log shall include the date received, an identifying number, name of payee, and the amount of cash received. Cash receipts logs will be reviewed and approved by the Financial Services Unit (FSU) Manager each business day.

Condition: During our internal control testing over cash receipts, we noted the following issues:

- The Department did not document the date the cash was received on its cash receipts log. As such, we are unable to determine if cash receipts during fiscal year 2019 were deposited before the close of the next succeeding business day after the receipt of the money.
- There was no evidence of review and approval of the cash receipts log by the FSU Manager or equivalent Department staff.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Cause: The Department neglected to follow Departmental policy to ensure compliance with state statute.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible misstatements to the Department's financial statements.

Recommendation: We recommend the Department conduct a training session for employees handling cash receipts in which MAPs, state statute, and applicable Departmental policies are reviewed and discussed. Also, we recommend the Department obtain written acknowledgment of the training from the employees to confirm understanding of the training, how the subject covered applies to the employee and the completion of their job duties, and consequences of not following MAPs, state statute, and applicable Departmental policies.

Views of responsible officials: Management concurs with audit finding. In response to the pandemic, the Department reduced US mail pick-up frequency. A benefit of this change is that the Department has a consistent weekly pickup and agency personnel expect to receive checks on a given day each week. The Department will update our process to reflect this change as well as other modifications prior to the end of the fiscal year.

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Section IV – Other Findings (Continued)

2019 – 017 Procurement – Encumbrances (Compliance and Other Matters)

Criteria or specific requirement: According to the MAPs Section FIN 4.1 Purchase Orders, all commitments to purchase goods or services must be documented by a properly completed Purchase Order in advance for goods or services by an external supplier. According to the MAPs Section FIN 4.4 Encumbrances, state agencies must verify there is sufficient budget available to fund the commitment before issuing a Purchase Order to a supplier, before receiving goods, and before allowing work to be performed. NMSA 1978 §6-5-3 states the appropriate fund shall be shown by the division to be encumbered to the extent of the proposed expenditure.

Condition: During our review of procurement transactions, we noted the following issues:

- A purchase order was overexpended by an amount of \$1,623.92.
- A payment of \$6,246.00 was made before a purchase order was created and approved.
- The Department entered into a professional services contract without encumbering the funds as the purchase order was not properly established.
- An expenditure of \$1,594.86 was not covered by the original purchase order.

Cause: The Department neglected to follow the MAPS issued by the Financial Control Division of the New Mexico Department of Finance and Administration (FCD). There appears to be a lack of communication within the Department related to fiscal matters.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible overspending of state funds.

Recommendation: We recommend the Department conduct a training session for employees involved in procurement transactions in which MAPs, state statute, and applicable Departmental policies are reviewed and discussed. Also, we recommend the Department obtain written acknowledgment of the training from the employees to confirm understanding of the training, how the subject covered applies to the employee and the completion of their job duties, the completion of their job duties, and consequences of not following MAPs, state statute, and applicable Departmental policies.

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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Section IV – Other Findings (Continued)

2019 – 018 Procurement – Procurement Code and Contracts (Compliance and Other Matters)

Criteria or specific requirement: According to 1.4.1 NMAC State Procurement Code Regulations, the request for proposals ("RFP") is used to initiate a competitive sealed proposal procurement. All state agencies shall follow published guidelines and procedures issued by the state purchasing agent from development stage through award of RFP-based procurements. When procuring professional services, central purchasing offices other than the state purchasing agent, shall publish the RFP or a notice thereof not less than 10 calendar days prior to the date set for the receipt of proposals; it is recommended, however, that the time period between the published date and the date set for receipt of proposals be no less than 20 days; the RFP or notice shall be published at least once in a newspaper of general circulation in the area in which the central purchasing office is located; if there is no newspaper of general circulation in the area, such other notice may be given as is commercially reasonable. The evaluation of proposals shall be based on the evaluation factors and the relative weights set forth in the RFP. Numerical rating systems are required for requests for proposals-based procurements. An award of professional services shall be made to the responsible offeror whose proposal is most advantageous to a state agency, taking into consideration the evaluation factors set forth in the RFP. The procurement officer shall make a written determination showing the basis on which an award was found to be most advantageous to a state agency based on the factors set forth in the RFP. Award in this context means the final required state agency signature on the contract(s) resulting from the procurement. 2.40.2 NMAC Expenditure of Public Funds Governing the Approval of Contracts For the Purchase of Professional Services states the contracts review bureau of the department of finance and administration shall review and approve all professional services contracts which result in expenditures greater than five thousand dollars (\$5,000), including applicable gross receipts tax, and all amendments to those contracts for all state agencies. According to MAPs FIN 4.10 Purchase Order Encumbering Professional Service Contracts Greater than \$60,000, a state agency is to prepare a contract and enter it into SHARE in the Contracts Module.

Condition: During our review of procurement transactions, we noted the following issues:

- During our review of two professional service contracts, we noted the procurement files were incomplete as they lacked all the necessary documentation.
- During our review of a procurement related to information technology services, we noted the Department did not enter the contract into SHARE in the Contracts Module.

Cause: The Department lacks established internal control and procedures related to the procurement process. Also, the Department did not have a registered Chief Procurement Officer in place to properly oversee procurement transactions.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible mismanagement of state funds.

Recommendation: We recommend the Department conduct a training session for employees handling procurement transactions in which MAPs, state statute, and applicable Departmental policies are reviewed and discussed. Also, we recommend the Department obtain written acknowledgment of the training from the employees to confirm understanding of the training, how the subject covered applies to the employee and the completion of their job duties, and consequences of not following MAPs, state statute, and applicable Departmental policies.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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YEAR ENDED JUNE 30, 2019

Section IV – Other Findings (Continued)

2019 – 018 Procurement – Procurement Code and Contracts (Compliance and Other Matters)
(Continued)

Views of responsible officials: Management agrees with this finding. Similar to the majority of the observations, addressing this finding will require an assessment of the fundamental design of the agency's accounting processes with emphasis on simplifying, rationalizing and streamlining activities, including the updating core data contained in the state's enterprise system (SHARE) as there is much out of date agency maintained data. Additionally, the financial organization has experienced significant turnover and average position tenure is less than a year. Recognizing the need for training, the organization has and will continue to look for relevant accounting and procurement learning opportunities, including use of materials developed during the SHARE upgrade. Reflective of staff inexperience, it will be imperative that Department managers perform thorough and systematic review of all employee work product, to prevent errors and to confirm employee understanding of job requirements. To increase staff effectiveness, process documentation will be reviewed, updated or created. The Agency CFO will lead this effort and it will commence immediately. Given current social distancing requirements of an unknown duration, agency focus on response efforts and potential lost time due to illness, timing of resolution of this issue is currently indeterminate.

2019 – 019 Chief Procurement Officer Registration (Compliance and Other Matters)

Criteria or specific requirement: According to 1.4.1.94 NMAC Chief Procurement Officer Registration and Certification, each state agency and local public body shall provide to the state purchasing agent the name of the state agency's or local public body's chief procurement officer. On and after July 1, 2015, only certified chief procurement officers may: (1) make determinations, including determinations regarding exemptions, pursuant to the Procurement Code; (2) issue purchase orders and authorize small purchases pursuant to the Procurement Code; and (3) approve procurement pursuant to the Procurement Code; (4) provided that, persons using procurement cards may continue to issue purchase orders and authorize small purchases. 2.2.2 NMAC Audits of Governmental Entities Requirements for Contracting and Conducting Audits of Agencies states if an agency subject to the procurement code failed to meet the requirement to have a certified chief procurement officer during the fiscal year, the IPA shall report a finding of non-compliance with Section 1.4.1.94 NMAC.

Condition: During fiscal year 2019, the Department did not maintain a registered Chief Procurement Officer (CPO).

Cause: The Department continued to have staff turnover.

Effect: The auditor noted an instance of noncompliance. Noncompliance results in possible mismanagement of state funds as well as invalid procurement transactions.

Recommendation: We understand the Department has a registered CPO since August 27, 2019. We recommend the Department to maintain at least two CPO's to ensure coverage if staff turnover should occur at any time.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
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YEAR ENDED JUNE 30, 2019**

Section IV – Other Findings (Continued)

2019 – 019 Chief Procurement Officer Registration (Compliance and Other Matters) (Continued)

Views of responsible officials: Management concurs with audit finding. Agency has one certified and registered CPO and another staff member is scheduled to CPO class in April. Given current social distancing requirements of an unknown duration, the class may be postponed. However when it is rescheduled, the agency will certify a second member of staff.

2019 – 020 Procurement Card (Compliance and Other Matters) (Prior Year Finding 2018-002)

Criteria or specific requirement: According to the State of New Mexico Department of Finance and Administration Financial Control Division State Procurement Card or Individual Travel Procurement Card Policies and Procedures (Procurement Card Policies and Procedures), the following apply to the Procurement Card:

- Prior to the issuing a Procurement Card, every cardholder must sign a State of New Mexico Procurement Card Cardholder Agreement.
- Prior to using the Procurement Card, an Agency must obtain from FCD two policy exemptions related to Procurement Card purchases: 1) an exemption from the requirement of having to encumber purchases over \$1,500; and 2) an exemption from having to include invoices and receipts with the payment voucher.

According to the State of New Mexico Department of Finance and Administration Financial Control Division Procurement Card Listing for Restricted Items (Procurement Card Listing for Restricted Items), Consulting, Management, and Public Relations services are ineligible purchases. Also, according to the Department's Policy No. FIN 105, the procurement card is not to be used for professional services.

According to the Procurement Card Listing for Restricted Items, Caterers and Eating Places, Restaurants, are ineligible purchases. Also, according to the Procurement Card Policies and Procedures, an agency must submit a written justification to Financial Control Division to request modifications of the Merchant Card Codes (MCC) restrictions.

Condition: During our testing over Procurement Cards, we noted the following issues:

- One of four Procurement Card Cardholder Agreements could not be located.
- The Department was unable to provide the Request for Policy Exemption related to having to include invoices and receipts with the payment voucher.
- The Department used a procurement card to pay \$1,456 to an individual that was an instructor of a professional development course.
- For the month of June, there was \$1,236.35 out of \$10,111.42 worth of purchases related to food, which was purchased during EOC Activation. The Department was unable to provide evidence of Financial Control Division approval of the food purchases.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section IV – Other Findings (Continued)

**2019 – 020 Procurement Card (Compliance and Other Matters) (Prior Year Finding 2018-002)
(Continued)**

Cause: The Department neglected to follow the Procurement Card Policies and Procedures issued by the FCD. There appears to be a lack of monitoring within the Department related to the use of procurement cards.

Effect: The auditor noted instances of noncompliance. Noncompliance results in possible mismanagement of state funds as well as ineligible procurement purchases.

Recommendation: We recommend the Department conduct a training session for employees handling procurement card transactions in which FCD Policies and Procedures and applicable Departmental policies are reviewed and discussed. Also, we recommend the Department obtain written acknowledgment of the training from the employees to confirm understanding of the training, how the subject covered applies to the employee and the completion of their job duties, and consequences of not following FCD Policies and Procedures and applicable Departmental policies.

Views of responsible officials: Management concurs with audit finding. All cardholders have submitted updated cardholder agreement statements and Request for Policy Exemption has been submitted to DFA. Cardholder training and oversight is ongoing.

2019 – 021 Travel and Per Diem (Compliance and Other Matters)

Criteria or specific requirement: According to NMSA 1978 §10-8-5 (H), any person who is not an employee, appointee or elected official of a county or municipality and who is reimbursed under the provisions of the Per Diem and Mileage Act in an amount that singly or in the aggregate exceeds one thousand five hundred dollars (\$1,500) in any one year shall not be entitled to further reimbursement under the provisions of that act until the person furnishes in writing to the person's department head or, in the case of a department head or board or commission member, to the governor or, in the case of a member of the legislature, to the New Mexico legislative council an itemized statement on each separate instance of travel covered within the reimbursement, the place to which traveled and the executive, judicial or legislative purpose served by the travel.

Condition: One of 15 travel reimbursements exceeding the \$1,500 threshold did not contain the required document and information per state statute. In this instance of noncompliance, the notification should have been provided to the governor.

Cause: The Department neglected to notify the governor and/or maintain the notification document and information.

Effect: The auditor noted an instance of noncompliance. Noncompliance results in possible entitlement to further reimbursement.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section IV – Other Findings (Continued)

2019 – 021 Travel and Per Diem (Compliance and Other Matters) (Continued)

Recommendation: We recommend the Department implement a process to ensure notification is made according to state statute and the related notification documentation and information is retained in the Department's records.

Views of responsible officials: Management concurs with audit finding and has developed a report identify all employees whose travel approaches or exceeds the threshold. The CFO will assign responsibility to the financial staff member and processes will commence immediately.

2019 – 022 Late Audit Report (Compliance and Other Matters)

Criteria or specific requirement: According to Subsection A of Section 2.2.2.9 NMAC, agencies with June 30 fiscal year-ends that are reported as component units in the state of New Mexico comprehensive annual financial report have an audit report due date of November 1. If an audit report is not delivered on time to the state auditor, the auditor shall include this instance of non-compliance with Subsection A of Section 2.2.2.9 NMAC as an audit finding in the audit report. This requirement is not negotiable.

Condition: The Department's fiscal year 2019 audit was not submitted by the due date of November 1, 2019.

Cause: The Department continued to have staff turnover as well as lack of established internal controls and procedures related to significant audit areas.

Effect: The auditor noted an instance of noncompliance. Noncompliance results in an audit finding in the audit report.

Recommendation: We recommend the Department evaluate its staffing for proper assignment of duties and responsibilities as well as potential hiring to fill identified vacancies. We recommend the Department continue working on implementing effective internal controls and establishing procedures to assist for timely completion of its annual audit.

Views of responsible officials: Management agrees with this finding. Upon submission of the current audit, the CFO will review findings with organization and develop a plan to commence preparations for FY20 close with the goal of submitting the annual FY20 audit on time.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section IV – Other Findings (Continued)

2019 – 023 Late Reversion to the State General Fund (Compliance and Other Matters) (Prior Year Finding 2018-010)

Criteria or specific requirement: 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.

Condition: As of June 30, 2019, the Department reported amounts payable to the State General Fund in the amount of approximately \$945,000, of which \$296,625 is related to reversions prior to FY16. In addition, the Department has not yet calculated or determined all applicable reversions for FY15 through FY19.

Management’s Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

Cause: The Department continues to have lack of established internal controls and procedures.

Effect: The auditor noted an instance of noncompliance. Noncompliance results in an audit finding in the audit report as well as misstated balances in the accounting records.

Recommendation: We recommend the Department make the resolution of this finding a priority in 2020. 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.

Views of responsible officials: Management agrees with this finding. Upon completion of work related to the FY19 audit, the CFO will review pending reversion balances and will remit to DFA prior to the end of the fiscal year 2020.

2019 – 024 Emergency Manager Training (Compliance and Other Matters) (Prior Year Finding 2018-008)

Criteria or specific requirement: 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.

Condition: During our testing over allowed payroll costs for the Emergency Management Performance Grants (EMPG) – CFDA 97.042, we noted that the required exercises and training for EMPG funded personnel were not being met for all funded personnel as required for the award period of 10/01/2016 – 09/30/2018.

Management’s Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section IV – Other Findings (Continued)

2019 – 024 Emergency Manager Training (Compliance and Other Matters) (Prior Year Finding 2018-008) (Continued)

Cause: Management oversight.

Effect: The auditor noted instances of noncompliance. Noncompliance results in EMPG employees not adequately trained and possible decreased Federal funding.

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.

Views of responsible officials: Management concurs with audit finding. The Secretary has assigned responsibility to the HR Bureau and has requested additional HR resources to perform this and other needed functions. The timeline is indeterminate at this point.

2019-025 Special Tests and Provisions (Compliance and Other Matters) (Prior Year Finding 2018-006)

Criteria or specific requirement: 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.

Condition: During our testing of special tests and provisions for Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036, with various award periods, we noted the files lacked documentation to support the costs as allowable costs as well as support as to whether follow-up was done to obtain the requested documentation. Specifically, we noted the following:

- For 8 of 9 large projects totaling an approximate project amount of \$3.5M, we noted the following:
 - Not all invoices were able to be located in the subrecipient files.
 - Incomplete data submitted by the subrecipient as well as no proof of payment.
 - Not all files contained follow-up by the Department to the subrecipient regarding missing documentation, incomplete documentation, and amounts owed back to the Department.

Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year.

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

Effect: Noncompliance with the applicable compliance requirements.

STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section IV – Other Findings (Continued)

2019-025 Special Tests and Provisions (Compliance and Other Matters) (Prior Year Finding 2018-006) (Continued)

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

Views of responsible officials: Management concurs with audit finding and recognizes that records management is an area of weakness for the Department. There were plans to implement a front-end grants management system to aid in this effort. However, given current social distancing requirements of an unknown duration, agency focus on response efforts that effort has been placed in abeyance. Upon completion of the COVID-19 effort, the agency will recommence the effort.

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS

- 2018-001 Internal Control over Financial Close and Reporting (Material Weakness) – Repeated and Modified
- 2018-002 Internal Control over Procurement Cards (Other Matter) – Repeated and Modified

SECTION III – FEDERAL FINDINGS

- 2018-003 Subrecipient Monitoring – (Material Weakness, Material Noncompliance) – Repeated
- 2018-004 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) – Repeated and Modified
- 2018-005 Cash Management (Significant Deficiency, Instance of Noncompliance) – Repeated and Modified
- 2018-006 Special Tests and Provisions (Significant Deficiency, Instance of Noncompliance) – Repeated. Reported in Other Findings as Compliance and Other Matters.
- 2018-007 Matching Requirements (Significant Deficiency, Instance of Noncompliance) – Repeated
- 2018-008 Emergency Manager Training (Significant Deficiency, Instance of Noncompliance) – Repeated. Reported in Other Findings as Compliance and Other Matters.

SECTION IV – OTHER FINDINGS

- 2018-009 User System Access (Compliance and Other Matters) – Resolved
- 2018-010 Untimely Reversion to the State General Fund (Compliance and Other Matters) – Repeated
- 2018-011 Untimely Deposit of Cash Receipts (Compliance and Other Matters) – Repeated

**STATE OF NEW MEXICO
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT
EXIT CONFERENCE
JUNE 30, 2019**

An exit conference was held with the Department on March 31, 2020. The conference was held telephonically. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

NEW MEXICO DEPARTMENT OF HOMELAND SECURITY

Kelly Hamilton, Acting Cabinet Secretary
Angi English, Chief of Staff
Ron Spilman, CFO
David Snowden, Finance Manager
Juanita Abeyta, Grants Manager
Matthew Stackpole, General Counsel
Ginger Morales, Lead Accountant

CLIFTONLARSONALLEN LLP

Matt Bone, CPA, CGFM, CGMA, Principal
Jane Tinker, CPA, Director

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.

