



State of New Mexico

New Mexico Corrections Department



Financial Statements and Schedules

With

Independent Auditors' Report

For the Fiscal Year Ended June 30, 2014

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

**ANNUAL FINANCIAL REPORT
OF THE NEW MEXICO CORRECTIONS DEPARTMENT
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

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**NEW MEXICO CORRECTIONS DEPARTMENT
OFFICIAL ROSTER
JUNE 30, 2014**

Administrative Officials

Gregg Marcantel
Mark Myers

Joe W. Booker, Jr.
Paul Montoya
Jerry Roark
Anna Martinez
James Brewster
Tim Oakeley
Rose Bobchak

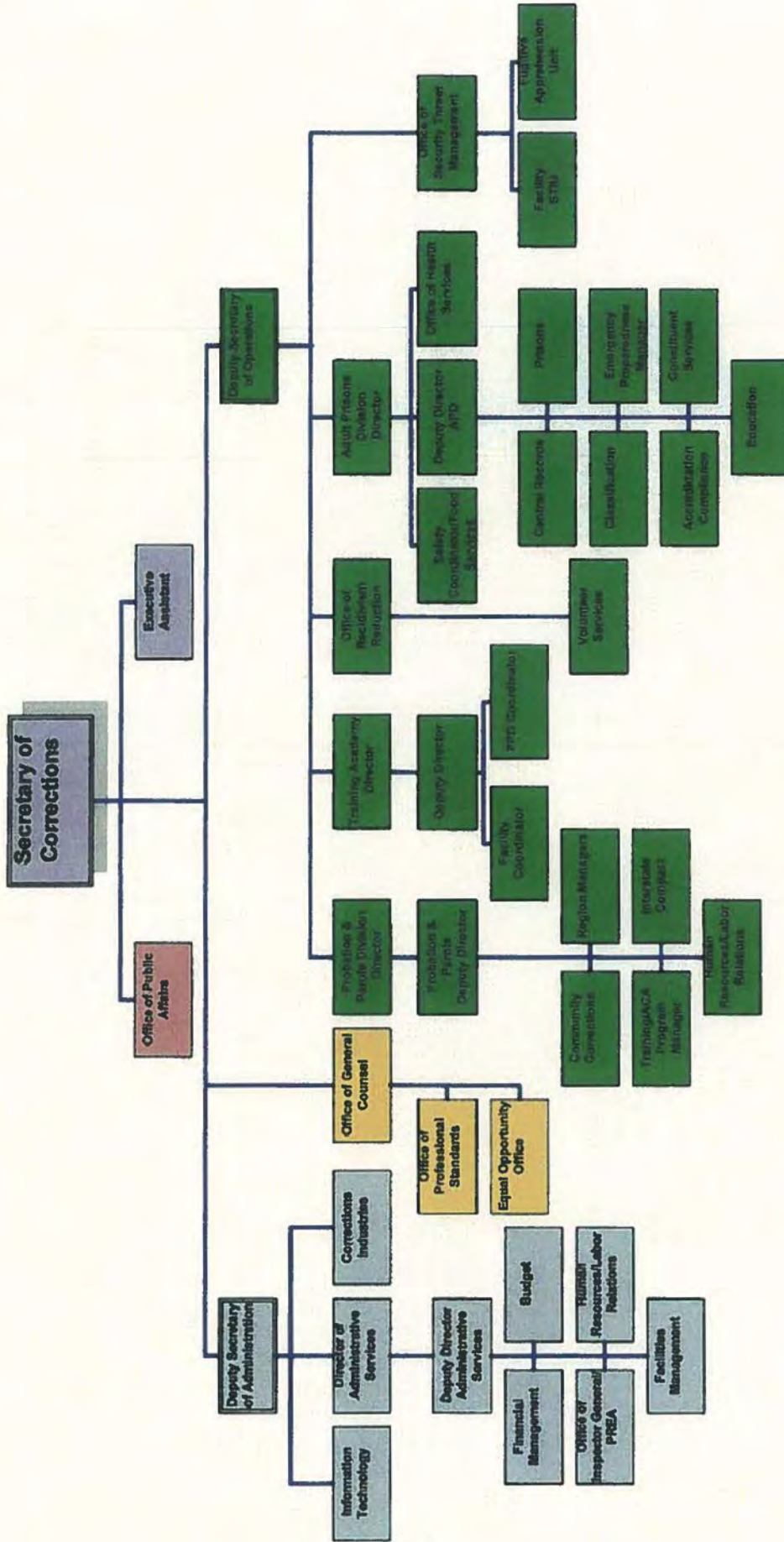
Secretary of Corrections
Acting Deputy Secretary of Administration/
Director Training Academy Division
Deputy Secretary of Operations
Acting Director of Administrative Services
Director of Adult Prisons Division
Acting Director of Corrections Industries Division
General Counsel
Director of Information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

Corrections Industries Commission

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

Chair
Member
Member
Member
Member
Member

**NEW MEXICO CORRECTIONS DEPARTMENT
ORGANIZATIONAL CHART
JUNE 30, 2014**



NEW MEXICO CORRECTIONS DEPARTMENT
List of Abbreviations
JUNE 30, 2014

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



FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
Office of Management and Budget
Mr. Gregg Marcantel, Secretary
State of New Mexico Corrections Department

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue fund of the State of New Mexico Corrections Department (the "Department"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of the Building Fund SHARE System Fund 89800, the General Operating Fund SHARE System Fund 90700, and the Probation & Parole Fund SHARE System Fund 91500 (individual SHARE funds) included in the Department's general fund, and the budgetary comparisons for the individual SHARE funds and the enterprise fund, presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual funds financial statement as of and for the year ended June 30, 2014, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department'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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Summary of Opinions	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Qualified
(Individual SHARE funds)	
- Building Fund SHARE System Fund 89800	Unmodified
- General Operating Fund SHARE system fund 90700	Qualified
- Probation & Parole Fund SHARE System Fund 91500	Qualified
Community Corrections Major Special Revenue Fund SHARE System Fund 90200	Unmodified
Corrections Industries Revolving Major Enterprise Fund SHARE System Fund 07700	Unmodified
Aggregate Remaining Fund Information	
- Inmate Trust Account –Agency Fund SHARE System Fund 55700	Unmodified
Budgetary Comparisons	
General Fund	Qualified
(Individual SHARE funds)	
- General Operating Fund SHARE System fund 90700	Qualified
- Probation & Parole Fund SHARE System Fund 91500	Qualified
Community Corrections Major Special Revenue Fund SHARE System Fund 90200	Unmodified
Corrections Industries Revolving Major Enterprise Fund SHARE System Fund 07700	Unmodified

Basis for Qualified Opinions on Governmental Activities, the General Fund, and the Individual SHARE funds

We were unable to obtain sufficient and appropriate audit evidence over the existence, completeness, and accuracy of inventory balances, and any related expenditures accounts, reported in the Department’s general fund at June 30, 2014. Please refer to finding 2014-002 in the schedule of findings and questioned costs.

Qualified Opinions

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions on Governmental Activities, the General Fund, and the Individual SHARE funds” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, the General Fund, the General Operating Fund SHARE system fund 90700, and the Probation & Parole Fund SHARE System Fund 91500 of the Department as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparisons for the General Fund, General Operating Fund SHARE System Fund 90700, and the Probation of Parole Fund SHARE System Fund 91500 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 business-type activities, the major special revenue fund, the major enterprise fund, and the aggregate remaining fund information of the Department as of June 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Building Fund SHARE System Fund 89800, as of June 30, 2014, and the respective changes in financial position and the budgetary comparison for the enterprise fund for the year then ended in accordance with accounting principals generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities that are attributable to the transactions of the Department. They do not purport to and do not present fairly the financial position of the State of New Mexico as of June 30, 2014, and the changes in its financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Information

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

The Schedule of Expenditures of Federal Awards and additional schedules listed as other supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, except for the effects on the other supplemental information of the qualified opinions on the basic financial statements as explained in the "Basis for Qualified Opinions on Governmental Activities, the General Fund, and the Individual SHARE funds," the other supplemental information is 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 December 10, 2014 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, NM
December 10, 2014



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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

HIGHLIGHTS AND ACCOMPLISHMENTS

Financial Highlights. The Department's net position decreased (\$9,001,819) for FY14: governmental net position (\$9,111,298) and business-type net position \$109,479.

The Corrections Industries Division is classified as a business-type activity. For fiscal year (FY) 2014, the Corrections Industries Division had an increase in net position of \$109,479. Operating revenues increased by \$464,431 and operating expenses also increased by \$979,787 over the prior period.

Total costs for all Department Programs were \$306,549,201.

Accomplishments.

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

Infrastructure emergencies due to a deferred maintenance need of approximately \$300 million dollars at state-owned facilities continued to be a major problem that the Department is constantly addressing by increasing its maintenance and repairs line item along with enhancing oversight of routine maintenance. The Department anticipates having a maintenance and repair training program based on best practice requirements in FY15.

USING THIS ANNUAL REPORT

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

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

Management's Discussion and Analysis

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

The Department has three types of funds:

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

Notes to the Financial Statements

The notes to the financial statements consist of notes that provide additional information that is essential to a user's understanding of the basic financial statements. The notes to the financial statements can be found starting on page 23.

Infrastructure Assets

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

Budgetary Comparisons

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

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

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

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE

Table A-1

The Department's Net Position

	Governmental Activities		Business-Type Activities		Total *		Total Percentage Change
	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014	2013-2014
Current and Other Assets	\$ 51,156,038	\$ 48,919,929	\$ 5,099,000	\$ 5,708,040	\$ 56,255,038	\$ 54,627,969	-2.89%
Capital and							
Non-Current Assets	28,812,570	28,396,420	221,136	385,191	29,033,706	28,781,611	-0.87%
Total Assets	79,968,608	77,316,349	5,320,136	6,093,231	85,288,744	83,409,580	-2.20%
Current Liabilities	33,930,648	40,389,687	453,203	1,116,820	34,383,851	41,506,507	20.72%
Long-Term Liabilities	-	-	-	-	-	-	0.00%
Total Liabilities	33,930,648	40,389,687	453,203	1,116,820	34,383,851	41,506,507	20.72%
Net Position							
Investment in Capital Assets	28,812,570	28,396,420	221,136	385,191	29,033,706	28,781,611	-0.87%
Restricted	14,725,624	15,089,268	4,645,797	4,591,221	19,371,421	19,680,489	1.60%
Unrestricted	2,499,766	(6,559,026)	-	-	2,499,766	(6,559,026)	-362.39%
Total Net Position	\$ 46,037,960	\$ 36,926,662	\$ 4,866,933	\$ 4,976,412	\$ 50,904,893	\$ 41,903,074	-17.68%

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

Net Assets: Table A-1 summarizes the Department's net position for the fiscal year ending June 30, 2014. Net position for Governmental Activities and Business-type Activities were \$36,926,662 and \$4,976,412 respectively. Total Department net position for fiscal year 2014 is \$41,903,074. However, most of those assets are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, equipment, etc.) The unrestricted net position in Governmental Activities is (\$6,559,026) at the end of the fiscal year.

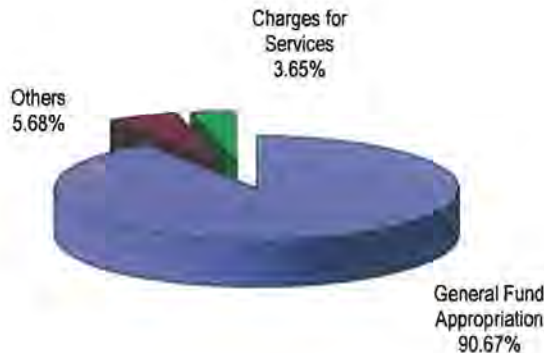
In the Business-type activities, the restricted amount of \$4,591,221 cannot be used in governmental activities. The Department generally can only use these net positions to finance the continuing operations of its business activities, such as working capital requirements.

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2013-2014
	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014	
Revenues							
<u>Program Revenues</u>							
Charges for Services	\$ 19,843,707	\$ 6,413,979	\$ 3,979,294	\$ 4,443,725	\$ 23,823,001	\$ 10,857,704	-54.42%
Operating Grants & Contributions	979,812	725,576	-	-	979,812	725,576	-25.95%
General Revenues							
State General Fund							
Appropriations, net of reversions	258,989,209	269,640,645	-	150,000	258,989,209	269,790,645	4.17%
Others	643,000	16,166,526	8,982	6,930	651,982	16,173,456	
Transfers - Internal Activities	(2,847)	-	2,847	-	-	-	0.00%
Total Revenues	280,452,881	292,946,726	3,991,123	4,600,655	284,444,004	297,547,381	4.61%
Expenses							
Public Safety - Corrections	276,460,583	302,058,025	3,511,389	4,491,176	279,971,972	306,549,201	9.49%
Increase (Decrease) in Net Position	3,992,298	(9,111,299)	479,734	109,479	4,472,032	(9,001,820)	-301.29%
Beginning Net Position	41,523,152	46,037,960	4,372,844	4,866,933	45,895,996	50,904,893	10.91%
Prior Period Adjustment	522,511	-	14,355	-	536,866	-	
Beginning Net Position Restated	41,523,152	46,037,960	4,387,199	4,866,933	45,910,351	50,904,893	
Ending Net Position	\$ 46,037,961	\$ 36,926,661	\$ 4,866,933	\$ 4,976,412	\$ 50,904,894	\$ 41,903,073	-17.68%

Changes in Net Position: The Department's change in net position for fiscal year 2014 decreased by \$9,111,298. (See Table A-2). A significant portion, 90.67%, of the Department's revenue comes from State General Fund Appropriations, 3.65% comes from charges for services, and 5.68% comes from other revenue sources. (See figure A-1).

Figure A-1
Sources of Revenues for Fiscal Year 2014



Functional Expenses for Fiscal Year 2014

Business-Type Activities

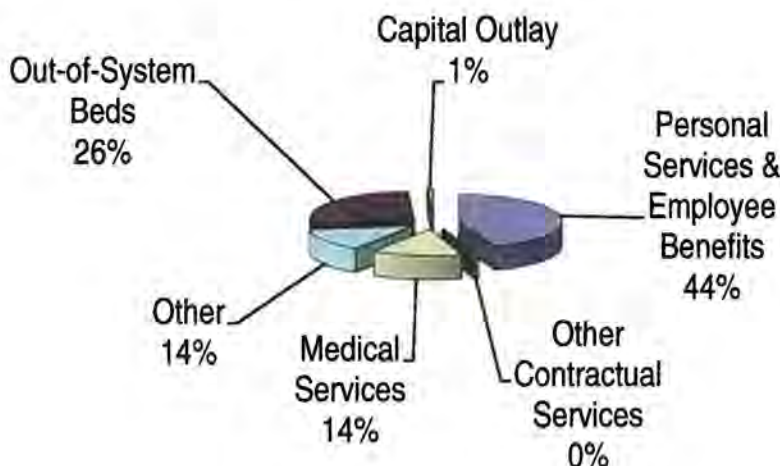
Program revenues of the Department's business-type activity (Corrections Industries) increased from \$3,979,294 to \$4,443,725 and expenses increased by approximately 27.9% percent from \$3,511,389 to \$4,491,176.

Governmental Funds

Figure A-2

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Page 6 of MD&

Page 6 of MD&



The Department's total expenditures for government-type funds during the fiscal year were \$301.6 million. Approximately half (44%) of the expenditures of the Department are in the area of personal services and employee benefits. Approximately 54% of the total budgeted positions are for Correctional Officers. The Department continues to be aggressive in recruiting correctional officers to fill vacant posts, in order to reduce overtime.

The second largest area of expenditure within the Department is in the category of "Other" costs (40%), which incorporates travel, maintenance, food, supplies, operating costs, and capital outlay. Of the total amount expended in this functional area during fiscal year 2014 approximately 26% was for the housing male and female inmates in contract prisons, and the remaining 14% was for the other operating costs.

Expenditures in the contractual services category accounted for 15% of the Department's expenditures, with approximately 14% of these expenditures directly related to medical services for inmates and less than 1% are related to other contractual services. Less than one percent of the total expenditures were for capital outlay with the majority of those costs being for machinery and equipment. The governmental activities increase in Public Safety – Corrections expense of \$25,597,442 was due to an increase in inmate costs, population and facility maintenance.

Fund Balance

The Department, in its governmental funds, reported a combined fund balance of approximately \$12.8 million, approximately \$8.6 million lower than last year.

General Fund Budgetary Highlights

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

Supplemental and special appropriations are not reflected in the actual beginning account balances.

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

- Budget adjustment requests made during the fiscal year to allow the Department to utilize funds where needed.
- Budget adjustment requests that increase or decrease other state funds based on actual revenues.
- Budget adjustment requests that adhere to required operating budget cuts in compliance with Legislative actions.

There were three changes between the original and final operating budget that were deemed to be significant. CI increased its operating budget to support the increase in sales due to taking over canteen services for all public facilities. Community Corrections (CC) increased its number of beds for residential substance abuse. In FY13 the Department over-reverted and was reimbursed in FY14.

Capital Assets and Debt Administration

At the end of fiscal year 2014, the Department invested a total of \$28.4 million in governmental-type activities and \$.4 million in business-type activities for a total amount of \$28.8 million in a variety of capital assets. This amount represents an overall net decrease (including additions and deletions) of \$.3 million (1.03%) from the prior fiscal year. Accumulated depreciation also increased by \$3.1 million (8.27%) over the prior period.

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

	Governmental Activities		Business-type Activities		Total		Total % Change 2013 - 2014
	FY2013	FY2014	FY2013	FY2014	FY2013	FY2014	
Buildings and Improvements	32.8	34.3	0.6	1.0	33.4	35.3	5.69%
Improvements other than Buildings	3.6	3.7	-	-	3.6	3.7	2.78%
Machinery and Equipment	24.2	24.7	2.1	2.2	26.3	26.9	2.28%
Automotive	2.7	2.7	0.6	0.8	3.3	3.5	6.06%
Depreciation	(34.4)	(37.0)	(3.1)	(3.6)	(37.5)	(40.6)	8.27%
	28.9	28.4	0.2	0.4	29.1	28.8	-1.03%

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

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

Short-Term Debt

The Department did not have any long-term debt other than compensated absences associated in fiscal year 2014. More detailed information regarding the Department's long-term debt is presented in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The New Mexico Corrections Department (NMCD) FY14 operating budget was increased by 1.6 percent or \$4.7 million to \$292.7 million, from the FY13 appropriated budget. The increase was to support the Department's inmate population growth and increase in health insurance premiums. The Department experienced an increase in inmate population growth and was under funded in FY14 and paid out a Union settlement. As a result, the Department had a deficiency of \$5.7 million in FY14, primarily in personal services and employee benefits.

In fiscal year 2014, the probation and parole offender population increased by approximately 2.0 percent. Per the New Mexico Sentencing Commission, the Department's population in FY14 was at 7,042 or 2.8 percent increase in population from FY13. The Department experienced a decline in inmate population in fiscal years 2008 through 2009 after a high of 6,882 in fiscal year 2007, however the population growth returned in fiscal year 2010. The New Mexico Sentencing Commission estimates New Mexico's total inmate population will increase in FY15 and is projected to grow at an average rate of 1.3 percent per year from fiscal year 2015 to 2024. With the current rate of growth, the estimates show that New Mexico will have an offender population of 7,957 by the end of fiscal year 2024.

The Corrections Industries Program (CI) had a 15.3 percent increase in revenues from FY13 to FY14. CI was able to increase their sales by taking over canteen services for all of the Department's public facilities. CI is developing other types of enterprise programs as a means of growing their programs and revenues in the future.

For fiscal year 2014, the Department had a general fund-base increase of \$4.9 million that partially covered inmate population growth of \$6.3 million, but did not cover the increase of \$1.6 million for health insurance. With this increased budget, the Department continued to maintain strict budget measures and flat contracts (no inflation increases) and in some cases reduced contracts but was still unable to ensure the budget was balanced. The Department still ended FY 14 with a deficiency of \$5.7 million in FY14 primarily in personal services and employee benefits.

The Department requested a total budget of \$301.1 million from all funding sources for fiscal year 2015, which is a 2.9 percent increase from FY14 operating budget. The general fund request was \$279.5 million. The request included an increase of \$4.8 million for inmate growth. The Department received an operating budget of \$279.5 million which included only \$2.0 million for inmate growth. The Department did not receive sufficient funding to support inmate growth in FY15. The Department will request a \$7.0 million supplemental and will continue to maintain strict budget measures and flat contracts (no inflation increases) where ever possible and in some cases reduce contracts to ensure the budget will be balanced.

The Department is a beneficiary of the State Permanent Land Fund, and realized an increase in the distribution income in FY14. Allocations from State Land Income to which the Department is a beneficiary, increased significantly in fiscal year 2014 and is expected to maintain or increase in future periods.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

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

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Investments, State Treasurer	\$ 41,054,050	\$ 3,719,613	\$ 44,773,663
Petty Cash	2,075	2,250	4,325
Receivables, net of allowance for doubtful accounts	22,580	1,118,708	1,141,288
Federal Grants Receivable	82,205	-	82,205
Other Receivables	13,488	-	13,488
Interest Receivable	-	293	293
Due from Other State Agencies	3,210,064	-	3,210,064
Due from Other Funds	-	-	-
Inventories	4,438,695	866,611	5,305,306
Prepaid Items	96,772	566	97,337
Total Current Assets	48,919,929	5,708,040	54,627,970
Capital Assets:			
Buildings	34,264,118	1,003,511	35,267,629
Improvements Other than Buildings	3,717,931	-	3,717,931
Machinery and Equipment	24,744,838	2,122,938	26,867,776
Automotive	2,706,793	820,872	3,527,665
Less Accumulated Depreciation	(37,037,260)	(3,562,129)	(40,599,389)
Total Capital Assets, net of depreciation	28,396,420	385,191	28,781,611
Total Assets	77,316,349	6,093,232	83,409,581
LIABILITIES			
Accounts Payable	\$ 6,356,981	\$ -	\$ 6,356,981
Vouchers Payable	26,699,697	1,026,019	27,725,716
Payroll Benefits Payable	1,161,882	9,497	1,171,379
Payroll Taxes Payable	345,527	3,225	348,752
Accrued Wages Payable	1,553,852	11,811	1,565,663
Compensated Absences Payable:			
Expected to be paid within one year	4,232,889	56,118	4,289,007
Due to State General Fund	10,889	-	10,889
Receipts Held in Suspense	170	-	170
Due to Other State Agencies	16,822	-	16,822
Unearned Revenue	-	10,000	10,000
Other Liabilities	10,979	150	11,129
Total Liabilities	40,389,687	1,116,820	41,506,507
NET POSITION			
Net Investment in Capital Assets	28,396,420	385,191	28,781,611
Restricted for:			
Subsequent Years Expenditures	15,089,268	4,591,221	19,680,489
Unrestricted	(6,559,026)	-	(6,559,026)
Total Net Position	\$ 36,926,662	\$ 4,976,412	\$ 41,903,074

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Total
Expenses			
Public Safety - Corrections	\$ (302,058,025)	\$ -	\$ (302,058,025)
Corrections Industries	-	(4,491,176)	(4,491,176)
Program Revenues			
Charges for Services	6,413,979	4,443,725	10,857,704
Operating Grants & Contributions	725,576	-	725,576
Capital Grants & Contributions	-	-	-
Changes in Net Position:			
Net Program (Expense) / Revenue	(294,918,470)	(47,451)	(294,965,921)
General Revenues:			
General Fund Appropriation	269,650,000	150,000	269,800,000
Inter-Agency Transfer-In	3,256,374	-	3,256,374
Reversions to the State General Fund	(9,355)	-	(9,355)
Other Revenue	226,426	4,521	230,948
Unrestricted investment earnings	12,683,726	2,409	12,686,135
Loss on Disposition of Assets	-	-	-
Total General Revenues	285,807,172	156,931	285,964,102
Change in Net Position	(9,111,298)	109,480	(9,001,818)
Net Position beginning	46,037,960	4,866,933	50,904,893
Net Position - Ending	<u>\$ 36,926,662</u>	<u>\$ 4,976,412</u>	<u>\$ 41,903,074</u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund SHARE System Fund *	Community Corrections Special Revenue Fund SHARE System Fund 90200	Total
ASSETS			
Investments, State Treasurer	\$ 38,752,185	\$ 2,301,866	\$ 41,054,050
Petty Cash	2,075	-	2,075
Receivables, net			
of allowance for doubtful accounts	22,580	-	22,580
Federal Grants Receivable	82,205	-	82,205
Other Receivables	13,488	-	13,488
Due from Other State Agencies	3,210,064	-	3,210,064
Due from State General Fund	-	-	-
Inventories	4,438,695	-	4,438,695
Prepaid Items	96,772	-	96,772
Total Assets	\$ 46,618,064	\$ 2,301,866	\$ 48,919,929
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 6,332,436	\$ 24,545	\$ 6,356,981
Vouchers Payable	26,687,640	12,057	26,699,697
Payroll Benefits Payable	1,158,126	3,756	1,161,882
Payroll Benefits & Taxes Payable	343,575	1,951	345,527
Accrued Wages Payable	1,549,256	4,596	1,553,852
Due to Other Funds	-	-	-
Due to State General Fund	9,355	-	9,355
State Dated Warrants - Due to SGF	1,534	-	1,534
Receipts Held in Suspense	170	-	170
Due to Other State Agencies	16,822	-	16,822
Other Liabilities	10,979	-	10,979
Total Liabilities	36,109,893	46,905	36,156,798
Fund Balances:			
Reserved for:			
Encumbrances	-	-	-
Nonspendable	4,537,542	-	4,537,542
Restricted	12,834,307	2,254,961	15,089,268
Committed	-	-	-
Assigned	-	-	-
Unassigned	(6,863,679)	-	(6,863,679)
Designated for Future Expenditures	-	-	-
Total Fund Balance	10,508,170	2,254,961	12,763,131
Total Liabilities and Fund Balance	\$ 46,618,064	\$ 2,301,866	\$ 48,919,929

* Includes SHARE funds 89800, 90700, and 91500.

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDING JUNE 30, 2014**

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

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

Total Fund Balances - Governmental Funds (Governmental Funds Balance Sheet)	\$ 12,763,131
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Buildings	\$ 34,264,118	
Improvements other than buildings	3,717,931	
Machinery and Equipment	24,744,838	
Automotive	2,706,793	
Accumulated depreciation	<u>(37,037,260)</u>	
Total Capital Assets		28,396,420

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

Compensated Absences Payable	<u>(4,232,889)</u>
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Net Position of Governmental Activities (Total Net Position of Governmental Activities)	<u><u>\$ 36,926,662</u></u>
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The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING JUNE 30, 2014**

	General Fund SHARE System Fund *	Community Corrections Special Revenue Fund SHARE System Fund 90200	Total
Revenues			
Charges for Services	\$ 2,167,917	\$ 740,559	\$ 2,908,476
Intergovernmental	1,100,714	-	1,100,714
Institutional Sales	2,404,788	-	2,404,788
Investment Earnings	12,683,726	-	12,683,726
Miscellaneous	226,426	-	226,426
Federal Grants and Contributions	725,576	-	725,576
Total Revenues	<u>19,309,148</u>	<u>740,559</u>	<u>20,049,707</u>
Expenditures, Current			
Personal Services & Employee Benefits	133,113,668	535,266	133,648,933
Contractual Services	44,745,205	-	44,745,205
Other	116,821,273	3,594,323	120,415,596
Expenditures, Capital Outlay	2,743,678	-	2,743,678
Total Expenditures	<u>297,423,824</u>	<u>4,129,588</u>	<u>301,553,413</u>
Excess (deficiency) Revenues over Expenditures	<u>(278,114,676)</u>	<u>(3,389,029)</u>	<u>(281,503,705)</u>
Other Financing Sources (uses)			
State General Fund Appropriations	266,480,200	3,169,800	269,650,000
Inter-Agency Transfers-In	3,256,374	-	3,256,374
Reversions to State General Fund	(9,355)	-	(9,355)
Net Other Financing Sources (uses)	<u>269,727,219</u>	<u>3,169,800</u>	<u>272,897,019</u>
Net Change in Fund Balance	(8,387,457)	(219,229)	(8,606,686)
Fund Balance, Beginning of Year	<u>18,895,626</u>	<u>2,474,190</u>	<u>21,369,817</u>
Fund Balance, End of Year	<u>\$ 10,508,169</u>	<u>\$ 2,254,961</u>	<u>\$ 12,763,131</u>

* Includes SHARE fund 89800, 90700, and 91500.

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

Net Change in fund balances - Total Governmental Funds
(Statement of Revenue, Expenditures and Changes in Fund Balance) **\$ (8,606,686)**

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

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

Compensated Absences (88,462)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 2,743,678	
Depreciation Expense	<u>(3,117,068)</u>	
Excess of Depreciation Expense over Capital Outlay		<u>(373,390)</u>

The Statement of Activities reports the loss on the sale of Capital Assets, while the Statement of Revenues, Expenditures and Changes and Changes in Fund Balance reports the proceeds. The reconciling amount is the difference: (42,760)

Change in Net Position of Governmental Activities
(Statement of Activities) **\$ (9,111,298)**

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Other State Funds	\$ 17,519,800	\$ 16,914,622	\$ 18,583,573	\$ 1,668,951
Federal Funds	404,300	1,242,418	725,576	(516,842)
Total Revenues	<u>17,924,100</u>	<u>18,157,040</u>	<u>19,309,149</u>	<u>1,152,109</u>
Expenditures, Current				
Personal Services & Employee Benefits	130,101,200	127,372,121	133,113,668	(5,741,547)
Contractual Services	45,554,500	45,161,164	44,745,205	415,958
Other	109,781,800	122,125,014	116,821,273	5,303,741
Expenditures, Capital Outlay	-	-	2,743,678	(2,743,678) *
Total Expenditures	<u>285,437,500</u>	<u>294,658,299</u>	<u>297,423,825</u>	<u>(2,765,526)</u>
Excess (deficiency) Revenues over Expenditures	<u>(267,513,400)</u>	<u>(276,501,259)</u>	<u>(278,114,676)</u>	<u>(1,613,417)</u>
Other Financing Sources (uses)				
State General Fund Appropriation	266,480,200	266,480,200	266,480,200	-
Inter-Agency Transfers-In	1,033,200	3,905,450	3,256,374	(649,076)
Budgeted Fund Balance	-	6,112,760	-	(6,112,760)
Reversions to State General Fund	-	-	(9,355)	(9,355)
Net Other Financing Sources (uses)	<u>267,513,400</u>	<u>276,498,410</u>	<u>269,727,219</u>	<u>(6,771,191)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (2,849)</u>	<u>\$ (8,387,457)</u>	<u>\$ (8,384,607)</u>
Fund Balance, Beginning of Year			<u>18,895,626</u>	
Fund Balance, End of Year			<u>\$ 10,508,170</u>	

* Amounts have been reclassified for financial statement purposes. The budget for capital outlay expenditures is included in the "Other" expenditure category budget.

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
COMMUNITY CORRECTIONS SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Other State Funds	\$ 37,800	\$ 37,800	\$ 740,559	\$ 702,759
Federal Funds	-	-	-	-
Total Revenues	<u>37,800</u>	<u>37,800</u>	<u>740,559</u>	<u>702,759</u>
Expenditures, Current				
Personal Services & Employee Benefits	882,900	882,900	535,266	347,634
Contractual Services	5,500	2,651	-	2,651
Other	2,931,900	3,631,900	3,594,323	37,577
Expenditures, Capital Outlay	-	-	-	-
Total Expenditures	<u>3,820,300</u>	<u>4,517,451</u>	<u>4,129,588</u>	<u>387,863</u>
Excess (deficiency) Revenues over Expenditures	<u>(3,782,500)</u>	<u>(4,479,651)</u>	<u>(3,389,029)</u>	<u>1,090,622</u>
Other Financing Sources (uses)				
State General Fund Appropriation	3,169,800	3,169,800	3,169,800	-
Transfers-In	-	-	-	-
Budgeted Fund Balance	612,700	1,312,700	-	(1,312,700)
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	-	-	-
Net Other Financing Sources (uses)	<u>3,782,500</u>	<u>4,482,500</u>	<u>3,169,800</u>	<u>(1,312,700)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 2,849</u>	<u>\$ (219,229)</u>	<u>\$ (222,078)</u>
Net Change in Fund Balance			\$ (219,229)	
Fund Balance, Beginning of Year			<u>\$ 2,474,190</u>	
Fund Balance, End of Year			<u>\$ 2,254,961</u>	

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014**

ASSETS

Current Assets:	
Investments, State Treasurer	\$ 3,719,613
Petty Cash	2,250
Receivables (net of allowance for doubtful accounts)	1,118,708
Interest Receivable	293
Inventories	866,611
Prepaid Items	566
Total Current Assets	<u>5,708,040</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and Equipment	2,122,938
Buildings and Improvements	1,003,511
Automotive	820,872
Less Accumulated Depreciation	<u>(3,562,129)</u>
Total Noncurrent Assets	<u>385,191</u>
Total Assets	<u>6,093,232</u>

LIABILITIES

Current Liabilities:	
Vouchers Payable	1,026,019
Accrued Wages Payable	11,811
Payroll Benefits Payable	9,497
Payroll Taxes & Benefits Payable	3,225
Compensated Absences Payable	56,118
Unearned Revenue	10,000
Other Liabilities	150
Total Liabilities	<u>1,116,820</u>

NET POSITION

Net Investment in Capital Assets	385,191
Restricted	<u>4,591,221</u>
Total Net Position	<u>\$ 4,976,412</u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

OPERATING REVENUES	
Sales	\$4,443,725
OPERATING EXPENSES	
Cost of Goods Sold:	
Cost of Materials Used	2,834,385
Direct Labor (inmate payroll)	202,126
Manufacturing and Administrative Overhead	1,431,239
Change in Work in Process and Finished Goods Inventory, Net	(21,963)
Depreciation Expense	45,389
Total Operating Expenses	4,491,176
OPERATING INCOME (LOSS)	(47,451)
Nonoperating revenue (expense):	
Interest on Deposits with State Treasurer	2,409
Miscellaneous Income	4,521
General Fund Subsidy	150,000
Total nonoperating revenue / (expense)	156,931
CHANGE IN NET POSITION	109,480
Total Net Position, Beginning of Year	4,866,932
Total Net Position, End of Year	\$4,976,412

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 4,806,862
Cash Payments to Suppliers for Goods and Services	(2,589,784)
Cash Payments to Employees for Services	(983,117)
Cash Payments to Inmates for Services	(202,127)
	<u>1,031,834</u>
Net Cash Provided by for Operating Activities	
Cash Flows from Capital and Related Financing Activities:	
Capital Contribution from State General Fund	150,000
Purchase of Capital Assets	(209,446)
	<u>(59,446)</u>
Net Cash Used by Capital and Related Financing Activities	
Cash Flows from Investing Activities:	
Interest Income	2,359
Miscellaneous Income	4,521
	<u>6,880</u>
Net Cash Provided by Investing Activities	
Net Increase (Decrease) in Agency Interest in SGFIP	979,268
Investments, State Treasurer at Beginning of Year (including petty cash)	2,742,595
Investments, State Treasurer at End of Year (including petty cash)	<u>\$ 3,721,863</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (47,451)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	45,389
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(1,139,383)
(Increase) Decrease in Due from Other Funds	1,077,560
(Increase) Decrease in Due from Other State Agencies	361,337
(Increase) Decrease in Inventory	7,140
Increase (Decrease) in Allowance for Uncollectible Receivables	63,623
Increase (Decrease) in Accounts Payable	644,145
Increase (Decrease) in Compensated Absences Payable	10,604
Increase (Decrease) in Accrued Wages Payable	4,127
Increase (Decrease) in Payroll Taxes & Benefits Payable	4,593
Increase (Decrease) in Other Liabilities	150
	<u>1,079,285</u>
Total Adjustments and Changes	1,079,285
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,031,834</u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
AS OF JUNE 30, 2014**

	Inmate Trust Account
ASSETS	
Cash	\$ 2,520,732
Due from Others	398,351
Total Assets	\$ 2,919,083
LIABILITIES	
Due to Others	\$ 801,692
Deposits Held for Others	2,117,390
Total Liabilities	\$ 2,919,083

* Please refer to Schedule of Changes in Assets and Liabilities on page 77 for detail information.



NOTES TO THE FINANCIAL STATEMENTS

NEW MEXICO CORRECTIONS DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2014

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NOTE 1: HISTORY, OATH AND ORGANIZATION

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

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

Office of the Secretary

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

Adult Prisons Division

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

Administrative Services Division

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

Information Technology Division

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

Office of the General Counsel

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

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

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

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

Office of Recidivism Reduction

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

Probation and Parole Division

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

Training Academy Division

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

Corrections Industries Division

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

Corrections Industries Commission

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the New Mexico Corrections Department (the Department) have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. More significant of these accounting policies are described below.

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

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

The Department also implemented the provisions of GASB #54 effective July 1, 2010. In the governmental fund financial statements, fund balances are classified as non-spendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation. See page 36, item 11 and Note 14 for additional information about fund balances.

A. FINANCIAL REPORTING ENTITY

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

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

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

B. BASIC FINANCIAL STATEMENTS

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

The government-wide Statement of Activities reflects both the gross and net cost per functional category (education, labor, transportation, etc.), which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. The Department includes only one function (public safety and corrections).

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

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

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

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

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

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

C. BASIS OF PRESENTATION

The financial transactions of the Department are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses, and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements. The various funds are reported by generic classification within the financial statements.

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

The Department uses the following fund types:

Governmental Fund Types

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

General Fund:

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

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

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

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

Special Revenue Fund

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

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

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

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

Proprietary Fund Types

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

Enterprise Fund

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

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

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

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

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

Fiduciary Fund Types

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

Agency Fund

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

Non-Current Governmental Assets/Liabilities

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

D. BASIS OF ACCOUNTING

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

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

Accrual

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

Modified Accrual

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

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

Operating Revenues

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

E. BUDGETS AND BUDGETARY ACCOUNTING

The New Mexico State Legislature makes annual appropriations to the Department, which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget (modified accrual basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed the legal level of budgetary control. "Per Section 9 of the General Appropriation Act of 2012, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services and other. Therefore, the legal level of budgetary control would be the appropriation program level (A-Code, P-Code, R-code, and Z-Code). The A-Code pertains to capital outlay appropriations (general obligation/severance tax or state general fund). The P-Code pertains to operating funds. The R-Code pertains to American Recovery & Reinvestment Act (ARRA) funds. The Z-Code pertains to special appropriations." The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year. As per the General Appropriation Act, Laws of 2012, Chapter 19, Section 3, Item M, "for the purpose of administering the General Appropriation Act of 2010 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get accrued by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely or accrued by the statutory deadline must be paid out of the next year's budget."

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

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

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

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

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

F. ENCUMBRANCES

With the Laws of 2004, Chapter 114, "General Appropriations" establishing the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting for the State of New Mexico, there are no encumbrances outstanding at year-end. In cases where the appropriations do not lapse at year-end, the encumbrances outstanding are re-encumbered for the same amount outstanding at year-end and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The Department does not have appropriations, which are multiple year appropriations that do not lapse at year-end.

G. ASSETS, LIABILITIES AND FUND BALANCE

1. Deposits and Investments

At year end, the carrying amount of the Department's deposits was \$2,520,732 and the bank balance was \$2,496,295. The difference represents outstanding checks, deposits, and other reconciling items. In addition, there was \$4,325 of petty cash.

The Department has defined Investments as Interest in the State General Fund Investment Pool (ISGFIP) with the New Mexico State Treasurer's Office (STO). State law requires the Department's cash investments to be managed by

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

The fair value of the investments maintained at the New Mexico State Treasurer's Office is as follows at June 30, 2014.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value *</u>
New Mexico State Treasurer's Office:		
General Fund Investment Pool	1 day to 3 years	<u>\$ 44,773,663</u>
Total Investments or Cash Equivalents		<u><u>\$ 44,773,663</u></u>

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

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

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

2. Accounts Receivable:

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

The Department complies with Article IV, Section 32 of the New Mexico Constitution as it pertains to the remission or forgiveness of debts due to the state or to municipalities. The Department continues to track and communicate with vendors that are listed within its' outstanding accounts receivable listing to recover outstanding balances still owed to the Department. The allowance amounts for the General and Enterprise funds at June 30, 2014 are \$279,689 and \$254,048, respectively. In fiscal year 2014, the amount of allowance for financial statement purposes is listed below.

Accounts Receivable consists of the following:

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Accounts Receivable	\$ 302,269	\$ 1,372,756	\$ 1,675,025
Less: Allowance for doubtful accounts	<u>(279,689)</u>	<u>(254,048)</u>	<u>(533,737)</u>
Net Accounts Receivable	<u><u>\$ 22,580</u></u>	<u><u>\$ 1,118,708</u></u>	<u><u>\$ 1,141,288</u></u>

3. Federal Grants Receivable:

Various reimbursement procedures are used for federal awards received by the Department. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent amounts expended during the fiscal year that are related to a federal grant, however the reimbursement for the expenditure was not received prior to the end of the fiscal year.

4. Due to / Due from Other State Agencies

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

Inter-agency receivables and payables as of June 30, 2014 consist of the following:

Interagency Receivables

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due From Other Agencies</u>	<u>Due From SHARE Agency Number</u>	<u>Due From SHARE Fund Number</u>	<u>Amount</u>
General Fund	90700	\$ 3,210,064	33700	60100	\$ 874,618
			34100	76100	\$ 2,327,870
			52100	19900	7,575
Totals		<u>\$ 3,210,064</u>			<u>\$ 3,210,064</u>

Interest Receivable

Enterprise Fund	07700	<u>293</u>	39400	80100	<u>293</u>
Totals		<u>\$ 293</u>			<u>\$ 293</u>

Interagency Payables

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due to Other Agencies</u>	<u>Due to SHARE Agency Number</u>	<u>Due to SHARE Fund Number</u>	<u>Amount</u>
General Fund	90700	<u>16,822</u>	63000	05201	<u>16,822</u>

5. Inventories

Supplies inventory are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Inventories held by the General fund, in the amount of \$4,438,695 consist of generic supplies and materials in the various department operated correctional facilities. Inventories are valued using the average cost method. A portion of the amount reported in non-spendable fund balance represents inventories and indicates that supplies inventories are not available expendable resources for Department programs.

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

Components of the Corrections Industries (enterprise fund) inventories are as follows:

Raw Materials	\$	252,166
Work in Process		96,656
Finished Goods		<u>517,789</u>
Total Inventory	\$	<u>866,611</u>

6. Prepaid Items

These amounts represent prepayment of postage and fuel, which has benefit to the Department beyond the fiscal year, ending June 30, 2014. Prepaid items are expensed when consumed under the consumption method. Therefore, these items are allocated to the fiscal year in which they are used. A portion of the amount reported in non-spendable fund balance represents prepaid items.

7. Capital Assets

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

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

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

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

Construction period interest, if any, is capitalized in the proprietary fund. There was no construction period interest capitalized in 2014. The Department has one internally generated intangible asset (software), which is capitalized.

8. Compensated Absences

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

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

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

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

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

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

9. Due To State General Fund (Reversions)

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

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

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

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

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from state dated warrants and prior year reimbursements are also due to the State General Fund.

Current year reversions *Due to the State General Fund* as of June 30, 2014 were as follows:

General Fund	SHARE System Fund 90700	SHARE System Fund 91500	SHARE System Fund 89000	Total
Current Year:				
FY 14 Reversions	\$ 9,355	\$ -	\$ -	\$ 9,355
Total FY 14 Reversions	9,355	-	-	9,355
State Dated Warrants	1,534	-	-	1,534
Total Reversions Due to General Fund	<u>\$ 10,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,889</u>

10. Fund Balances

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

Non-Spendable Fund Balance

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

Restricted Fund Balance

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

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

H. REVENUES, EXPENDITURES AND EXPENSES

Substantially all governmental fund revenues are accrued.

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

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

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

I. NET POSITION

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

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

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

The Department follows GASB 46 "Net Assets Restricted by Enabling Legislation". The government-wide statement of net position reports \$41,903,074, of which \$19,680,489 is restricted by enabling legislation.

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

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. PROGRAM REVENUES

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

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

NOTE 3: CASH

A. Pledged Collateral

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

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

On June 30, 2014, the Corrections Department had one bank account with a balance above \$250,000:

	Wells Fargo Bank
Total Amount on Deposit	\$ 2,496,295
Less: Amount covered by FDIC	(250,000)
Total Uninsured Funds	<u>2,246,295</u>
Amount requiring collateral (50%) *	<u>\$ 1,123,148</u>

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

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



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NOTE 3: Cash (continued)

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

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

<u>SHARE System Fund No.</u>	<u>Type of Account</u>	<u>Interest Bearing</u>	<u>Bank/DFA Statement Balance at 06/30/14</u>	<u>Reconciled Book Balance at 06/30/14</u>
90700	State Treasury	No	\$ 30,191,847	\$ 30,191,847
89800	State Treasury	No	150,602	150,602
91500	State Treasury	No	8,409,735	8,409,735
N/A	Petty Cash	No	2,075	2,075
			<u>38,754,259</u>	<u>38,754,259</u>
90200	State Treasury	No	2,301,866	2,301,866
			<u>2,301,866</u>	<u>2,301,866</u>
07700	State Treasury	Yes	3,719,613	3,719,613
N/A	Petty Cash	No	2,250	2,250
			<u>3,721,863</u>	<u>3,721,863</u>
55700	Checking	No	2,496,295	2,520,732
			<u>2,496,295</u>	<u>2,520,732</u>

NOTE 4: CAPITAL ASSETS

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

	Beginning Balance 07/01/13	Additions	Deletions	Ending Balance 06/30/14
Governmental-type Activities:				
Buildings and Improvements	\$ 32,649,639	\$ 1,614,479	\$ -	\$ 34,264,118
Improvements other than Buildings	3,615,142	102,789	-	3,717,931
Machinery and Equipment	24,252,395	1,026,410	(533,967)	24,744,838
Automotive	2,706,793	-	-	2,706,793
Total Capital Assets at Historical Cost	63,223,969	2,743,678	(533,967)	65,433,680
Less: Accumulated Depreciation				
Buildings and Improvements	14,329,873	1,190,734	-	15,520,607
Improvements other than Buildings	1,009,602	163,355	-	1,172,957
Machinery and Equipment	16,737,954	1,672,617	(491,207)	17,919,364
Automotive	2,333,970	90,362	-	2,424,332
Total Accumulated Depreciation	34,411,399	3,117,068	(491,207)	37,037,260
Governmental Activities Capital Assets, Net	\$ 28,812,570	\$ (373,390)	\$ (42,760)	\$ 28,396,420
Business-type Activities:				
Buildings and Improvements	\$ 1,003,511	\$ -	\$ -	\$ 1,003,511
Machinery and Equipment	2,064,898	58,041	-	2,122,939
Automotive	671,467	151,405	(2,000)	820,872
Total Capital Assets at Historical Cost	3,739,876	209,446	(2,000)	3,947,322
Less: Accumulated Depreciation				
Machinery and Equipment	1,998,503	17,942	-	2,016,445
Buildings and Improvements	902,552	7,778	-	910,330
Automotive	617,685	19,669	(2,000)	635,354
Total Accumulated Depreciation	3,518,740	45,389	(2,000)	3,562,129
Enterprise Fund Capital Assets, Net	\$ 221,136	\$ 164,057	\$ -	\$ 385,193

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

Depreciation expense for the current year is \$3,117,068 and \$45,389 for the governmental and enterprise funds, respectively. On the Statement of Activities, these amounts are included in the Public Safety-Corrections and Corrections Industries categories, accordingly.

NOTE 5: RETIREMENT PLANS (STATE PERA & ERB)

PERA Plan Description

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

Funding Policy

PERA plan members are required to contribute 8.92% of their gross salary for non-custody employees and 7.6% of their gross salary for custody employees. The Corrections Department is required to contribute 16.99% of the gross salary for non-custody employees and 25.5% of the gross salary for custody employees. The contribution requirements of plan members and the Corrections Department is established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Corrections Department contributions to PERA for the years ending June 30, 2014, 2013, and 2012 were \$14,457,292, \$12,815,568, and \$11,618,800, respectively, which equal the amount of the required contributions for each year.

ERB Plan Description

Some of the Corrections Department full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers and some state agency employees) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, New Mexico, 87502. The report is also available on ERB's website at www.nmerb.org.

ERB Funding Policy

Member Contributions

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

Employer Contributions

In fiscal year 2014, the Corrections Department was required to contribute 13.15% of the gross covered salary in fiscal year 2014. In fiscal year 2015, the Corrections Department will contribute 13.9% of gross covered salary.

The contribution requirements of plan members and the Corrections Department are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Corrections Department's contributions to ERB for the fiscal years ending June 30, 2014, 2013, and 2012, were \$444,452, \$663,189, and \$723,567, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 6: RETIREE HEALTH CARE

RHCA Plan Description

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

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

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

Funding Policy

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

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

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

The Corrections Department contributions to the RHCA for the years ended June 30, 2014, 2013, and 2012 were \$1,625,907, \$1,581,406, and \$1,473,569, respectively, which equal the required contributions for each year.

NOTE 7: FUNDS HELD IN TRUST BY OTHERS

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

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

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

At June 30, 2014 the value of the Department's interest in the State Permanent Fund was \$278,721,169 at market. Income from the trust for the year then ended was \$10,599,975.

The value of the Department's interest in the State Charitable, Penal and Reformatory Institutions Fund was 1/7th of the fair market value, which was \$119,157,456 at June 30, 2014. Income from the trust for the year then ended was \$651,957.

NOTE 8: CONCENTRATIONS AND INTERFUND TRANSACTIONS

Inmates at various institutions are required to work for the institutions or provide direct labor in the Corrections Industries work programs reflected on pages 72 & 73. These inmates are compensated at nominal rates, and their earnings are paid to the credit of the inmate trust accounts reported in the Agency Fund. During fiscal year ended June 30, 2014 the Enterprise Fund incurred \$202,127 in inmate wages expense.

The inmates make purchases from the facility canteen (commissaries), which result in Other State Funds revenues to the General Fund. During the fiscal year ended June 30, 2014 the General Fund recorded \$1,492,902 in such revenues. The facility canteen program was transferred to the Enterprise fund at the end of January 2014. No transfer of revenue from one fund to the other fund was necessary. The General Fund recorded this revenue as concession merchandise through January 31, 2014. For the period from February 1, 2014 through June 30, 2014, the Enterprise Fund recorded \$1,198,881 recorded this revenue as sales.

NOTE 9: OPERATING LEASES

LESSEE:

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

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

Year Ended June 30,	
2015	\$ 3,263,206
2016	2,317,877
2017	2,187,532
2018	2,000,999
2019	1,518,866
2020-24	2,099,002
Total Minimum Lease Payments	<u>\$ 13,387,482</u>

During the year ended June 30, 2014, general fund operating lease expenditures for facilities, vehicles, and equipment totaled \$3,451,212.

LESSOR:

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

Year Ended June 30,	
2015	\$ 2,404
2016	-
2017	-
Total Minimum Lease Payments	<u>\$ 2,404</u>

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

Year Ended June 30,	
2015	\$ 185,000
2016	185,000
2017	185,000
2018	138,750
2019	-
2019-2024	-
Total Minimum Lease Payments	<u>\$ 693,750</u>

NOTE 10: CHANGES IN SHORT-TERM LIABILITIES

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

	Balance Beginning	Increase	(Decrease)	Balance Ending*
Compensated Absences:				
Annual Leave	\$ 3,597,151	\$ 3,755,443	\$ (3,723,541)	\$ 3,629,053
Compensatory Leave	470,085	2,258,408	(2,197,561)	530,932
Sick Leave	77,191	3,090,859	(3,095,146)	72,904
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Short-Term Liabilities	<u>\$ 4,144,427</u>	<u>\$ 9,104,710</u>	<u>\$ (9,016,248)</u>	<u>\$ 4,232,889</u>

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

	Balance Beginning	Increase	(Decrease)	Balance Ending*
Compensated Absences:				
Annual Leave	\$ 44,749	\$ 32,452	\$ (24,362)	\$ 52,839
Compensatory Leave	532	17,935	(15,872)	2,595
Sick Leave	233	32,340	(31,889)	684
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Short-Term Liabilities	<u>\$ 45,514</u>	<u>\$ 82,727</u>	<u>\$ (72,123)</u>	<u>\$ 56,118</u>

*The estimated amount expected to be paid for Compensated Absences within one year is \$4,232,889 which is listed on the Statement of Net Position on page 11. The General Operating Funds typically have been used to liquidate short-term liabilities like capital leases and compensated absences. The General Operating Funds used are SHARE funds 89800, 90200, 90700, and 91500. The estimated balance of \$56,118 for the business-type activities is expected to be paid for within one year.

NOTE 11: CONTINGENT LIABILITIES (CLAIMS & JUDGMENTS)

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

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

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

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

NOTE 12: OTHER FINANCING SOURCES AND OPERATING TRANSFERS

Transfer In/Out:

During the fiscal year, the Department received and transferred funds that were recorded as "Other Financing Sources/Uses". These amounts include (1) \$269,650,000 of State General Fund Appropriations. (2) \$3,256,374 was received from DFA Financial Control Division for costs related to the Union Settlement - \$2,229,250, the agency's compensation package - \$783,400 and \$243,724 was received from the General Services Department for costs related to legal staff defending the Department in Pro Se cases. (3) The Department transferred to the State General Fund as part of its reversions \$9,355 (additional information regarding this amount can be found in Note 2-11 starting on page 35). The following is a breakdown of these transactions by fund:

	SHARE Agency / Fund	Transfer In	Transfer Out
State General Fund Appropriations			
(1) SHARE System Fund 90200	34101-85300	\$ 3,169,800	\$ -
(1) SHARE System Fund 90700	34101-85300	239,238,700	-
(1) SHARE System Fund 91500	34101-85300	27,241,500	-
Total State General Fund Appropriations		\$ 269,650,000	\$ -
Other Financing Sources			
(2) SHARE System Fund 90700	34100-85300	2,229,250	\$ -
(2) SHARE System Fund 90700	34100-62000	626,700	-
(2) SHARE System Fund 90700	35000-35703	243,724	-
(2) SHARE System Fund 91500	34100-62000	156,700	-
Total Operating Transfers - General Fund Appropriations		\$ 3,256,374	\$ -
State General Fund Reversions			
(3) SHARE System Fund 90700	34100-85300	-	\$ 9,355
(3) SHARE System Fund 91500	34100-85300	-	-
Total State General Fund Appropriation/Reversions		\$ -	\$ 9,355

NOTE 13: NEW ACCOUNTING STANDARDS

In fiscal year 2014, the Department adopted a new accounting standard GASB Statement No. 65, Items previously Reported as Assets and Liabilities ("GASB 65"), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources. The implementation of GASB 65 is not expected to have a significant impact on the Department's financial statements.

NOTE 14: FUND BALANCE

Government Fund Balances - Restricted and Committed

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

The following is a summary of the Restricted Fund Balance amounts by fund type at June 30, 2014:

Governmental Funds	
General Operating Fund (90700)	\$ 7,297,844
Probation and Parole Fund (91500)	5,385,862
Community Corrections Special Revenue Fund (90200)	2,254,961
Building Fund (89800)	<u>150,602</u>
	<u>\$ 15,089,270</u>

The Community Corrections Special Revenue Fund statutorily does not revert to the State General Fund. The Department has requested to use \$612,700 in its fiscal year 2015 budget request and \$612,700 in its fiscal year 2016 budget request, thereby reducing the amount of the appropriation request.

The Department has a portion of fund balance in the amount of \$4,537,542 that is Non-spendable. This amount includes prepaid expenses, inventories, and petty cash. The Department also has a portion of fund balance in the amount of \$(6,863,679) listed as Unassigned Fund Balance in the Governmental Funds.

NOTE 15: JPA AND MOU DISCLOSURE

The Department was a party to the following Joint Power Agreements (JPA) and Memorandums of Understanding (MOU) during fiscal year 2014:

NM Tort Claims Act - JPA #13-001J Between NMCD and General Services Department, Risk Management Division (GSD/RMD) to provide legal representation of NMCD employees pursuant to the NM Tort Claims Act (Pro Se Cases). Yearly allotment made to NMCD Office of General Counsel.

- Responsible Party for Operations: GSD
- Time Period: July 1, 2012 to June 30, 2016
- Total Estimated Amount of Project - \$243,724.00
- Portion Applicable to NMCD: Income
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: GSD

Inmate Work Crews for City of Grants - JPA #09-006J between NMCD and the City of Grants to provide inmate work crews for maintenance, beautification and enhancement at various locations in the City of Grants, NM.

- Responsible Party for Operations: City of Grants
- Time Period: December 5, 2008 to Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: City of Grants

Inmate Labor – JPA # J00799 between NMCD and the NM Department of Transportation (NMDOT) to provide inmate labor for highway maintenance and beautification. Officer and inmate wages are reimbursed by NMDOT.

- Responsible Party for Operations: NMDOT
- Time Period: July 18, 2011 to June 30, 2014
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: \$105,635.52
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMDOT
- Revenue: \$254,240.84

Inmate Labor – JPA #14-521-0400-0143 between NMCD and the NM Energy, Minerals and Natural Resources Department (EMNRD) To provide inmate forestry work camp that will provide training and labor for fire suppression.

- Responsible Party for Operations: EMNRD
- Time Period: June 19, 2014 to Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: EMNRD

NOTE 15: JPA and MOU Disclosure (Continued)

Inmate Labor – JPA #02-521-05-012 between NMCD and the NM Energy, Minerals and Natural Resources Department (EMNRD) To provide inmate labor to maintain NM State Parks.

- Responsible Party for Operations: EMNRD
- Time Period: July 20, 2001 to Indefinite
- Total Estimated Amount of Project: \$149,000.00
- Portion Applicable to NMCD: \$14,442.09
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: EMNRD
- Revenue: \$47,201.53

Inmate Labor – JPA #02-04J between NMCD and the Santa Fe Solid Waste Management Agency (SFSWMA) To provide inmate labor to perform minor maintenance, beautification and litter control of the Caja Del Rio Landfill property and other properties as directed by the agency.

- Responsible Party for Operations: SFSWMA
- Time Period: September 1, 2001 to Indefinite
- Total Estimated Amount of Project: \$90,000.00
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: SFSWMA

Inmate Labor – JPA #99-7J between NMCD and the City of Las Cruces To provide inmate labor to perform minor maintenance, beautification and litter control of public areas and other properties as directed by the agency.

- Responsible Party for Operations: City of Las Cruces
- Time Period: July 28, 1998 to Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: City of Las Cruces
- Revenue: \$247,091.34

Inmate Labor- JPA #10-001J between NMCD and the City of Santa Fe to provide inmate labor.

- Responsible Party for Operations: City of Santa Fe
- Time Period: July 21, 2009- Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: City of Santa Fe

NOTE 15: JPA and MOU Disclosure (Continued)

Behavioral Health Services- JPA#1-7/96 between NMCD and the NM Department of Health to provide behavioral health services.

- Responsible Party for Operations: NMCD
- Time Period: September 21, 2000- Indefinite
- Total Estimated Amount of Project: As Needed
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

Use of Old Main - JPA between NMCD and the Department of Military Affairs for operation and use of PNM Old Main.

- Responsible Party for Operations: NMCD
- Time Period: September 15, 2010- Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

Filming at Old Main - JPA between NMCD and the Facilities Management Division of the General Services Department and the Film Division of the NM Economic Development Department in order to make use of the old Penitentiary of New Mexico (Old Main) by the motion picture industry for economic development.

- Responsible Party for Operations: NMCD
- Time Period: July 22, 2013- Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

Legal Representation – MOU between NMCD and the NM Attorney General's Office for legal representation of NMCD and its employees in federal and habeas corpus proceedings.

- Responsible Party for Operations: NMCD
- Time Period: July 1, 2008 - Indefinite
- Total Estimated Amount of Project: \$25,000.00+
- Portion Applicable to NMCD: \$25,000.00+
- Amount Agency Contributed in Fiscal Year 2014: \$4,057.54
- Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Inmate Tracking – MOU between NMCD and the NM Human Services Department (HSD) for the tracking of all inmates and parolees named as non-custodial parents in HSD Child Support Enforcement Cases.

- Responsible Party for Operations: HSD/NMCD
- Time Period: June 4, 2003 - Indefinite
- Total Estimated Amount of Project: -0-
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: HSD/NMCD

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

- Responsible Party for Operations: NMCD/INL
- Time Period: February 3, 2012– January 31, 2015
- Total Estimated Amount of Project: Actual Cost/Reimbursement
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD/INL
- Revenue: \$204,413.30

Reimbursement of Actuals – MOU between NMCD and Federal Bureau of Investigation (FBI) (Organized Crime Drug Enforcement Task Forces) for State and Local Overtime and Authorized Expense Agreement.

- Responsible Party for Operations: NMCD/FBI
- Time Period: October 21, 2012 – September 30, 2013
- Total Estimated Amount of Project: \$ Actual Cost/Reimbursement
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD/FBI
- Revenue: \$2,153.45

Collective Bargaining Negotiations – MOU between NMCD and the State Personnel Office for the representation during collective bargaining negotiations.

- Responsible Party for Operations: NMCD
- Time Period: May 4, 2005 - Indefinite
- Total Estimated Amount of Project: \$11,067.78
- Portion Applicable to NMCD: \$11,067.78
- Amount Agency Contributed in Fiscal Year 2014: \$11,067.78
- Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

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

- Responsible Party for Operations: NMDMA
- Time Period: April 25, 2005 - Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMDMA

Hepatitis C Medication and Pharmaceutical Consulting – MOU between NMCD, and Department of Health to provide Hepatitis C medication and consulting to NMCD inmates with HCV Disease.

- Responsible Party for Operations: NMCD
- Time Period: June 21, 2007 - Indefinite
- Total Estimated Amount of Project: Actual Costs
- Portion Applicable to NMCD: Actual Costs
- Amount Agency Contributed in Fiscal Year 2014: \$
- Audit Responsibility: NMCD

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

- Responsible Party for Operations: NMCD/FBI
- Time Period: January 8, 2004 – Indefinite
- Total Estimated Amount of Project: Income
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: FBI

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

- Responsible Party for Operations: NMCD
- Time Period: September 26, 2011 – Indefinite
- Total Estimated Amount of Project: \$22,000.00
- Portion Applicable to NMCD: \$22,000.00
- Amount Agency Contributed in Fiscal Year 2014: \$15,928.25
- Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

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

- Responsible Party for Operations: NMCD
- Time Period: Indefinite
- Total Estimated Amount of Project: Actual Cost/Reimbursement
- Portion Applicable to NMCD: Actual Cost/Reimbursement
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD/US Marshal's Service

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

- Responsible Party for Operations: NMCD/FBI
- Time Period: April 8, 2009 – Duration of SSTF Operations
- Total Estimated Amount of Project: Actual Costs/Reimbursement
- Portion Applicable to NMCD: Actual Costs/Reimbursement
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD/FBI

2014 Financial Audit – MOU between NMCD and the Office of the State Auditor (OSA) to conduct the Fiscal Year 2013 Financial Audit.

- Responsible Party for Operations: NMCD/OSA
- Time Period: June 1, 2012 – December 15, 2013
- Total Estimated Amount of Project: \$115,000.00
- Portion Applicable to NMCD: Actual Costs
- Amount Agency Contributed in Fiscal Year 2014: \$103,020.00
- Audit Responsibility: NMCD/OSA

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

- Responsible Party for Operations: Amity Foundation
- Time Period: October 20, 2011 – September 30, 2014
- Total Estimated Amount of Project: -0-
- Portion Applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

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

- Responsible Party for Operations: NMCD
- Time Period: June 14, 2013 – Indefinite
- Total Estimated Amount of Project: -0-
- Portion Applicable to NMCD:
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

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

- Responsible Party for Operations: NMCD
- Time Period: December 1, 2012-July 30, 2015
- Total Estimated Amount of Project: -0-
- Portion Applicable to NMCD:
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

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

- Responsible Party for Operations: NMCD
- Time Period: March 28, 2013-September 30, 2015
- Total Estimated Amount of Project: -0-
- Portion Applicable to NMCD:
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

Wheelchair Restoration – MOU between NMCD and Joni and Friends (JAF) for the restoration of wheelchairs to be distributed through JAF's *Wheels for the World* program beyond U.S. boundaries.

- Responsible Party for Operations: NMCD
- Time Period: December 4, 2013-Indefinite
- Total Estimated Amount of Project: -0-
- Portion Applicable to NMCD:
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Legal Services-Cooperative Funding- MOU between NMCD and the Office of the Governor et al for cooperative funding and legal services in connection to the pending lawsuit titled State of New Mexico v. American Federation of State, County and Municipal Employees Council 18, AFL-CIO, CLC and Communication Workers of America, AFL-CIO, New Mexico Supreme Court, Docket Number 33,792.

- Responsible Party for Operations: NM State Personnel
- Time Period: February 18, 2013-Indefinite
- Total Estimated Amount of Project: \$7,684.90
- Portion Applicable to NMCD:
- Amount Agency Contributed in Fiscal Year 2014: \$7,684.90
- Audit Responsibility: NMCD

Legal Services-Cooperative Funding - MOU between NMCD and the Office of the Governor et al for cooperative funding and legal services in connection to State of New Mexico, Movant v. American Federation of State, County and Municipal Employees Council 18, AFL-CIO, CLC and Communication Workers of America, AFL-CIO, CLC, Respondent, D-202-CV-2009-09756 (Consolidated).

- Responsible Party for Operations: NM State Personnel
- Time Period: September 16, 2013-Indefinite
- Total Estimated Amount of Project: \$4,673.76
- Portion Applicable to NMCD: \$4,673.76
- Amount Agency Contributed in Fiscal Year 2014: \$2,269.76
- Audit Responsibility: NMCD

Legal Services-Cooperative Funding - MOU between NMCD and the Office of the Governor et al for cooperative funding of implementation costs/fees and attorneys' fee award plus gross receipts tax, in connection with State of New Mexico vs. American Federation of State, County and Municipal Employees, Council 18, AFL-CIO, CLC and Communications Workers of America, AFL-CIO, CLC, D-202-CV-2009-09756 (Consolidated), and underlying arbitration awards.

- Responsible Party for Operations: NM State Personnel
- Time Period: March 27, 2014-Indefinite
- Total Estimated Amount of Project: \$1,693,625.00
- Portion Applicable to NMCD: \$255,882.76
- Amount Agency Contributed in Fiscal Year 2014: \$255,882.76
- Audit Responsibility: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

Region III Drug Task Force MOU between NMCD and the Region III Drug Task Force for cooperation between several law enforcement agencies for drug interdiction and intelligence.

- Responsible Party for Operations: NMCD Et Al
- Time Period: July 1, 2013 – Indefinite
- Total Estimated Amount of Project:
- Portion Applicable to NMCD: Actual Costs for Travel
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD Et Al

Transport of State Inmates MOU between NMCD and the County of Bernalillo to resolve disputes between the parties and set forth the parties' resolution regarding the placement and removal of technical parole violators from the Metropolitan Detention Center (MDC).

- Responsible Party for Operations: NMCD/MCD
- Time Period: March 6, 2008 – Indefinite
- Total Estimated Amount of Project:
- Portion Applicable to NMCD: Actual Costs for Travel
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD/MDC

Litter Control MOU between NMCD and the New Mexico Transportation Department (NMDOT) to provide inmates to perform minor maintenance and beautification on highways.

- Responsible Party for Operations: NMCD/NMDOT
- Time Period: June 26, 2014 – June 30, 2018
- Total Estimated Amount of Project:
- Portion Applicable to NMCD: Actual Costs for Travel
- Amount Agency Contributed in Fiscal Year 2014: -0-
- Audit Responsibility: NMCD/MDC

NOTE 16: SHARE CASH BALANCES

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

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

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

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

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

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

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

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

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

NOTE 17: SUBSEQUENT PRONOUNCEMENTS

In June 2012, GASB Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The Department will implement this standard during the fiscal year June 30, 2015 and will significantly impact the Department. The fiscal year 2015 financial statements will include a material liability for pension participation in PERA.

In January 2013, GASB Statement No. 69 Government Combinations and Disposals of Government Operations, Effective Date: The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively. The Department is still evaluating how this standard will affect the Department.

In November 2013, GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68, Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2014. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The standard will be implemented during fiscal year June 30, 2015.

NOTE 18: EXCESS OF EXPENDITURES OVER BUDGETED APPROPRIATIONS

During fiscal year 2014 the Department overexpended its final budgeted expenditures in the following programs and funds:

Program Code/Fund Number	Program Description	Final Budgeted Expenditures	Actual Expenditures	Overage
P531	Inmate Management and Control	244,986,471	248,850,061	(3,863,589)
P534	Community Offender Management	28,332,423	29,313,342	(980,919)
90700	General operating fund	266,325,876	268,110,483	(1,784,607)
89800; 90700; 91500	General fund	294,658,299	297,423,825	(2,765,526)

These overages were caused by unexpected expenditures related to a union settlement and increased prison populations.

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL BY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

**GENERAL OPERATING FUND
SHARE FUND 90700**

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amounts Modified Accrual Basis	Favorable (Unfavorable)
REVENUES				
State General Fund	\$ 239,238,700	\$ 239,238,700	\$ 239,238,700	\$ -
Other State Funds	15,519,800	14,914,622	16,459,098	1,544,476
Inter-Agency Transfers	876,500	3,748,750	3,099,674	(649,076)
Federal Funds	404,300	1,237,544	720,702	(516,842)
Total Revenues	<u>\$ 256,039,300</u>	<u>259,139,616</u>	<u>259,518,174</u>	<u>378,558</u>
Budgeted Fund Balance	<u>-</u>	<u>6,112,760</u>	<u>-</u>	<u>(6,112,760)</u>
Total Budgeted Revenues	<u><u>\$ 256,039,300</u></u>	<u><u>\$ 265,252,376</u></u>	<u><u>\$ 259,518,174</u></u>	<u><u>\$ (5,734,202)</u></u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 111,189,100	\$ 109,207,483	\$ 113,941,760	\$ (4,734,277)
Contractual Services	45,499,800	45,035,355	44,631,453	403,902
Other	99,350,400	112,083,038	109,537,270	2,545,769
Total Budgeted Expenditures	<u><u>\$ 256,039,300</u></u>	<u><u>\$ 266,325,876</u></u>	<u><u>\$ 268,110,483</u></u>	<u><u>\$ (1,784,607)</u></u>

* \$6,112,760 was budgeted fund balance.

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL BY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

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

	<u>Budgeted Amounts</u>		Actual	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	Amounts Modified Accrual Basis	
REVENUES				
State General Fund	\$ 27,241,500	\$ 27,241,500	\$ 27,241,500	\$ -
Other State Funds	2,000,000	2,000,000	2,124,475	124,475
Inter-Agency Transfers	156,700	156,700	156,700	-
Miscellaneous Revenue	-	-	-	-
Federal Funds	-	4,874	4,874	-
Total Budgeted Revenues	<u>\$ 29,398,200</u>	<u>\$ 29,403,074</u>	<u>\$ 29,527,549</u>	<u>\$ 124,475</u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 18,912,100	\$ 18,164,638	\$ 19,171,908	\$ (1,007,270)
Contractual Services	54,700	125,809	113,752	12,057
Other	10,431,400	10,041,976	10,027,682	14,294
Total Budgeted Expenditures	<u>\$ 29,398,200</u>	<u>\$ 28,332,423</u>	<u>\$ 29,313,342</u>	<u>\$ (980,919)</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
COMBINING BALANCE SHEET GENERAL FUND TYPES
AS OF JUNE 30, 2014**

ASSETS	Building Fund SHARE System Fund 89800	General Operating Fund SHARE System Fund 90700	Probation & Parole Fund SHARE System Fund 91500	Total *
Investments	\$ 150,602	\$ 30,191,847	\$ 8,409,736	\$ 38,752,185
Petty Cash	-	2,075	-	2,075
Receivables net of allowance for doubtful accounts	-	22,580	-	22,580
Federal Grants Receivable	-	82,205	-	82,205
Other Receivables	-	13,488	-	13,488
Due from Other State Agencies	-	3,210,064	-	3,210,064
Due from State General Fund	-	-	-	-
Inventories	-	4,338,159	100,536	4,438,695
Prepaid Items	-	89,183	7,589	96,772
Total Assets	\$ 150,602	\$ 37,949,601	\$ 8,517,861	\$ 46,618,064
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ -	\$ 5,301,575	\$ 1,030,862	\$ 6,332,436
Vouchers Payable	-	25,101,227	1,586,414	26,687,640
Warrants Payable - Clearing	-	-	-	-
Payroll Benefits Payable	-	1,219,156	(61,030)	1,158,126
Payroll Taxes Payable	-	101,941	241,635	343,575
Accrued Wages Payable	-	1,346,924	202,332	1,549,256
Compensated Absences Payable	-	-	-	-
Due to Other Funds	-	-	-	-
Due to State General Fund	-	9,355	-	9,355
State Dated Warrants - Due to SGF	-	1,534	-	1,534
Receipts Held in Suspense	-	-	170	170
Due to Other State Agencies	-	-	16,822	16,822
Other Liabilities	-	4,308	6,671	10,979
Total Liabilities	-	33,086,019	3,023,874	36,109,893
Fund Balances:				
Restricted for:				
Nonspendable	-	4,429,417	108,125	4,537,542
Restricted	150,602	7,297,844	5,385,862	12,834,308
Committed	-	-	-	-
Unassigned	-	(6,863,679)	-	(6,863,679)
Total Fund Balance	150,602	4,863,582	5,493,987	10,508,171
Total Liabilities and Fund Balance	\$ 150,602	\$ 37,949,601	\$ 8,517,861	\$ 46,618,064

NEW MEXICO CORRECTIONS DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND TYPES
FOR THE FISCAL YEAR ENDING JUNE 30, 2014

	Building Fund SHARE System Fund 89800	General Operating Fund SHARE System Fund 90700	Probation & Parole Fund SHARE System Fund 91500	Total *
Revenues				
Other State Funds	\$ -	\$ 16,459,097	\$ 2,124,475	\$ 18,583,572
Federal Grants	-	720,702	4,874	725,576
Total Revenues	-	17,179,799	2,129,349	19,309,148
Expenditures, Current				
Personal Services & Employee Benefits	-	113,941,759	19,171,908	133,113,668
Contractual Services	-	44,631,453	113,752	44,745,205
Other	-	106,851,270	9,970,004	116,821,273
Expenditures, Capital Outlay	-	2,686,000	57,678	2,743,678
Total Expenditures	-	268,110,482	29,313,342	297,423,824
 Excess (deficiency) Revenues over Expenditures	 -	 (250,930,683)	 (27,183,993)	 (278,114,676)
Other Financing Sources (uses)				
General Fund Appropriation	-	239,238,700	27,241,500	266,480,200
Operating Transfers-In	-	3,099,674	156,700	3,256,374
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	(9,355)	-	(9,355)
Net Other Financing Sources (uses)	-	242,329,019	27,398,200	269,727,219
 Excess Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses	 -	 (8,601,664)	 214,207	 (8,387,457)
 Fund Balance, Beginning of Year	 150,602	 13,465,245	 5,279,779	 18,895,626
 Prior Period Adjustment	 -	 -	 -	 -
 Fund Balance, Beginning of Year	 150,602	 13,465,245	 5,279,779	 18,895,626
 Fund Balance, End of Year	 \$ 150,602	 \$ 4,863,581	 \$ 5,493,986	 \$ 10,508,169

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

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

PROGRAM SUPPORT – P530

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>Modified Accrual Basis</u>	<u>(Unfavorable)</u>
REVENUES				
State General Fund	\$ 13,201,400	\$ 13,431,400	\$ 13,431,400	\$ -
Other State Funds	729,300	318,720	395,533	76,813
Inter-Agency Transfers	343,800	343,800	337,724	(6,076)
Federal Funds	-	-	-	-
Total Budgeted Revenues	<u>\$ 14,274,500</u>	<u>\$ 14,093,920</u>	<u>\$ 14,164,657</u>	<u>\$ 70,737</u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 10,561,600	\$ 9,743,002	\$ 9,775,132	\$ (32,130)
Contractual Services	1,084,700	769,181	715,974	53,207
Other	2,628,200	2,581,737	2,583,283	(1,546)
Total Budgeted Expenditures	<u>\$ 14,274,500</u>	<u>\$ 13,093,920</u>	<u>\$ 13,074,389</u>	<u>\$ 19,531</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

INMATE MANAGEMENT and CONTROL – P531

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final	Modified Accrual Basis	
REVENUES				
State General Fund	\$ 226,037,300	\$ 225,807,300	\$ 225,807,300	\$ -
Other State Funds	14,790,500	14,595,902	16,063,565	1,467,663
Inter-Agency Transfers	532,700	532,700	532,700	-
Federal Funds	404,300	1,237,544	720,702	(516,842)
Total Revenues	241,764,800	242,173,446	243,124,267	950,821
Budgeted Fund Balance	-	739,525	-	(739,525)
Total Budgeted Revenues	\$ 241,764,800	\$ 242,912,971	\$ 243,124,267	\$ 211,296
EXPENDITURES				
Personal Services & Employee Benefits	\$ 100,627,500	\$ 97,235,231	\$ 101,937,378	\$ (4,702,147)
Contractual Services	44,415,100	43,512,710	43,344,702	168,008
Other	96,722,200	104,238,530	103,567,981	670,549
Total Budgeted Expenditures	\$ 241,764,800	\$ 244,986,471	\$ 248,850,061	\$ (3,863,589)

* \$739,525 was budgeted fund balance

NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2014

SPECIAL APPROPRIATIONS – Fund 90700

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
State General Fund	\$ -	\$ -	\$ -	\$ -
Other State Funds	-	-	-	-
Inter-Agency Transfers	-	2,872,250	2,229,250	(643,000)
Federal Funds	-	-	-	-
Total Revenues	-	2,872,250	2,229,250	(643,000)
Budgeted Fund Balance	-	5,373,235	-	(5,373,235)
Total Budgeted Revenues	\$ -	\$ 8,245,485	\$ 2,229,250	\$ (6,016,235)
EXPENDITURES				
Personal Services & Employee Benefits	\$ -	\$ 2,229,250	\$ 2,229,250	\$ -
Contractual Services	-	753,464	\$ 570,778	182,686
Other	-	5,262,771	\$ 3,386,006	1,876,766
Total Budgeted Expenditures	\$ -	\$ 8,245,485	\$ 6,186,033	\$ 2,059,452
FY 14 Reversions	-	-	9,355	(9,355)
Total Expenditures - Special Appr.	-	8,245,485	6,195,388	2,050,097

* \$5,373,235 was budgeted fund balance

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

COMMUNITY OFFENDER MANAGEMENT – P534

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final	Modified Accrual Basis	
REVENUES				
State General Fund	\$ 27,241,500	\$ 27,241,500	\$ 27,241,500	\$ -
Other State Funds	2,000,000	2,000,000	2,124,475	124,475
Inter-Agency Transfers	156,700	156,700	156,700	-
Miscellaneous Revenue	-	-	-	-
Federal Funds	-	4,874	4,874	-
Total Budgeted Revenues	\$ 29,398,200	\$ 29,403,074	\$ 29,527,549	\$ 124,475
EXPENDITURES				
Personal Services & Employee Benefits	\$ 18,912,100	\$ 18,164,638	\$ 19,171,908	\$ (1,007,270)
Contractual Services	54,700	125,809	113,752	12,057
Other	10,431,400	10,041,976	10,027,682	14,294
Total Budgeted Expenditures	\$ 29,398,200	\$ 28,332,423	\$ 29,313,342	\$ (980,919)

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

COMMUNITY CORRECTIONS – VENDOR OPERATED – P534

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
State General Fund	\$ 3,169,800	\$ 3,169,800	\$ 3,169,800	\$ -
Other State Funds	37,800	37,800	740,559	702,759
Inter-Agency Transfers	-	-	-	-
Federal Funds	-	-	-	-
Total Revenues	3,207,600	3,207,600	3,910,359	702,759
Budgeted Fund Bal.	612,700	1,312,700	-	(1,312,700) *
Total Budgeted Revenues	\$ 3,820,300	\$ 4,520,300	\$ 3,910,359	\$ (609,941)
EXPENDITURES				
Personal Services & Employee Benefits	\$ 882,900	\$ 882,900	\$ 535,266	\$ 347,634
Contractual Services	5,500	2,651	-	2,651
Other	2,931,900	3,631,900	3,594,323	37,577
Total Budgeted Expenditures	\$ 3,820,300	\$ 4,517,451	\$ 4,129,588	\$ 387,863

* \$1,312,700 was budgeted fund balance

**NEW MEXICO CORRECTIONS DEPARTMENT
RECONCILIATION - BUDGETARY SCHEDULES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

The department has prepared budgetary schedules in the current year by program code. A reconciliation of the budgetary schedules to the financial statements has been prepared below.

	<u>Revenue</u>	<u>Expenses</u>	<u>Net Change in Fund Balance</u>
Net Changes in fund balance per statement of revenues, expenditures and changes in fund balance			
General Fund (90700 & 91500)	289,045,722	297,629,752	(8,584,030)
Special Revenue (90200)	3,910,359	4,129,588	(219,229)
TOTAL	<u>292,956,081</u>	<u>301,759,340</u>	<u>(8,803,259)</u>
 Net Changes in Fund Balance per Budget Schedules			
General Appropriations:			
Program Support (P530)	14,164,657	13,074,389	1,090,268
Inmate Management and Control (P531)	243,124,267	249,046,633	(5,922,366)
Special Appropriations (Z Codes)	2,229,250	6,195,388	(3,966,138)
Probation and Parole (P534)	29,527,549	29,313,342	214,207
Community Corrections (P534)	3,910,359	4,129,588	(219,229)
TOTAL	<u>292,956,082</u>	<u>301,759,340</u>	<u>(8,803,258)</u>



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**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF SPECIAL APPROPRIATIONS
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

<u>Description</u>	<u>Authority</u>	<u>Appropriation Period</u>	<u>SHARE Fund</u>	<u>Total Appropriations</u>	<u>Prior Year Expenditures</u>
To upgrade & migrate six modules of the criminal mangement information system into a web-based system.	Laws of 2012, Ch. 19, Sect. 7, Item 18	2012-2014	90700	\$ 643,000	-
Unexpended balance from FY 13 from revenue received by the NMCD from the USDOJ shall remain with the Department	Laws of 2013, Ch 227, Sect. 5, Item 60	2013-2014	90700	\$ 1,373,235	-
To Repair & Replace prioritized repair projects	Laws of 2013, Ch 227, Sect. 5, Item 61	2013-2014	90700	\$ 2,000,000	-
For deferred maintenance at corrections facilities statewide	Laws of 2014, Ch 63, Sect 5, Item 67	2014-2015	90700	\$ 2,000,000	-
For back pay to eligible employees as required by the arbitration awards in the State of NM, Movant v. AFSCME	Laws of 2014, Ch 63, Sect 5, Item 24	2014-2015	90700	\$ 2,229,250	-
				<u>\$ 8,245,485</u>	<u>\$ -</u>

NEW MEXICO CORRECTIONS DEPARTMENT
 SCHEDULE OF SPECIAL APPROPRIATIONS
 FOR THE FISCAL YEAR ENDING JUNE 30, 2014

<u>Current Year Expenditures</u>	<u>Prior Year Reversion Amount</u>	<u>Current Year Reversion Amount</u>	<u>Reserved Fund Balance</u>	<u>Outstanding Encumbrances</u>	<u>Unencumbered Balance</u>
633,645	-	9,355	-	-	-
1,200,351	-	-	172,884	-	-
1,953,606	-	-	46,394	-	-
169,181	-	-	1,830,819	-	-
2,229,250	-	-	-	-	-
<u>\$ 6,186,033</u>	<u>\$ -</u>	<u>\$ 9,355</u>	<u>\$ 2,050,097</u>	<u>\$ -</u>	<u>\$ -</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES, BY ENTERPRISE
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

	Furniture	Tele- marketing	Cleaning Products*	SCF Horse Rescue	Textiles*	PNM Canteen	PNM Old Main
Revenue from Sales	\$ 299,764	\$ 27,368	\$ 483,002	\$ 73,326	\$ 1,600,387	\$ 1,198,881	\$ 38,990
Manufacturing Costs:							
Costs of Materials Used:							
Beginning Inventory - Materials	96,884	1,850	30,533	-	119,158	-	-
Materials Purchases	204,041	-	256,646	1,657	1,049,396	1,005,960	24,221
Net Material Transfers	-	-	-	-	-	-	-
Materials Available	300,925	1,850	287,179	1,657	1,168,554	1,005,960	24,221
Less Ending Inventory	(86,466)	(1,328)	(29,139)	-	(105,371)	-	-
Cost of Materials Used	214,459	522	258,040	1,657	1,063,183	1,005,960	24,221
Direct Labor - Inmate Pay	44,758	2,218	3,432	2,038	40,298	18,658	353
Manufacturing Overhead:							
Salaries	75,500	-	41,642	-	78,720	3,292	20,475
Benefits	43,423	-	21,889	-	35,487	-	5,623
In-State Travel	1,545	-	-	6,064	1,358	-	147
Maintenance & Repairs	5,152	-	1,551	3,480	3,665	11,028	41,990
Supplies	21,192	1,411	4,111	50,298	11,182	16,128	23,585
Contractual Services	31,323	-	-	-	17,312	-	7,825
Other Costs	2,072	1,080	676	250	2,767	1,194	328
Out-of-State Travel	-	-	-	-	-	-	-
Irrigation Fees	-	-	-	-	-	-	-
Depreciation	3,491	-	4,567	-	911	-	9,302
Miscellaneous	1,283	132	6,708	-	720	-	-
Total Manufacturing Overhead	184,981	2,623	81,144	60,092	152,122	31,642	109,275
Total Manufacturing Costs	444,198	5,363	342,616	63,787	1,255,603	1,056,260	133,849
Add Beginning Work in Process	78,546	-	-	-	-	-	-
Less Ending Work in Process	(96,657)	-	-	-	-	-	-
Total Cost of Goods Manufactured	426,087	5,363	342,616	63,787	1,255,603	1,056,260	133,849
Add Beginning Finished Goods	93,048	-	48,304	-	370,108	-	-
Less Ending Finished Goods	(78,012)	-	(42,756)	-	(394,006)	-	-
Net Finished goods Transfers	-	-	-	-	-	-	-
Total Cost of Goods Sold	441,123	5,363	348,164	63,787	1,231,705	1,056,260	133,849
Gross Profit	(141,359)	22,005	134,838	9,539	368,682	142,621	(94,859)
Allocated Overhead:							
Facility Overhead	-	-	-	-	-	-	-
Sales & Marketing	(3,732)	(341)	(6,013)	(913)	(19,923)	(14,925)	(485)
Distribution Center	706	-	1,138	173	3,771	-	-
Central Office	(124,986)	(6,194)	(9,584)	(5,691)	(112,531)	(52,102)	(987)
Capital Contribution (Transfer)	-	-	-	-	-	-	-
Other Income (Expense)	10	-	-	-	-	-	-
Net Income (Loss)	\$ (269,361)	\$ 15,470	\$ 120,379	\$ 3,108	\$ 239,999	\$ 75,594	\$ (96,331)

GCCF Print	LLCC Farm	Sales & Marketing	Distribution Center	Central Office	Central Sustain.	Specialty Drug Prod.	PNM Corral Rent.	Central Land.	Total Industries
\$ 200,877	\$ 164,522	\$ -	\$ 227,497	\$ (63,623)	\$ 26,315	\$ 63,456	\$ 7,268	\$ 95,695	\$ 4,443,725
27,643	5,201	-	-	-	-	-	-	-	281,269
121,952	-	65	85,093	-	-	56,250	-	-	2,805,281
-	-	-	-	-	-	-	-	-	-
149,595	5,201	65	85,093	-	-	56,250	-	-	3,086,550
(26,177)	(3,684)	-	-	-	-	-	-	-	(252,165)
123,418	1,517	65	85,093	-	-	56,250	-	-	2,834,385
16,437	36,669	-	8,245	4,192	621	-	-	24,208	202,127
19,152	-	39,110	57,582	397,846	-	-	-	6,247	739,566
7,407	-	16,637	24,519	107,890	-	-	-	-	262,875
176	-	-	32,501	4,589	1,919	-	-	520	48,819
5,216	-	-	-	1,334	-	-	-	-	73,416
10,002	-	-	3,390	7,009	18	-	-	-	148,326
1,779	-	-	-	6,571	10,413	-	-	-	75,223
26,603	-	300	1,395	30,274	3,498	-	-	-	70,437
-	-	-	-	4,164	-	-	-	-	4,164
-	-	-	-	-	-	-	-	-	-
3,369	3,703	-	2,230	17,055	-	-	760	-	45,388
-	-	-	2,071	(2,500)	-	-	-	-	8,414
73,704	3,703	56,047	123,688	574,232	15,848	-	760	6,767	1,476,628
213,559	41,889	56,112	217,026	578,424	16,469	56,250	760	30,975	4,513,140
649	-	-	-	-	-	-	-	-	79,195
-	-	-	-	-	-	-	-	-	(96,657)
214,208	41,889	56,112	217,026	578,424	16,469	56,250	760	30,975	4,495,678
1,827	-	-	-	-	-	-	-	-	513,287
(3,015)	-	-	-	-	-	-	-	-	(517,789)
-	-	-	-	-	-	-	-	-	-
213,020	41,889	56,112	217,026	578,424	16,469	56,250	760	30,975	4,491,176
(12,143)	122,633	(56,112)	10,471	(642,047)	9,846	7,206	6,508	64,720	(47,451)
-	-	-	-	-	-	-	-	-	-
(2,501)	(2,048)	51,761	-	-	-	(790)	(90)	-	-
473	-	-	(6,428)	-	-	150	17	-	-
(45,900)	(102,395)	-	(23,023)	485,126	(1,733)	-	-	-	-
-	-	-	-	150,000	-	-	-	-	150,000
-	-	-	-	6,921	-	-	-	-	6,931
\$ (60,071)	\$ 18,190	\$ (4,351)	\$ (18,980)	\$ -	\$ 8,113	\$ 6,566	\$ 6,435	\$ 64,720	\$ 109,480

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

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES,
FOR CLEANING PRODUCTS BY FACILITY
For the Fiscal Year Ending June 30, 2014**

	WNMCF Soap Shop	WNMCF Plastics	Total Cleaning Products
Revenue from Sales	\$ 330,867	\$ 152,135	\$ 483,002
Manufacturing Costs:			
Costs of Materials Used:			
Beginning Inventory - Materials	11,255	19,278	30,533
Materials Purchases	171,975	84,671	256,646
Net Material Transfers	-	-	-
Materials Available	<u>183,230</u>	<u>103,949</u>	<u>287,179</u>
Less Ending Inventory	<u>(12,105)</u>	<u>(17,034)</u>	<u>(29,139)</u>
Cost of Materials Used	<u>171,125</u>	<u>86,915</u>	<u>258,040</u>
Direct Labor - Inmate Pay	<u>1,737</u>	<u>1,695</u>	<u>3,432</u>
Manufacturing Overhead:			
Salaries	41,642	-	41,642
Benefits	21,889	-	21,889
In-State Travel	-	-	-
Maintenance & Repairs	201	1,350	1,551
Supplies	871	3,240	4,111
Contractual Services	-	-	-
Other Costs	676	-	676
Out-of-State Travel	-	-	-
Irrigation Fees	-	-	-
Depreciation	727	3,840	4,567
Loss on Disposal of Equipment	-	-	-
Miscellaneous	6,708	-	6,708
Total Manufacturing Overhead	<u>72,714</u>	<u>8,430</u>	<u>81,144</u>
Total Manufacturing Costs	245,576	97,040	342,616
Add Beginning Work in Process	-	-	-
Less Ending Work in Process	-	-	-
Total Cost of Goods Manufactured	<u>245,576</u>	<u>97,040</u>	<u>342,616</u>
Add Beginning Finished Goods	41,067	7,237	48,304
Less Ending Finished Goods	<u>(37,213)</u>	<u>(5,543)</u>	<u>(42,756)</u>
Net Finished goods Transfers	-	-	-
Total Cost of Goods Sold	<u>249,430</u>	<u>98,734</u>	<u>348,164</u>
Gross Profit	81,437	53,401	134,838
Allocated Overhead:			
Facility Overhead	-	-	-
Sales & Marketing	(4,119)	(1,894)	(6,013)
Distribution Center	780	358	1,138
Central Office	(4,851)	(4,733)	(9,584)
General Fund Subsidy	-	-	-
Other Income (Expense)	-	-	-
Net Income (Loss)	<u>\$ 73,247</u>	<u>\$ 47,132</u>	<u>\$ 120,379</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES,
FOR TEXTILES BY FACILITY
For the Fiscal Year Ending June 30, 2014**

	CCA Textiles	Santa Rosa Textiles	WNMCF Textiles	Total Textiles
Revenue from Sales	\$ 545,752	\$ -	\$ 1,054,635	\$ 1,600,387
Manufacturing Costs:				
Costs of Materials Used:				
Beginning Inventory - Materials	71,222	47,936	-	119,158
Materials Purchases	240,259	-	809,137	1,049,396
Net Material Transfers	-	-	-	-
Materials Available	311,481	47,936	809,137	1,168,554
Less Ending Inventory	(68,290)	(37,081)	-	(105,371)
Cost of Materials Used	243,191	10,855	809,137	1,063,183
Direct Labor - Inmate Pay	32,054	-	8,244	40,298
Manufacturing Overhead:				
Salaries	78,720	-	-	78,720
Benefits	35,487	-	-	35,487
In-State Travel	1,358	-	-	1,358
Maintenance & Repairs	3,665	-	-	3,665
Supplies	8,565	-	2,617	11,182
Contractual Services	17,312	-	-	17,312
Other Costs	2,767	-	-	2,767
Out-of-State Travel	-	-	-	-
Irrigation Fees	-	-	-	-
Depreciation	911	-	-	911
Loss on Disposal of Equipment	-	-	-	-
Miscellaneous	720	-	-	720
Total Manufacturing Overhead	149,505	-	2,617	152,122
Total Manufacturing Costs	424,750	10,855	819,998	1,255,603
Add Beginning Work in Process	-	-	-	-
Less Ending Work in Process	-	-	-	-
Total Cost of Goods Manufactured	424,750	10,855	819,998	1,255,603
Add Beginning Finished Goods	89,690	97,544	182,874	370,108
Less Ending Finished Goods	(85,387)	(97,491)	(211,128)	(394,006)
Net Finished goods Transfers	-	-	-	-
Total Cost of Goods Sold	429,053	10,908	791,744	1,231,705
Gross Profit	116,699	(10,908)	262,891	368,682
Allocated Overhead:				
Facility Overhead	-	-	-	-
Sales & Marketing	(6,794)	-	(13,129)	(19,923)
Distribution Center	1,286	-	2,485	3,771
Central Office	(89,510)	-	(23,021)	(112,531)
General Fund Subsidy	-	-	-	-
Other Income (Expense)	-	-	-	-
Net Income (Loss)	\$ 21,681	\$ (10,908)	\$ 229,226	\$ 239,999

NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENSES – BUDGET AND ACTUAL
For the Fiscal Year Ending June 30, 2014

CORRECTIONS INDUSTRIES DIVISION

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>GAAP Basis</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Revenues				
Printing and Reproduction	\$ 714,700	\$ 714,700	\$ -	\$ (714,700)
Sales	498,800	498,800	4,443,726	3,944,926
Other	1,347,900	1,347,900	-	(1,347,900)
Farm Products	243,700	243,700	-	(243,700)
Micrographic, Data Entry & Telemarketing Services	-	-	-	-
Interest on Deposits	4,200	4,200	2,409	(1,791)
Capital Contribution (Transfer from General Fund)	150,000	150,000	150,000	-
Other Revenue	7,200	7,200	4,521	(2,679)
Total Revenues	<u>2,966,500</u>	<u>2,966,500</u>	<u>4,600,657</u>	<u>1,634,157</u>
Budgeted Fund Balance	<u>427,300</u>	<u>2,589,490</u>	<u>-</u>	<u>(2,589,490)</u>
Total Budgeted Revenues	<u>\$ 3,393,800</u>	<u>\$ 5,555,990</u>	<u>\$ 4,600,657</u>	<u>\$ (955,333)</u>
Expenditures				
Personal Services & Employee Benefits	\$ 1,646,400	\$ 1,196,400	\$ 1,002,441	\$ 193,959
Contractual Services	26,400	126,400	75,224	51,176
Other	1,721,000	4,233,190	3,368,123	865,067
Total Budgeted Expenditures	<u>3,393,800</u>	<u>5,555,990</u>	<u>4,445,787</u>	<u>1,110,203</u>
Non-Budgeted Expenditures				
Depreciation Expense	<u>-</u>	<u>-</u>	<u>45,389</u>	<u>(45,389)</u>
Total Budgeted and Non-Budgeted Expenditures	<u>\$ 3,393,800</u>	<u>\$ 5,555,990</u>	<u>\$ 4,491,176</u>	<u>\$ 1,064,814</u>

NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
For the Fiscal Year Ending June 30, 2014

	Balance as of June 30, 2013	Additions	Deletions	Balance as of June 30, 2014
ASSETS				
Cash	\$ 1,720,233	\$ 800,499	\$ -	\$ 2,520,732
Due from Others	431,608	-	(33,257)	398,351
Total Assets	<u>2,151,841</u>	<u>800,499</u>	<u>(33,257)</u>	<u>2,919,083</u>
LIABILITIES				
Due to Others	325,314	476,378	-	801,692
Deposits Held for Others	1,826,526	290,864	-	2,117,390
Total Liabilities	<u>2,151,841</u>	<u>\$ 767,242</u>	<u>\$ -</u>	<u>\$ 2,919,083</u>



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**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ending June 30, 2014**

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Pass-through programs from the New Mexico Higher Education Department			
Adult Basic Education	84.002	None	163,178
Total U.S. Department of Education Programs			<u>163,178</u>
U.S. Department of Justice			
Direct Programs:			
State Criminal Alien Assistance Program	16.606	None	1,303,930
Prisoner Reentry Initiative	16.753	2010-DD-BX-0622	38,506
Organized Crime Drug Enforcement Task Forces	16.579	245D-AO-63435	2,153
United States Marshal	16.738	JLEOTFS4	1,976
United States Marshal	16.738	JLEOTFS4	4,874
Total Direct Programs			<u>1,351,439</u>
Pass-through programs from the State Department of Public Safety			
Residential Substance Abuse for State Prisoners	16.593	2010-RT-BX-0034	23,270
Residential Substance Abuse for State Prisoners	16.593	2011-RT-BX-0022	50,628
Total Pass-through Programs			73,898
Total U.S. Department of Justice Programs			<u>1,425,337</u>
Corporation for National and Community Service			
Pass-through program from the Children, Youth and Families Department			
AmeriCorps Program-Opportunities with AmeriCorps for Reentry Success	94.006	12FHNM001	15,645
Total Corporation for National Community Programs			<u>15,645</u>
Total Expenditures of Federal Awards			<u>\$ 1,604,160</u>

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



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

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
Office of Management and Budget
Mr. Gregg Marcantel, Secretary
State of New Mexico Corrections Department

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue fund of the State of New Mexico Corrections Department (the "Department") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the combining and individual funds and related budgetary comparisons of the Department presented as supplemental information, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

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

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

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 Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-006 (2011-06) 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 can be described in the accompanying schedule of findings and questioned costs as items 2011-002 (2011-02), 2011-003 (2011-03), 2011-004 (2011-04), 2011-007 (2011-07), 2012-001 (2012-01), 2012-002 (2012-02), 2012-003 (2012-03), 2013-005 (2013-05), 2014-001, and 2014-003.

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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
December 10, 2014



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FEDERAL FINANCIAL ASSISTANCE



Accounting & Consulting Group, LLP
Certified Public Accountants

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
Office of Management and Budget
Mr. Gregg Marcantel, Secretary
State of New Mexico Corrections Department

Report on Compliance for the Major Federal Program

We have audited the New Mexico Corrections Department's (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Department's major federal programs for the year ended June 30, 2014. The Department's major federal program is 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
December 10, 2014

STATE OF NEW MEXICO
 New Mexico Corrections Department
 Schedule of Findings and Questioned Costs
 June 30, 2014

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

1. Type of auditors’ report issued	Qualified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	Yes
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
c. Noncompliance material to the financial statements noted?	No

Federal Awards:

1. Internal control over major programs:					
a. Material weaknesses identified?	No				
b. Significant deficiencies identified not considered to be material weaknesses?	No				
2. Type of auditors’ report issued on compliance for major programs	Unmodified				
3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No				
4. Identification of major programs:					
<table style="border: none;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">CFDA Number</td> <td style="text-align: center; border-bottom: 1px solid black;">Federal Program</td> </tr> <tr> <td style="text-align: center;">16.606</td> <td style="text-align: center;">State Criminal Alien Assistance Program</td> </tr> </table>	CFDA Number	Federal Program	16.606	State Criminal Alien Assistance Program	
CFDA Number	Federal Program				
16.606	State Criminal Alien Assistance Program				
5. Dollar threshold used to distinguish between type A and type B programs:	\$300,000				
6. Auditee qualified as low-risk auditee?	No				

STATE OF NEW MEXICO
New Mexico Corrections Department
Schedule of Findings and Questioned Costs
June 30, 2014

SECTION II – STATUS OF PRIOR YEAR AUDIT FINDINGS

2010-02 Accounting for Fiduciary Funds and Missing Documentation-Resolved

2011-02 Contract Billing and Rates Applied –Repeated and Modified

2011-03 Lack of maintaining a tracking log for receiving money orders, checks, or cash
To ensure properly making deposits within the required time periods- Repeated and Modified

2011-04 Domicile to Duty Vehicle-Repeated and Modified

2011-06 Medical Services Contract-Repeated and Modified

2011-07 Missing Capital Assets-Repeated and Modified

2012-01 Residential Housing/Trailer Court Benefits at Facilities- Repeated and Modified

2012-02 Use of State Issued Gasoline Credit Cards-Repeated and Modified

2012-03 Compensated Absences-Repeated and Modified

2013-01 Internal Controls over Financial Reporting-Resolved

2013-02 Prior Year Audit Findings-Resolved

2013-03 Late Audit Report-Resolved

2013-04 Stale-Dated Checks-Agency Fund-Resolved

2013-05 Lack of Proper Approval for Travel Reimbursements-Repeated and Modified

2013-06 Approval of Journal Entries-Resolved

STATE OF NEW MEXICO
New Mexico Corrections Department
Schedule of Findings and Questioned Costs
June 30, 2014

SECTION III – FINANCIAL STATEMENT FINDINGS

2011-002 (2011-02) Contract Billing and Rates Applied –Repeated and Modified– (Other Matter)

Condition: During our testwork of contract disbursements we noted one instance out of three in which invoices totaling \$523,050 between the Department and a municipality contained verbiage that was unclear to the reader. The contract terms used a schedule to determine the annual rate which was used in the calculation of the facility use fee; however, we found that the schedule was ambiguous, and neither the contract provisions nor the schedule provided clear guidance as to how the Department should apply the schedule rates to a definite time period.

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

Effect: Without clear contract terms, the Department may interpret the verbiage incorrectly within the contract resulting in improper payments.

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

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

Management Response: During fiscal year 2014, NMCD reviewed this contract and attempted to execute an amendment; however the amendment could not be completed because the Contractor will not agree to the amendment until the medical contractor, Corizon Medical, agrees to indemnify them for medical claims. The separate amendment with Corizon Medical requiring them to indemnify the Contractor in this regard has been delayed by Medicaid reimbursement issues. The Contractor will not agree to the amendment referenced until Corizon agrees to the indemnification. The process of resolving these issues is ongoing and will continue throughout fiscal year 2015.

STATE OF NEW MEXICO
New Mexico Corrections Department
Schedule of Findings and Questioned Costs
June 30, 2014

2011-003 (2011-03) Lack of Maintaining a Tracking Log for Receiving Money Orders, Checks, or Cash to Ensure Properly Making Deposits within the Required Time Periods-Repeated and Modified- (Other Matter)

Condition: During our testwork of Inmate Trust Account cash receipts, we noted six instances out of thirty totaling \$2,340 that were received but not deposited in the bank within the required period. In addition, we noted two instances out of thirty totaling \$245 in which the receipt date was dated after the date it was deposited into the bank account.

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

During our testwork of Inmate Trust Accounts cash disbursements, we noted the following out of 34 items tested:

- There were no supporting vendor invoices or receipts in four disbursements for a total of \$299.
- There was one disbursement in which the order ID form should a total of \$53 however the check was written for \$71.
- There was one disbursement in which there was no document provided for receipt of good for a total of \$649.
- There were two instances of release of inmate money without proper authorization from the inmate for a total of \$100.
- There was one instance in which the restitution amount deducted from the inmate trust account was \$74 however the check was written for \$77.
- There was no documentation of proper approval for one disbursement for a total of \$649.

Criteria: According to Section 6-10-3 NMSA 1978, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as in Section 6-10-54 NMSA 1978 provided, shall be paid into the state treasury, before the close of the next succeeding business day after the receipt of the money.

Effect: The Department is not maintaining adequate controls over cash receipts and disbursements, which increases the risk of misappropriation of assets.

Cause: For the inmate trust account deposits, responsible individuals were not properly following procedures and there was a lack of enforcement of Department policies.

Auditors' Recommendation: The Department should ensure staff is properly trained and properly deposits monies in a timely manner. The Department should establish consistent and thorough policies and procedures related to controls over inmate trust accounts, especially cash receipts and cash disbursements.

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

STATE OF NEW MEXICO
New Mexico Corrections Department
Schedule of Findings and Questioned Costs
June 30, 2014

2011-004 (2011-04) Domicile to Duty Vehicle-Repeated and Modified-(Other Matter)

Condition: During testwork performed over domicile to duty vehicle usage, we noted the following instances out of fourteen items tested:

- In three instances, department could not provide vehicle logs for personnel.
- In thirteen instances a Policy/Procedure Acknowledgement Form was not signed before vehicle use.
- In one instance a signed Policy/Procedure Acknowledgement Form was not completed by the employee.
- In six instances the employees' timesheet inaccurately reported taxable income related to the use of the vehicle.
 - This resulted in an overstatement of six employees' W-2 income: two employees had an overstatement of \$30; two employees had an overstatement of \$27; one employee had an overstatement of \$21; one employee had an overstatement of \$15.

Criteria: Department's Use of State and Privately Owned Motor Vehicles Policy #CD-022000 establishes the guidelines for maintaining a car log, submission and recording of usage in employee timesheet, earnings reporting on an employee's paycheck, employee positions qualified for domicile-to-duty, and the required documents acknowledging the policy. IRS Publication 15-B (2013) establishes qualified nonpersonal-use vehicles as follows: All of an employee's use of a qualified nonpersonal-use vehicle is a working condition benefit. A qualified nonpersonal-use vehicle is any vehicle the employee is not likely to use more than minimally for personal purposes because of its design. Qualified nonpersonal-use vehicles generally include all of the following vehicles: Clearly marked, through painted insignia or words, police, fire and public safety vehicles.

Effect: Without monitoring and a system of review, employees may not be correctly allocated personal commuting vehicle use. Employees that are being allocated a fringe benefit rate incorrectly increase their taxable income and cause the employees to pay more than is required. The impact has the potential to be substantial as some of the incorrect allocations may have been occurring for years.

Cause: Department's monitoring system that is in place to review domicile to duty vehicle usage is not being followed. In addition, some individual employees are not following the policy related to the use of state vehicles by not completing mileage logs.

Auditors' Recommendation: In order to prevent and reduce the risk of incorrectly allocating employee use, an updated roster or listing of domicile to duty employees should be maintained and reviewed. Also, Department should research the employees that have been identified as being incorrectly allocated and determine the proper course of action.

Management Response: NMCD will ensure employees are maintaining vehicle log as required by policy and perform periodic reviews to verify the required forms are maintained. The department has updated Policy CD-022000 Use of State and Privately Owned Motor Vehicles to be in compliance with the Internal Revenue Code Title 26 paragraph 132 and reflect that the vehicles assigned to staff are not commuting vehicles but part of employment requirements. A review of employees who reported taxable income, related to the use of a state vehicle, has been done and the fringe benefit has been removed.

STATE OF NEW MEXICO
New Mexico Corrections Department
Schedule of Findings and Questioned Costs
June 30, 2014

2011-006 (2011-06) Medical Services Contract – Repeated and Modified– (Significant Deficiency)

Condition: During our testwork of contract services, we noted six out of seven instances related to medical services contracts in which the Department paid invoices prior to verifying the fixed and variable cost portion of the invoice totaling \$3,676,044 for medical services rendered.

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

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

We also noted five instances out of five in which the Department prepaid for behavioral health services totaling \$1,426,291. In addition, the Department has not received an annual report showing the total expenditures paid with the prepaid behavioral health for the fiscal year.

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

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

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

STATE OF NEW MEXICO
New Mexico Corrections Department
Schedule of Findings and Questioned Costs
June 30, 2014

2011-006 (2011-06) Medical Services Contract – Repeated and Modified (Significant Deficiency)-Continued

Auditors' Recommendation: The Department should implement a monitoring system that functions as a control over payments that may have unsupported costs. The Department should also ensure invoices contain enough detailed support prior to disbursing payment to the vendor. Any invoice that fails to include sufficient cost detail should be rejected. The Department should independently verify the reports of the vendor's services and should not solely rely on the vendor produced detail. Additionally, contract language should be added to contracts that requires detailed billings and full support for all charges under the contract. The Department should review vendor timesheets to ensure that staffing was provided by the vendor and the Department should also do random "head counts" at the various prison infirmaries. The Department should also review the Behavioral Health Collaborative contract/agreement and determine what other options can be considered regarding potential conflict with procurement code and the potential for paying for services prior to being rendered.

Management Response: The Department has hired the Health Services Administrator, who is responsible for overseeing the medical contract and is in the process of filling vacant positions that will assist in the responsibility and oversight. NMCD has also hired an Internal Audit Manager, whose primary duties will be to perform audits, reviews and monitoring of the medical contract, including quality of services. The Internal Audit Manager will add review and monitoring tasks to the five Contract Monitors at the private contracted facilities and the six compliance officers for the state-run facilities.

STATE OF NEW MEXICO
 New Mexico Corrections Department
 Schedule of Findings and Questioned Costs
 June 30, 2014

2011-007 (2011-07) Missing Capital Assets – Repeated and Modified– (Other Matter)

Condition: During the capital assets test work we selected 5 assets from the capital asset listing for Central New Mexico Corrections Industries (CNMCI). We noted three instances at CNMCI where the asset could not be located at the facility based on the “Location Detail” on the listing. In addition, in one instance at CNMCI and one instance at Western New Mexico Correction Industries (WNMCI) we could not identify an individual asset out of group of multiple similar assets. Further, we selected 10 capital assets at Central New Mexico (CNCMF) and in one instance we could not identify the individual asset out of group of similar assets.

Capital Asset	Book Cost	Explanation provided by NMCD	Location
95 Chevy 1-Ton Dually	\$ 20,795	Currently in Springer	CNMCI
Case Clamp Juhling HP3000	\$ 8,131	Currently in Southern	CNMCI
Welder	\$5,960	Unable to locate	CNMCI
Butler Grain Storage Silo	\$9,953	Multiple silos unable to determine individual item	CNMCI
Dental Chair	\$ 3,820	Multiple chairs unable to determine individual item	CNCMF
Embroidery Machine	\$ 10,100	Multiple machines unable to determine individual item	WNMCI

During the capital assets test work, we selected 5 capital assets at (CNCMF) from the premises and agreed the asset to the capital asset listing. In one instance at CNCMF, we could not identify the capital asset on the capital asset listing, “Location Detail”. In addition, we selected 5 capital assets at (WNMCI) from the premises and agreed the assets to the capital asset listing. In three instances at WNMCI we could not identify the capital assets on the capital asset listing “Location Detail”.

Capital Asset	Location
Mixer	CNCMF
Digital Scale	WNMCF
Water Softener	WNMCF
GRACO Pump w/attachments	WNMCF

Further, during our review of capital assets additions we noted one asset out of 15 tested in which the cost of the asset was understated by \$6,063. The amount was adjusted by the Department subsequent to the auditor’s discovery of the error. In addition, during our review of capital assets additions for Correction Industries we noted two assets out of four tested in which the date of the in service was before the date of title for the asset. The date was adjusted by the Department subsequent to the auditor’s discovery of the error.

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

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

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2011-007 (2011-07) Missing Capital Assets – Repeated and Modified– (Other Matter)-Continued

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

Cause: Lack of consistent adherence to the Department's capital asset policies and procedures. Capital asset additions and disposals at CNMCI, CNMCF and WNMCI are not properly monitoring and the results reported back to the accounting department on a yearly basis. In addition at ASD is not properly reviewing invoices and assets before they are capitalized on the listing.

Auditors' Recommendation: To maintain adequate accountability, the Department should maintain a capital asset listing through conducting physical inventories, properly including tag numbers, serial numbers, and other identifiable information for additions, and each business office obtain proper authorization prior to disposing of assets. In addition, it would benefit the Department to conduct the physical inventory as close to fiscal year end as possible in order to facilitate the preparation of the capital asset listing for financial reporting purposes. We recommend that policies for proper accounting of capital assets be conveyed to all employees with the responsibility of accounting for capital asset deletions. Additional training may be necessary to ensure proper procedures are understood and followed.

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

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2012-001 (2012-01) Residential Housing/Trailer Court Benefits at Facilities– Repeated and Modified– (Other Matter)

Condition: During our audit procedures regarding housing/trailer court benefits, we noted in four out of fifteen instances that the required pre-approval was not documented before housing was assigned. In addition, in one out of fifteen instances the Residential Housing/Trailer Court Acknowledgement and Agreement Form (CDD-024901) were signed after the employee had been in the house for some time. Further, there was no evidence that the required annual review was performed.

Criteria: Department's Institutional Residential Housing; Trailer Court Facilities, State Provided Phone Services Policy # CD-024900 Section A establishes the criteria for assignment of residential housing/trailer court facilities to department personnel. Sections 3 and 6 of Part A require pre-approval be submitted in writing prior to assignment of housing. Section 3 also requires a review of assigned housing to be conducted by the Approving Authority on an annual basis. Additionally Section C. establishes rules governing all occupants of residential housing or trailer court facilities.

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

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

Auditors' Recommendation: The Department should strictly adhere to the policies and procedures regarding assignment of housing. The Department should also consider implementing a review and/or monitoring process to ensure compliance with the policy.

Management Response: The NMCD has updated the policy and procedures related to residential housing/trailer court benefits; to include a review and monitoring process. The Department will implement a review process to ensure we are in compliance with our policy.

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2012-002 (2012-02) Use of State Issued Gasoline Credit Cards– Repeated and Modified– (Other Matter)

Condition: During the review of the Wright Express fuel card (WEX) activity for the fiscal year we tested ten invoices with total expenditures of \$43,049. The transactions related to these invoices were examined for compliance with department policy and New Mexico statutory requirements. As a result of this review we noted:

- 3 instances where super-unleaded fuel was purchased at a cost of \$170, and 2 instances where unleaded plus fuel was purchased at a cost of \$146;
- 7 transactions where an individual put gas and within an hour or two either the same individual or another individual put gas on the same card in another town/city. Based on google maps the amount of time taken to travel between cities/towns was unreasonable; and
- 7 instances where non-fuel transactions were not supported for a total of \$164.

Criteria: Per NMAC 1.5.4.12, the purchase of unleaded plus gasoline and super-unleaded gasoline is not allowed. Per NMAC 1.5.3.19, the state agency shall seek reimbursement from employees who make unauthorized purchases on the state fuel credit card. Also, it is good accounting practices retain receipts for all purchases made.

Cause: There does not appear to be a monitoring system in place that would identify unallowed WEX card purchases and there does not appear to be a requirement to retain receipts for purchases.

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

Auditors' Recommendation: The Department may consider seeking reimbursement for unauthorized purchases made using the Wright Express Fuel Cards, in accordance with statutory requirements. The Department should implement regular monitoring of purchases made with the fuel cards and require supporting documentation for purchases made should be remitted to the liaison at the time the vehicle is returned. The Department should document inquiries and explanations for transactions which appear to be unallowed and document reimbursement for all unauthorized purchases with the Vehicle Coordinator.

Management's Response: NMCD is working to ensure that these types of questionable actions are eliminated and addressed immediately. Management hired a manager and an employee to provide oversight to NMCD Fleet Management. The employee has recently received "hands-on" training from the General Services Department – Transportation Services Division (GSD-TSD) to ensure adherence to the NM Administrative Code, and state policies and rules. Additionally, management is reviewing and updating as necessary, the department policy and procedures, to ensure compliance and the training of all staff performing fleet management functions is performed routinely.

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2012-003 (2012-03) Compensated Absences – Repeated and Modified – (Other Matter)

Condition: During our audit procedures regarding compensated absences we noted in one instance of 25 balances tested the employee exceeded the 160 hour maximum compensatory time balance and the ending compensated absence liability was not adjusted to cap the balance. The total overage was 166.50 hours, amounting to \$215. As there does not appear to be any mechanisms in place to cap the balances at 160, there is potential that more overages exist.

Criteria: Department's Policy # CD-035100 states that employees may accrue a maximum of 160 hours of compensatory time under the Department's policy, unless otherwise authorized by statute and shall be paid for accrued compensatory time upon separation.

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

Cause: The Department's Overtime and Extra Hours Worked Compensation Policy #CD-035100 was not followed. Additionally, there does not appear to be a mechanism in place at NMCD control level to identify the unallowed overages. Further, there does not appear to be review process in place of employees' liability amounts related to the year-end compensated absence liability.

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

Management's Response: The NMCD will implement measures to prevent future occurrences, including a monitoring process.

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2013-005 (2013-05) Lack of Proper Approval for Travel Reimbursements-Repeated and Modified-(Other Matter)

Condition: During our test work of internal controls related to travel reimbursements, we noted in four out of five reimbursements reviewed that there was not documentation of approval for employees with travel expenditures that exceeded \$1,500 in the fiscal year.

Criteria: The Per Diem and Mileage Act (Sections 10-8-1 through 10-8-8 NMSA 1978) restricts the amount of reimbursement an employee may receive in any one year unless management approval is obtained. The department head should in writing approve the employee's instance of travel reimbursement over the \$1,500 limit and in case of a department head the governor should approve in writing.

Effect: There is an increased risk that employees will be reimbursed for unapproved travel and the opportunity for abuse increases.

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

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

Management Response: NMCD has implemented a monitoring process to ensure management approvals are obtained for employees with reimbursements approaching \$1,500.

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Finding 2014-001 - Payroll-Lack of Supporting Documentation (Other Matter)

Condition: During our test work of payroll we noted that six out of the twenty-five employee files were missing the required background check documentation.

Criteria: Subpart 1.15.6.101 NMAC, Employees Personnel Files, requires the Department to retain employee's personnel files for three years after employee separates employment. Department Policy CD-037301.C states "a thorough background check of employees being considered for a classified position shall be conducted by obtaining a signed Release and Waiver which will be included but is not limited to: previous employment, verifications, criminal records checks, etc."

Effect: The Department has not maintained complete personnel files, in which background check information has not been completed and/or maintained properly.

Cause: When the background check information was completed it was not properly maintained in the personnel files.

Auditors' Recommendation: The Department should ensure that all required payroll related documentation is completed as required and properly maintained for the required period.

Management Response: NMCD will ensure that all required payroll documents are maintained by the department for the required time period.

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2014-002 – Deficiencies over Inventory Management – Material Weakness

Condition: The Auditor was unable to obtain sufficient evidence to substantiate the ending balances of inventory in the Governmental Activities. The Auditor made an attempt to perform alternative audit procedures by testing inventory counts subsequent to year end with the intention of rolling back the subsequent inventory amounts to the June 30, 2014 balances. We tested 73 items totaling \$346,521.51 of the inventory in the governmental activities and 75 items totaling \$190,141.81 in business-type activities. During our audit procedures subsequent to year end, we noted the following variances:

Governmental Activities:

	Description	Units per Count Sheet	Units per Auditor Count	Value on Hand per Sheet	Value on Hand per Auditor Count	Variance
1	Ballast VEL1P32 SC	629	640	\$ 30,776.97	\$ 31,315.20	\$ 538.23
2	ID-shirt white	216	219	2,479.68	2,514.12	34.44
3	Mop Head	26	24	91.00	84.00	(7.00)
4	7-10 Gallon Trash Can Liners	112	110	2,464.00	2,420.00	(44.00)
5	All Purpose Cleaner	242	231	1,529.44	1,459.92	(69.52)
6	Antibacterial Hand Soap	179	167	1,319.15	1,230.71	(88.43)
7	Phillips 400W Ceramalux	28	27	3,457.44	3,333.96	(123.48)
8	Ballast Kit	78	71	3,591.90	3,269.55	(322.35)
9	Coreless Toilet Paper	573	556	14,181.75	13,761.00	(420.75)
10	Square D 20A 3 pole breaker	9	6	1,770.75	1,180.50	(590.25)
11	Laundry Detergent RS 630	61	52	4,209.00	3,588.00	(621.00)
12	Duplex receptacle wall plate raised 1/2"	82	8	812.62	79.28	(733.34)
13	Vests-Special order sized Kaufmans	8	6	4,000.00	3,000.00	(1,000.00)
14	Cartridge Xerox 8R7881-Black [EA]	27	0	1,115.64	-	(1,115.64)
15	1 1/4" Galvanized elbow 45	315	16	1,672.65	84.96	(1,587.69)
16	Ballast 1-400W	34	30	15,053.50	13,282.50	(1,771.00)
17	Acorn Repair Check Stop	1,000	10	26,640.00	266.40	(26,373.60)
18	Grey Wire, Solid, 12GA, 500' Roll	152	0	75,696.00	-	(75,696.00)
Totals:				\$ 190,861.49	\$ 80,870.10	\$ (109,991.38)

Business-type Activities:

	Description	Units per Count Sheet	Units per Auditor Count	Value on Hand per Sheet	Value on Hand per Auditor Count	Variance
1	Paper Towels, Roll, 8x800	886	586	\$ 18,986.98	\$ 12,557.98	\$ (6,429.00)
2	Ultramax	126	6	3,069.52	143.96	(2,925.56)
3	Size 10	33	5	2,194.50	332.50	(1,862.00)
4	Computer Desk w/hutch- WIP	7	3	2,650.34	1,135.86	(1,514.48)
5	Size 9	30	10	1,995.00	665.00	(1,330.00)
6	Standard Keyboard w/Tray Black-Raw	53	34	3,710.00	2,380.00	(1,330.00)
7	Mat, Sheet/Boxer, White	14000	13500	14,980.00	14,445.00	(535.00)
8	Foam-Raw	12	9	1,731.44	1,392.68	(338.76)
9	Basic Trim 2"x3/4" - WIP	240	90	333.60	125.10	(208.50)
10	Zipper Pants, Front/Right & Left 34"	360	120	277.20	92.40	(184.80)
11	Steel Tab File-WIP	1	0	150.00	-	(150.00)
12	Drawer Pull Red Oak-Raw	920	800	1,048.80	912.00	(136.80)
13	Sanding Sealer Lacquer	11	10	1,182.50	1,075.00	(107.50)
14	Column-Raw	32	30	1,584.00	1,485.00	(99.00)
15	Table Pedestals-Raw	20	18	987.40	888.66	(98.74)
16	Thread, White	527	515	2,692.97	2,631.65	(61.32)
17	Shelf Standard-Raw	128	110	218.88	188.10	(30.78)
18	C-Moulding Drw Handles -Raw	3,216	3,168	305.52	300.96	(4.56)
19	Drawer Lock Pin-Raw	3,993	4,486	1,437.48	1,614.96	177.48
20	Toilet Paper Core, 1-Ply	846	856	32,697.90	33,084.40	386.50
21	Boxer Shorts, X-Large [Dz]	76	100	1,570.92	2,067.00	496.08
Totals:				\$ 93,804.95	\$ 77,518.21	\$ (16,286.74)

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2014-002 – Deficiencies over Inventory Management – Material Weakness-Continued

Criteria: Good inventory management practices require the inventory system reports to reflect the actual quantities on hand at any given point in time and required discrepancies to be investigated and resolved in a timely manner.

Effect: Inventory balances at year end could be materially misstated. In addition, the auditor was unable to afford a basis for opining on the inventory balances and related costs, therefore, resulting in a qualified opinion.

Cause: Initially, there was a delay in the audit contract approval which precluded an inventory observation and testwork at June 30, 2014. There was a subsequent attempt to perform alternative audit procedures; however the results of those subsequent test counts produced material variances in the amounts observed and tested in comparison with the quantities asserted per management's inventory reports.

Auditors' Recommendation: All regulatory bodies should work closer to ensure a timely approval of the audit contract to allow for any testwork that must be performed at year end. In addition, the Department should review its inventory management processes and implement internal controls to ensure quantities and pricing of all inventory items maintained are accurate on a monthly basis.

Management's Response: NMCD submitted the Audit Contract by the required deadlines. The contract was submitted to the Office of the State Auditor by May 30, 2014 and to the Department of Finance Administration by June 17, 2014. The contract was signed on July 1, 2014 and had an effective date of July 1, 2014. NMCD Corrections Industries Division was also moving into the CNMCF warehouse; at the time the Auditor's visited to conduct the count. We believe this may have contributed to the discrepancy.

NMCD will review inventory lists periodically to ensure they are consistent with the pricing and quantities on hand.

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2014-003 – Budgetary Compliance – Other Matter

Condition: The Department over expended its budget in the following programs/fund:

Program Code/Fund Number	Program Description	Final Budgeted Expenditures	Actual Expenditures	Overage
P531	Inmate Management and Control	244,986,471	248,850,061	(3,863,589)
P534	Community Offender Management	28,332,423	29,313,342	(980,919)
90700	General operating fund	266,325,876	268,110,483	(1,784,607)
89800; 90700; 91500	General fund	294,658,299	297,423,825	(2,765,526)

In addition, we noted final budgeted expenditures exceeded final budgeted revenues and prior year budgeted fund balance for the General Fund, the General Operating Fund (SHARE System Fund 90700) and the Inmate Management and Control program (P531) by \$2,849, \$1,073,500 and \$2,073,500 respectively.

Criteria: All Department funds are to be budgeted by the agency and submitted to the State of New Mexico Department of Finance and Administration for approval. Once adopted, any claims or warrants in excess of budget at the appropriation program level are a violation of New Mexico State Statute 6-6-6, 1978 Compilation. Also 2.2.2.10 (O) Appropriations to Agencies requires an audit finding if budgeted expenditures exceed budgeted revenues and prior-year fund balance.

Effect: Noncompliance with New Mexico State Statute 6-6-6, 1978 Compilation.

Cause: Unexpected expenditures for the union settlement and expenditures associated with increased prison populations resulted in the budget overages detailed above.

Auditors' Recommendation: We recommend the Department prepare the necessary budget adjustment request timely to ensure sufficient budget is available for unanticipated expenditures.

Management's response: Management will closely monitor the budget and prepare the necessary budget adjustments to ensure compliance with State Statute.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

NEW MEXICO CORRECTIONS DEPARTMENT
Exit Conference
Year Ended June 30, 2014

An exit conference was held on Wednesday, December 10, 2014 and attended by the following:

New Mexico Corrections Department Personnel:

Gregg Marcantel, Secretary of Corrections
Mark Myers, Acting Deputy Secretary of Administration
Joe W. Booker, Jr., Deputy Secretary of Operations
Paul Montoya, CPA, Acting ASD Director, Administrative Services Division
Phillipe Rodriguez, Budget Director, Administrative Services Division
Blanca Sena, Financial Management Bureau Chief
Joseph Rael, Procurement Manager, Financial Management Bureau
Matilda Peralta, Accounts Payable Manager, Financial Management Bureau
Antoinette Solano, Accountant/Auditor, Financial Management Bureau
Celina Padilla, Accountant/Auditor, Financial Management Bureau
Christina Campa, Accountant/Auditor, Financial Management Bureau
Felicia Roybal, Financial Specialist, Financial Management Bureau

New Mexico Office of the State Auditor Personnel:

Melissa Spangler, CPA, CGFM, CFE, Financial Audit Director
Anna Williams, CPA, Audit Manager

Accounting & Consulting Group, LLP:

Robert Cordova, CPA, Partner
Morgan Browning, CPA, CGFM, Audit Supervisor
Paul Garcia, Senior Accountant