



State of New Mexico

New Mexico Corrections Department



Financial Statements and Schedules

With

Independent Auditors' Report

For the Fiscal Year Ended June 30, 2012

**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, 2012**

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**NEW MEXICO CORRECTIONS DEPARTMENT
OFFICIAL ROSTER
JUNE 30, 2012**

Administrative Officials

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

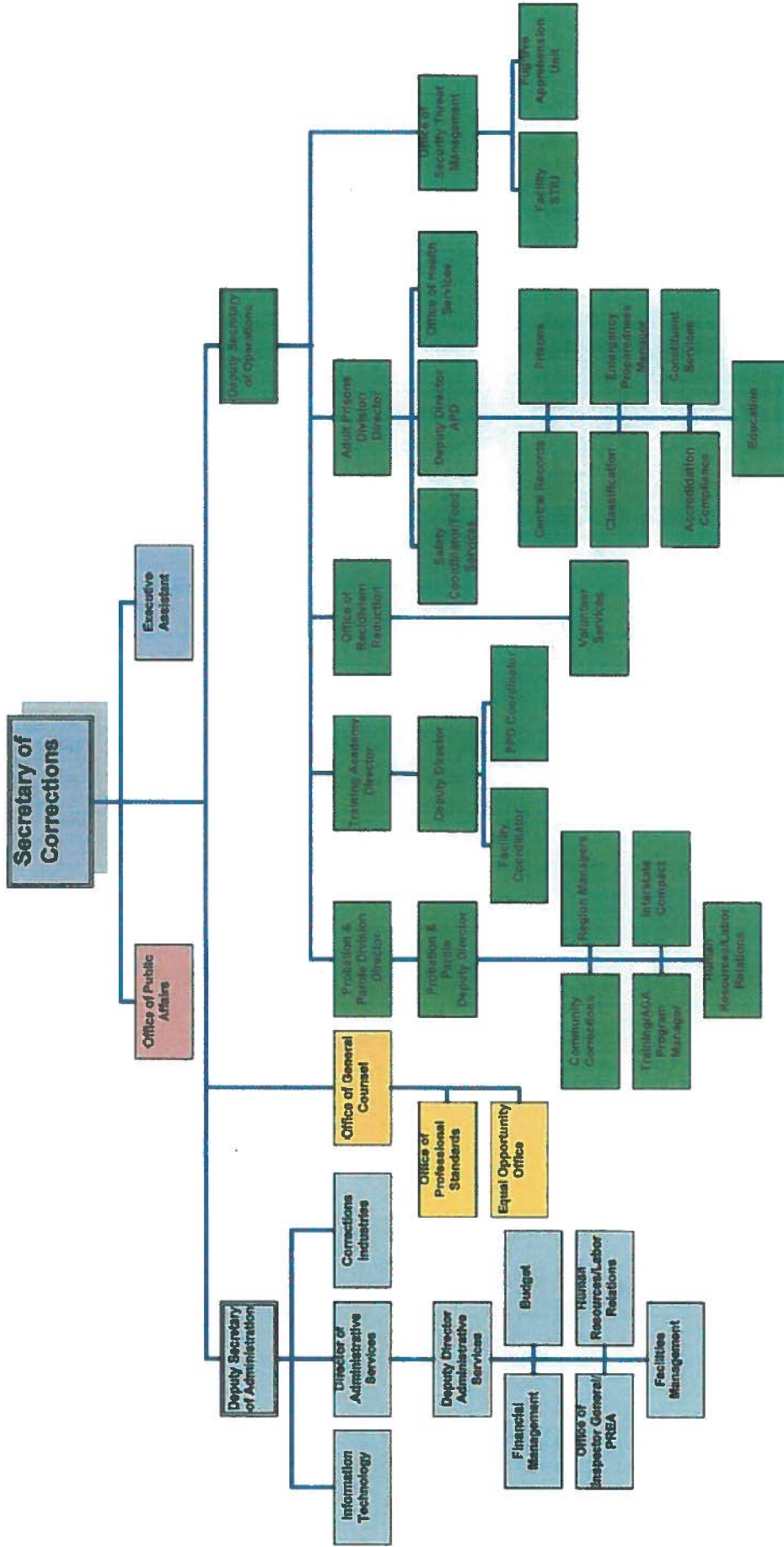
Secretary of Corrections
Deputy Secretary of Administration
Deputy Secretary of Operations
Director of Administrative Services
Director of Adult Prisons Division
Director of Corrections Industries Division
General Counsel
Director of Information Technology Division
Director of Probation and Parole Division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

Corrections Industries Commission

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

Chair
Member
Member
Member
Member
Member

**NEW MEXICO CORRECTIONS DEPARTMENT
ORGANIZATIONAL CHART
JUNE 30, 2012**



NEW MEXICO CORRECTIONS DEPARTMENT
List of Abbreviations
JUNE 30, 2012

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



FINANCIAL SECTION



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the budgetary comparisons for the general fund and major special revenue fund of State of New Mexico Corrections Department (Department) as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the Departments' individual SHARE funds, the fiduciary fund and the budgetary comparisons for the enterprise fund and the individual SHARE funds presented as supplementary information in the accompanying combining and individual fund financial statements and schedules as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Department's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the Department are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the entire State of New Mexico as of June 30, 2012, and the respective changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and major special revenue fund for the year then ended in conformity 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 positions of each of the individual SHARE funds, major enterprise and fiduciary funds of the Department as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for all individual SHARE funds and the enterprise fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, 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 the 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the combining and individual fund financial statements and budgetary comparisons. The accompanying schedule of expenditures of federal awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not required part of the financial statements. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Office of the State Auditor

December 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The New Mexico Corrections Department's (NMCD) 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 assets increased \$843,050 from FY11: governmental net assets \$680,920 and business-type net assets \$162,130.

The Corrections Industries Division is classified as a business-type activity. For fiscal year (FY) 2012, the Corrections Industries Division had an increase in net assets of \$162,130. Operating revenue decreased by \$345,138 and operating expenses also decreased by \$ 457,050 over the prior period.

Total costs for all Department Programs were \$272,247,094.

Accomplishments. During FY12, several key vacant positions were filled, including the Deputy Secretaries of Administration and Operations; Directors for the Training Academy, Administrative Services, Adult Prisons, Probation and Parole, Recidivism Reduction and Re-entry; Deputy Division Directors and wardens and almost the entire budget bureau. The Department also created a Health Services Administrator position to oversee its multi-million dollar medical contract, ensure Constitutional-level medical services are provided to inmates and contain costs. Filling these key positions allowed the Department to move forward with strategic planning and strategic initiatives to address personnel management, public safety and security management, inmate and offender support management and business management.

Department management started strategic planning by engaging all staff in mapping the Department's future. The first goal was to define its mission, vision and core values. As such, the Department adopted the oath "We commit to the safety and well-being of the people of New Mexico by doing the right thing, always" for its mission statement. The NMCD vision is forward thinking and promotes growth: "Through innovative and principled public safety strategies, the NMCD shall set the ethical standards and correctional best practices for the statewide corrections community". The NMCD staff, as part of a public safety agency, takes an oath and must present their credentials also known as "CREDS". Therefore, it was fitting that the acronym of the agency's core values: Courage, Responsibility, Ethics, Dedication is CRED. The Department commits to CREDibly serve New Mexico's public safety. Our mission, vision and CRED core values are the foundation on which we will anchor our efforts to promote accountability and transparency.

As the work of corrections grows more complex and comes under increasing public scrutiny, it becomes more important that we think, plan and manage strategically and better understand our organizational culture, from the perspective of its strengths and areas needing improvement. Our goal is to produce higher quality work, build collaboration and interdependence, create safer and more secure environments, and ultimately support moving our operational function more strategically toward a more positive culture that will improve the quality of life for staff and offenders. The Department is committed to provide a balanced-system approach to corrections, from incarceration to community-based supervision with training, education, programs and services that provide opportunities for offenders to transition to communities.

The NMCD during its strategic planning agreed that staff is its greatest and most precious resource. Through the Training Academy, it has developed a Leadership Development Institute to encourage and allow staff to obtain the necessary skills to advance in the organization. Throughout the organization managers are encouraging staff to take

advantage of training offered either through the Training Academy or by other agencies. Central Office staff has also committed to visit all prison facilities and train staff in all areas.

The Department, in previous years, imposed on itself a hiring freeze that resulted in large staff vacancies throughout the organization. Of most concern were the vacancies in correctional and probation and parole officers. To address the large number of vacancies, the Training Academy has held back-to-back academies for correctional and probation and parole officers. The number of correctional officer cadets graduating from the academy has nearly doubled from FY11. Although the probation and parole academies have not had results as dramatic as the correctional officer academies, however those numbers too have increased. The Department will have to streamline its recruitment and selection process for probation and parole to have greater results. Additionally, the Department continues to fill vacant positions and is assessing its ability to increase salaries to be more competitive.

The Department continues to partner with the United States Department of State and is the host agency training international cadets in model correctional practices and techniques.

Prison reform and re-entry initiatives are and will continue to be a priority as 90 percent of our inmate population will eventually leave prison and return to live in our communities. The Department recognizes that it needs to implement enhanced preparation tools designed to reduce the obstacles inmates face when released from prison. Each inmate will be assessed upon entry into prison so that appropriate programs and services are provided during incarceration and through discharge from supervision.

The Department has increased its focus on reducing the number of absconders by combining its Security Threat and Intelligence Units and augmenting its team with individuals with law enforcement and fugitive apprehension backgrounds, partnering with the New Mexico Gang Taskforce and circulating "Most Wanted Absconders" fliers nationwide.

The increased focus on apprehending absconders will necessitate increased bed space in its public and private prisons. The Sentencing Commission estimates that the inmate population will exceed current capacity by 2016. However the number does not include enhanced efforts to apprehend absconders. The Department is working with other entities to provide additional space for anticipated population increases. It is also identifying monetary resources to revisit its infrastructure master plan to ensure appropriate prison facility planning.

The Department through its Office of Inspector General continues to audit private prison facilities to ensure compliance with the contract. In FY12, the Department collected over \$1 million from its private prison facilities in Hobbs, Santa Rosa, Clayton and Grants for understaffing and untimely releases of inmates.

Efficiency and cost savings are extremely important especially during economic downturns; therefore, Department staff continues to closely monitor the operating budget to ensure it can address critical issues without overspending its appropriation. Staff also is working closely with the General Services Department on critical capital needs. In FY12, the Department completed capital projects funded through the operating budget or capital outlay appropriations as follows:

- Information technology data storage servers,
- Digital video recorders at Western and Southern New Mexico Correctional Facilities and the Penitentiary of New Mexico,
- Kitchen equipment for the Central New Mexico Correctional Facility and the Springer Correctional Center,
- Inmate transport vans used by the Central New Mexico Correctional Facility to transport all inmates statewide,
- Security fencing at the Penitentiary of New Mexico for Levels V and VI, and
- Resurfacing of the athletic court at the Training Academy.

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 assets and a statement of activities. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Both statements distinguish between the governmental and business-type activities of the primary government. Fiduciary activities whose resources are not available to finance the government's programs are excluded from the government-wide statements.

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

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

Fund Financial Statements

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

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

The Department has three types of funds:

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

Notes to the Financial Statements

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

Infrastructure Assets

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

Budgetary Comparisons

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

As 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 Assets

	Governmental Activities		Business-Type Activities		Total *		Total Percentage Change 2011-2012
	FY2011	FY2012	FY2011	FY2012	FY2011	FY2012	
Current and Other Assets	\$ 45,267,860	\$ 45,098,178	\$ 4,196,556	\$ 4,381,849	\$ 49,464,416	\$ 49,480,027	0.03%
Capital and							
Non-Current Assets	31,727,875	29,094,149	274,699	205,759	32,002,574	29,299,908	-8.45%
Total Assets	76,995,735	74,192,327	4,471,255	4,587,608	81,466,990	78,779,935	-3.30%
Current Liabilities	36,153,503	32,669,175	260,541	214,764	36,414,044	32,883,939	-9.69%
Long-Term Liabilities	-	-	-	-	-	-	0.00%
Total Liabilities	36,153,503	32,669,175	260,541	214,764	36,414,044	32,883,939	-9.69%
Net Assets							
Invested in Capital Assets	31,727,875	29,094,149	274,699	205,759	32,002,574	29,299,908	-8.45%
Restricted	7,684,225	9,651,989	3,936,015	4,167,085	11,620,240	13,819,074	18.92%
Unrestricted	1,430,132	2,777,014	-	-	1,430,132	2,777,014	94.18%
Total Net Assets	\$ 40,842,232	\$ 41,523,152	\$ 4,210,714	\$ 4,372,844	\$ 45,052,946	\$ 45,895,996	1.87%

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

Net Assets: Table A-1 summarizes the Department's net assets for the fiscal year ending June 30, 2012. Net assets for Governmental Activities and Business-type Activities were \$41,523,152 and \$4,372,844, respectively. Total Department net assets for fiscal year 2012 is \$45,895,996. 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 assets in Governmental Activities is \$2,777,014 at the end of the fiscal year.

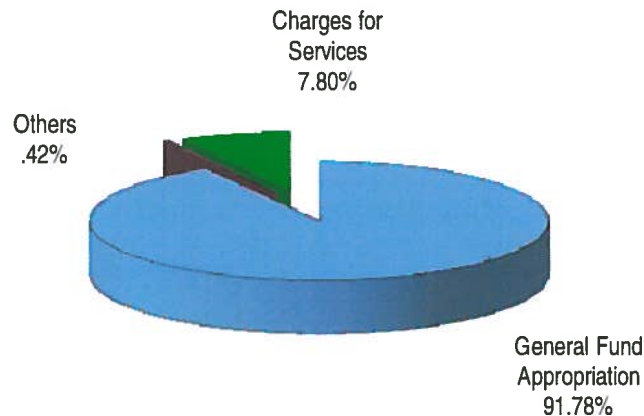
In the Business-type activities, the restricted amount of \$4,167,085 cannot be used in governmental activities. The Department generally can only use these net assets to finance the continuing operations of its business activities, such as working capital requirements.

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	FY2011	FY2012	FY2011	FY2012	FY2011	FY2012	2011-2012
Revenues							
<u>Program Revenues</u>							
Charges for Services	\$ 17,932,485	\$ 18,644,232	\$ 3,010,283	\$ 2,665,145	\$ 20,942,768	\$ 21,309,377	1.75%
Operating Grants & Contributions	1,413,405	816,051	-	-	1,413,405	816,051	-42.26%
<u>General Revenues</u>							
State General Fund							
Appropriations, net of reversions	253,381,007	250,645,184	-	-	253,381,007	250,645,184	-1.08%
Others	256,318	256,063	58,827	63,469	315,145	319,532	1.39%
Total Revenues	272,983,215	270,361,530	3,069,110	2,728,614	276,052,325	273,090,144	-1.07%
Expenses							
Public Safety - Corrections	275,837,638	269,680,610	3,023,534	2,566,484	278,861,172	272,247,094	-2.37%
Increase (Decrease) in Net Assets	(2,854,423)	680,920	45,576	162,130	(2,808,847)	843,050	-130.01%
Beginning Net Assets	42,136,122	40,842,232	4,165,138	4,210,714	46,301,260	45,052,946	-2.70%
Prior Period Adjustment	1,560,533	-	-	-	1,560,533	-	
Net Asset Restatement	-	-	-	-	-	-	
Ending Net Assets	\$ 40,842,232	\$ 41,523,152	\$ 4,210,714	\$ 4,372,844	\$ 45,052,946	\$ 45,895,996	1.87%

Changes in Net Assets: The Department's change in net assets for fiscal year 2012 increased by \$843,050. (See Table A-2). A significant portion, 91.78%, of the Department's revenue comes from State General Fund Appropriations, 7.80% comes from charges for services, and less than 1% from other revenue sources. (See figure A-1).

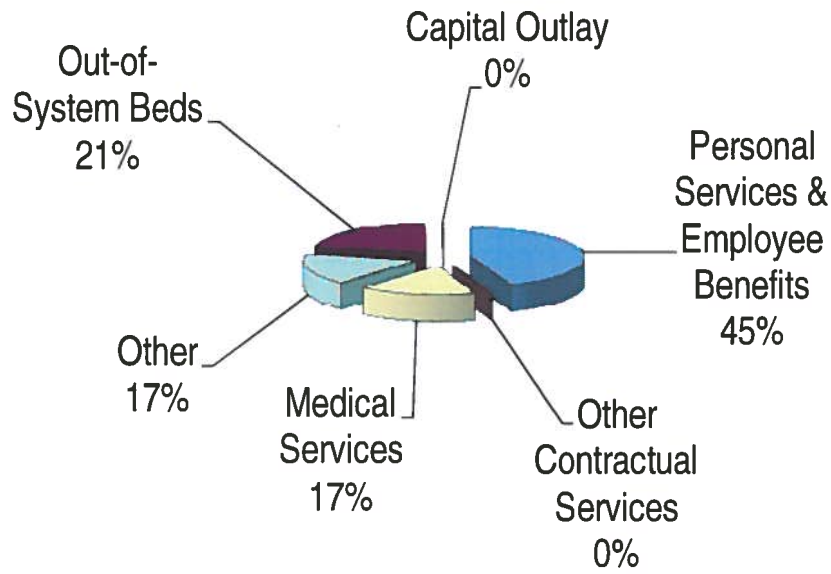
**Figure A-1
Sources of Revenues for Fiscal Year 2012**



Functional Expenses for Fiscal Year 2012

Governmental –Type Activities

Figure A-2



The Department's total expenditures for government-type activities during the fiscal year were \$267.3 million. Approximately half (45%) 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 (38%), which incorporates travel, maintenance, food, supplies, operating costs, and capital outlay. Of the total amount expended in this functional area during fiscal year 2012 approximately 21% was for the housing male and female inmates in contract prisons, and the remaining 17% was for the other operating costs.

Expenses in the contractual services category accounted for 17% of the Department's expenses, with approximately 17% 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.

Business-Type Activities

Program revenues of the Department's business-type activity (Corrections Industries) decreased approximately 11% percent from \$3.0 million to \$2.7 million and expenses decreased by approximately 15% percent from \$3.0 million to \$2.6 million. Factors contributing to these results are primarily (1) Corrections Industries sales were down 13% and continue to decline with the closure of contracted services which accounts for 20% of Industries' revenue (2) The state agencies, whom CI contracted with for more than 20 years, have chosen to automate the services with new technology minimizing the need for manpower.

Fund Balance

The Department, in its governmental funds, reported a combined fund balance of approximately \$16.2 million, approximately \$3.0 million higher than last year. The primary reason for the increase relates to the Department had more restricted fund balance that was not used and committed fund balance for re-budgeting purposes.

General Fund Budgetary Highlights

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

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

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

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

Capital Assets and Debt Administration

At the end of fiscal year 2012, the Department invested a total of \$29.0 million in governmental-type activities and \$0.2 million in business-type activities for a total amount of \$29.2 million in a variety of capital assets. This amount represents an overall net decrease (including additions and deletions) of \$2.8 million (-9%) over the last fiscal year. The increase in Improvements other than Buildings was mainly due to properly classifying assets that had previously been classified in the area of Machinery and Equipment. Accumulated depreciation also increased by \$2.8 million (9%) over the prior period.

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

	Governmental Activities		Business-type Activities		Total		Total % Change
	2011	2012	2011	2012	2011	2012	2011 - 2012
Buildings and Improvements	32.1	32.2	0.6	0.6	32.7	32.8	0%
Improvements other than Buildings	2.8	3.3	-	-	2.8	3.3	18%
Machinery and Equipment	23.5	22.9	2.1	2.1	25.6	25.0	-2%
Automotive	2.6	2.6	0.6	0.6	3.2	3.2	0%
Depreciation	(29.3)	(32.0)	(3.0)	(3.1)	(32.3)	(35.1)	9%
	<u>31.7</u>	<u>29.0</u>	<u>0.3</u>	<u>0.2</u>	<u>32.0</u>	<u>29.2</u>	-9%

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

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

Short-Term Debt

The Department did not have any long-term debt other than compensated absences associated fiscal year 2012. More detailed information regarding the Department's long-term debt is presented in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The New Mexico Corrections Department's (NMCD) FY12 operating budget was decreased by 5.4 percent or \$15.9 million to \$280.3 million, from the FY11 appropriated budget. The decrease was attributable to continued decreases in state revenues and the recession. Oil and natural gas royalties remained low, and gross receipts, corporate and personal income taxes dropped due to the sluggish economy. The NMCD was under an internal hiring freeze, which excluded correctional and probation and parole officers until November 2010, after which time all vacancies were frozen. The hiring freeze was lifted in April 2012, with the change of the Cabinet Secretary, however the NMCD is struggling to fill vacant correctional and probation and parole officer positions.

In fiscal year 2012, the probation and parole offender population increased by 1.3 percent, however, the year-end inmate population also remained at 6,800 or 0.0 percent. The department experienced a decline in inmate population in fiscal years 2007 and 2008 after a census high of 6,830 in fiscal year 2006, however the population growth returned in fiscal year 2009. The New Mexico Sentencing Commission estimates New Mexico's total inmate population will increase FY13 and is projected to grow at an average rate of 0.94 percent from fiscal year 2012 to 2021. With the current rate of growth, the estimates show that New Mexico will have an offender population of 7,513 by the end of fiscal year 2021.

The Corrections Industries Division (CID) continues to be severely impacted by the cutback in state government spending, since CID relies heavily on furniture sales from other agencies. CID is looking at developing other types of enterprise programs as a means of growing their programs and revenues.

Limited growth in New Mexico state government, on a budgetary basis, has continued to affect the Corrections Industries Division's (CID) ability to generate new orders for its standard product (i.e. furniture) from potential state customers. In addition, CID continues to increase its fund balance and will need to start using it in FY14 to operating and to expand future enterprise programs.

For fiscal year 2013, the department submitted a general fund-base increase of \$7.9 million to cover inmate population growth, reduce high-vacancy rates from the previous fiscal year, cover inflation increases for contractors, and pay for building maintenance and utility expenses. The increase was funded and the NMCD's general fund budget was increased by an additional \$8.7 million from the FY12 operating budget. Even with this increase budget, the NMCD needs to maintain strict budget measures and flat contracts (no inflation increases) and in some cases reduce contracts to ensure the budget will be balanced.

NMCD is requesting a total budget of \$293.3 million from all funding sources for fiscal year 2014, which is 1.9 percent increase from the fiscal year FY13 operating budget. Based on Decembers 2012 state revenue projections, all indications point to growth in state (new money) revenues.

The Department is a beneficiary of the State Permanent Fund, and realized an increase in the distribution income in FY13. This level of distributions from this source is anticipated to continue through the current fiscal year. Allocations from State Land Income to which the Department is a beneficiary, increased slightly in fiscal year 2012 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
Financial Management Bureau
Attn: Bryan M. Maestas, CGFM, Financial Management Bureau Chief
4337 NM 14
Post Office Box 27116
Santa Fe, New Mexico 87502-0116

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012**

	Governmental Activities	Business-type Activities	Total *
ASSETS			
Investments	\$ 38,843,927	\$ 3,010,795	\$ 41,854,722
Petty Cash	2,075	2,250	4,325
Receivables, net of allowance for doubtful accounts	152,940	36,481	189,421
Federal Grants Receivable	317,058	-	317,058
Other Receivables	9,809	-	9,809
Interest Receivable	-	585	585
Internal Balances	(164,289)	164,289	-
Due from Other State Agencies	1,132,066	121,724	1,253,790
Inventories	4,544,420	1,045,159	5,589,579
Prepaid Items	260,172	566	260,738
Total Current Assets	<u>45,098,178</u>	<u>4,381,849</u>	<u>49,480,027</u>
Capital Assets:			
Buildings	32,236,294	630,488	32,866,782
Improvements Other than Buildings	3,271,149	-	3,271,149
Machinery and Equipment	22,946,722	2,064,898	25,011,620
Automotive	2,639,544	618,497	3,258,041
Less Accumulated Depreciation	(31,999,560)	(3,108,124)	(35,107,684)
Total Capital Assets, net of depreciation	<u>29,094,149</u>	<u>205,759</u>	<u>29,299,908</u>
Total Assets	<u>74,192,327</u>	<u>4,587,608</u>	<u>78,779,935</u>
LIABILITIES			
Vouchers Payable	\$ 17,734,251	\$ 120,246	\$ 17,854,497
Payroll Benefits & Taxes Payable	3,128,386	-	3,128,386
Accrued Wages Payable	1,137,558	34,562	1,172,120
Compensated Absences Payable:			
Expected to be paid within one year	3,800,599	49,956	3,850,555
Due to State General Fund	6,335,769	-	6,335,769
Due to Other State Agencies	10,101	-	10,101
Unearned Revenue	522,511	10,000	532,511
Total Liabilities	<u>32,669,175</u>	<u>214,764</u>	<u>32,883,939</u>
NET ASSETS			
Invested in Capital Assets	29,094,149	205,759	29,299,908
Restricted for:			
Subsequent Years Expenditures	9,651,989	4,167,085	13,819,074
Unrestricted	2,777,014	-	2,777,014
Total Net Assets	<u>\$ 41,523,152</u>	<u>\$ 4,372,844</u>	<u>\$ 45,895,996</u>

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

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

	Governmental Activities	Business-Type Activities	Total
Expenses			
Public Safety - Corrections	\$ (269,680,610)	\$ -	\$ (269,680,610)
Corrections Industries	-	(2,566,484)	(2,566,484)
Program Revenues			
Charges for Services	18,644,232	2,665,145	21,309,377
Operating Grants & Contributions	816,051	-	816,051
Capital Grants & Contributions	-	-	-
Changes in net Assets:			
Net Program (Expense) / Revenue	(250,220,327)	98,661	(250,121,666)
General Revenues:			
General Fund Appropriation	256,976,500	-	256,976,500
Transfers, net	256,063	-	256,063
Reversions to the State General Fund	(6,331,316)	-	(6,331,316)
Other Revenue	-	59,467	59,467
Unrestricted investment earnings	-	4,002	4,002
Total General Revenues	<u>250,901,247</u>	<u>63,469</u>	<u>250,964,716</u>
Transfers - Internal Activities	-	-	-
Total General Revenues and Transfers	<u>250,901,247</u>	<u>63,469</u>	<u>250,964,716</u>
Change in Net Assets	680,920	162,130	843,050
Net Assets - Beginning	40,842,232	4,210,714	45,052,946
Net Assets - Ending	<u>\$ 41,523,152</u>	<u>\$ 4,372,844</u>	<u>\$ 45,895,996</u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF GOVERNMENTAL FUNDS - BALANCE SHEET
JUNE 30, 2012**

	General Fund SHARE System Fund *	Community Corrections Special Revenue Fund SHARE System Fund 90200	ARRA Special Revenue Fund SHARE System Fund 89000	Total
ASSETS				
Investments	\$ 37,418,920	\$ 1,424,660	\$ 347	\$ 38,843,927
Petty Cash	2,075	-	-	2,075
Receivables, net of allowance for doubtful accounts	152,940	-	-	152,940
Federal Grants Receivable	317,058	-	-	317,058
Other Receivables	9,809	-	-	9,809
Due from Other State Agencies	1,132,066	-	-	1,132,066
Inventories	4,544,420	-	-	4,544,420
Prepaid Items	260,172	-	-	260,172
Total Assets	\$ 43,837,460	\$ 1,424,660	\$ 347	\$ 45,262,467
LIABILITIES AND FUND BALANCES				
Liabilities:				
Vouchers Payable	\$ 17,726,431	\$ 7,820	\$ -	\$ 17,734,251
Payroll Benefits & Taxes Payable	3,111,477	16,909	-	3,128,386
Accrued Wages Payable	1,132,034	5,524	-	1,137,558
Due to Other Funds	164,289	-	-	164,289
Due to State General Fund	6,331,316	-	-	6,331,316
State Dated Warrants - Due to SGF	4,106	-	347	4,453
Due to Other State Agencies	10,101	-	-	10,101
Deferred Revenue	522,511	-	-	522,511
Total Liabilities	29,002,265	30,253	347	29,032,865
Fund Balances:				
Nonspendable	4,806,667	-	-	4,806,667
Restricted	7,897,482	181,707	-	8,079,189
Committed	360,100	1,212,700	-	1,572,800
Unassigned	1,770,946	-	-	1,770,946
Total Fund Balance	14,835,195	1,394,407	-	16,229,602
Total Liabilities and Fund Balance	\$ 43,837,460	\$ 1,424,660	\$ 347	\$ 45,262,467

* 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 ASSETS
FOR THE YEAR ENDING JUNE 30, 2012**

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

Total Fund Balances - Governmental Funds (Governmental Funds Balance Sheet)	\$ 16,229,602
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Buildings	\$	32,236,294	
Improvements other than buildings		3,271,149	
Machinery and Equipment		22,946,722	
Automotive		2,639,544	
Accumulated depreciation		(31,999,560)	
Total Capital Assets		29,094,149	29,094,149

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

Compensated Absences Payable	<u>(3,800,599)</u>
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Net Assets of Governmental Activities (Statement of Net Assets)	<u><u>\$ 41,523,152</u></u>
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**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING JUNE 30, 2012**

	General Fund SHARE System Fund *	Community Corrections Special Revenue Fund SHARE System Fund 90200	ARRA Special Revenue Fund SHARE System Fund 89000	Total
Revenues				
Charges for Services	\$ 2,062,733	\$ 44,487	\$ -	\$ 2,107,220
Intergovernmental	1,607,446	-	-	1,607,446
Institutional Sales	2,466,526	-	-	2,466,526
Investment Earnings	12,158,245	-	-	12,158,245
Miscellaneous	304,795	-	-	304,795
Federal Grants and Contributions	816,051	-	-	816,051
Total Revenues	19,415,796	44,487	-	19,460,283
Expenditures, Current				
Personal Services & Employee Benefits	118,059,328	506,035	-	118,565,363
Contractual Services	45,810,940	-	-	45,810,940
Other	100,009,696	2,386,300	-	102,395,996
Expenditures, Capital Outlay	560,821	-	-	560,821
Total Expenditures	264,440,785	2,892,335	-	267,333,120
Excess (deficiency) Revenues over Expenditures	(245,024,989)	(2,847,848)	-	(247,872,837)
Other Financing Sources (uses)				
State General Fund Appropriations	254,078,600	2,897,900	-	256,976,500
Inter-Agency Transfers-In	256,063	-	-	256,063
Transfers-In Severance tax bond Proceeds	-	-	-	-
Reversions to State General Fund	(6,331,316)	-	-	(6,331,316)
Net Other Financing Sources (uses)	248,003,347	2,897,900	-	250,901,247
Net Change in Fund Balance	2,978,358	50,052	-	3,028,410
Fund Balance, Beginning of Year	11,856,837	1,344,355	-	13,201,192
Fund Balance, End of Year	\$ 14,835,195	\$ 1,394,407	\$ -	\$ 16,229,602

* 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 STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

Net Change in fund balances - Total Governmental Funds
(Statement of Revenue, Expenditures and Changes in Fund Balance) **\$ 3,028,410**

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) and judgement and claims 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 and Claims and Judgements	286,236
--	---------

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	\$ 560,821	
Depreciation Expense	<u>(3,165,305)</u>	
Excess of Depreciation Expense over Capital Outlay		(2,604,484)

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:

(29,242)

Change in net assets of governmental activities
(Statement of Activities) **\$ 680,920**

**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, 2012**

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	Modified Accrual Basis	Favorable (Unfavorable)
Revenues				
Other State Funds	\$ 16,904,500	\$ 16,933,150	\$ 18,599,745	\$ 1,666,595
Federal Funds	1,120,800	1,968,844	816,051	(1,152,793)
Total Revenues	18,025,300	18,901,994	19,415,796	513,802
Expenditures, Current				
Personal Services & Employee Benefits	124,457,200	124,547,464	118,059,328	6,488,136
Contractual Services	46,342,700	46,934,956	45,810,940	1,124,016
Other	101,908,500	102,112,502	100,009,696	2,102,806
Expenditures, Capital Outlay	-	-	560,821	(560,821)
Total Expenditures	272,708,400	273,594,922	264,440,785	9,154,137
Excess (deficiency) Revenues over Expenditures	(254,683,100)	(254,692,928)	(245,024,989)	9,667,939
Other Financing Sources (uses)				
State General Fund Appropriation	254,078,600	254,078,600	254,078,600	-
Transfers-In	254,500	254,500	256,063	1,563
Cash Balance Re-Budgeted	350,000	359,828	-	(359,828)
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	-	(6,331,316)	(6,331,316)
Net Other Financing Sources (uses)	254,683,100	254,692,928	248,003,347	(6,689,581)
Net Change in Fund Balance	\$ -	\$ -	\$ 2,978,358	\$ 2,978,358
Fund Balance, Beginning of Year,			11,856,837	
Fund Balance, End of Year			\$ 14,835,195	

* Amounts have been reclassified for financial statement purposes. Expenditures were budgeted in the appropriate category.

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, 2012**

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Other State Funds	\$ 30,700	\$ 30,700	\$ 44,487	\$ 13,787
Federal Funds	-	-	-	-
Total Revenues	30,700	30,700	44,487	13,787
Expenditures, Current				
Personal Services & Employee Benefits	708,800	708,800	506,035	202,765
Contractual Services	500	500	-	500
Other	2,919,300	2,919,300	2,386,300	533,000
Expenditures, Capital Outlay	-	-	-	-
Total Expenditures	3,628,600	3,628,600	2,892,335	736,265
Excess (deficiency) Revenues over Expenditures	(3,597,900)	(3,597,900)	(2,847,848)	750,052
Other Financing Sources (uses)				
State General Fund Appropriation	2,897,900	2,897,900	2,897,900	-
Transfers-In	-	-	-	-
Cash Balance Re-budgeted	700,000	700,000	-	(700,000)
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	-	-	-
Net Other Financing Sources (uses)	3,597,900	3,597,900	2,897,900	(700,000)
Net Change in Fund Balance	\$ -	\$ -	\$ 50,052	\$ 50,052
Fund Balance, Beginning of Year			1,344,355	
Fund Balance, End of Year			\$ 1,394,407	

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

ASSETS

Current Assets:	
Investments	\$ 3,010,795
Petty Cash	2,250
Receivables (net of allowance for doubtful accounts)	36,481
Interest Receivable	585
Due from Other Funds	164,289
Due from Other State Agencies	121,724
Inventories	1,045,159
Prepaid Items	566
Total Current Assets	<u>4,381,849</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and Equipment	2,064,898
Buildings and Improvements	630,488
Automotive	618,497
Less Accumulated Depreciation	<u>(3,108,124)</u>
Total Noncurrent Assets	<u>205,759</u>
Total Assets	<u>4,587,608</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	120,246
Accrued Wages Payable	34,562
Compensated Absences Payable	49,956
Deferred Revenue	10,000
Total Liabilities	<u>214,764</u>

NET ASSETS

Invested in Capital Assets	205,759
Restricted	4,167,085
Total Net Assets	<u>\$ 4,372,844</u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

OPERATING REVENUES		
Sales		\$2,665,145
OPERATING EXPENSES		
Cost of Goods Sold:		
Cost of Materials Used		1,343,011
Direct Labor (inmate payroll)		109,917
Manufacturing and Administrative Overhead		1,050,095
Change in Work in Process and Finished Goods Inventory, Net		(5,479)
Depreciation Expense		68,940
Total Operating Expenses		<u>2,566,484</u>
OPERATING INCOME (LOSS)		98,661
Nonoperating revenue (expense):		
Interest on Deposits with State Treasurer		4,002
Miscellaneous Income		59,467
Total nonoperating revenue / (expense)		<u>63,469</u>
CHANGE IN NET ASSETS		162,130
Total Net Assets, July 1, 2011		<u>4,210,714</u>
Total Net Assets, June 30, 2012		<u><u>\$4,372,844</u></u>

The accompanying notes are an integral part of the financial statements

**NEW MEXICO CORRECTIONS DEPARTMENT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 2,828,631
Cash Payments to Suppliers for Goods and Services	(1,461,140)
Cash Payments to Employees for Services	(920,279)
Cash Payments to Inmates for Services	(109,917)
	<hr/>
Net Cash Used by Operating Activities	337,295
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	-
	<hr/>
Net Cash Used by Capital and Related Financing Activities	-
Cash Flows from Investing Activities:	
Interest Income	4,002
Miscellaneous Income	59,467
	<hr/>
Net Cash Received from Investing Activities	63,469
Net Increase (Decrease) in Cash	400,764
Cash at Beginning of Year (including petty cash)	2,612,281
	<hr/>
Cash at End of Year (including petty cash)	\$ 3,013,045
	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	98,661
	<hr/>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	68,940
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(32,322)
(Increase) Decrease in Prepaid Expenses	405
(Increase) Decrease in Interest Receivable	(361)
(Increase) Decrease in Due from Other Funds	40,488
(Increase) Decrease in Due from Other State Agencies	155,320
(Increase) Decrease in Inventory	51,941
Increase (Decrease) in Accounts Payable	(39,086)
Increase (Decrease) in Compensated Absences Payable	(9,657)
Increase (Decrease) in Accrued Wages Payable	(7,034)
Increase (Decrease) Deferred Revenue	10,000
	<hr/>
Total Adjustments and Changes	238,634
Net Cash Provided (Used) by Operating Activities	\$ 337,295
	<hr/> <hr/>

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, 2012**

	Inmate Trust Account
ASSETS	
Cash	\$ 1,951,259
Due from Others	265,055
Total Assets	\$ 2,216,314
LIABILITIES	
Due to Other State Agencies	\$ 28,779
Due to Others	164,155
Deposits Held for Others	2,023,380
Total Liabilities	\$ 2,216,314

* Please refer to Schedule of Changes in Assets and Liabilities on page 71 for detail information.



NOTES TO THE FINANCIAL STATEMENTS

NEW MEXICO CORRECTIONS DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2012

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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 is responsible to the Deputy Secretary of Operations. The Adult Prisons Division is the largest division within the New Mexico Corrections Department, incarcerating approximately 6,300 inmates in six state-owned and operated prisons and four privately-operated facilities. Nine of the ten 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, Prison Rape Elimination Act Coordinator, Safety Coordinator/Food Service, Internal Audits & Standards Compliance Bureau 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 division includes the Office of Professional Standards (OPS) and the Equal Employment Opportunity Officer (EEO). OPS Investigators conduct administrative investigations throughout the state and review allegations of staff misconduct.

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.

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 is responsible to the Deputy Secretary of Operations to prepare effective correctional officers, probation and parole officers and staff. It helps to 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.

Community Corrections Advisory Panel

The Community Corrections Advisory Panel is responsible for reviewing all applications for funding under the Adult Community Corrections Act and making recommendations to the Secretary of Corrections regarding each application. The Panel is appointed by the Secretary of Corrections and includes representatives from Corrections, the Judiciary, law enforcement, local and tribal governments, interested organizations, and the general public.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Department also implemented the provisions of GASB #54 effective July 1, 2010. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation. See page 38, item 12 and Note 14 for additional information about fund balances.

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

A. FINANCIAL REPORTING ENTITY

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

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

In accordance with the criteria set forth in GASB # 14 and # 39 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 Assets, 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 (§33-1-18/19 NMSA 1978 and §33-2-2 NMSA 1978) to which the Department is a beneficiary.

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

Special Revenue Fund

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

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

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

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

ARRA Fund

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

Proprietary Fund Types

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets, 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 assets and changes in net assets 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 Assets.

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 2010, all agencies, including legislative agencies, may request category transfers amount 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 2010, Chapter 6, Section 3, Item M, "for the purpose of administering the General Appropriation Act of 2010 and approving operating budgets, the state of New Mexico shall follow the modified accrual basis of accounting for governmental funds in accordance with the manual of model accounting practices issued by the department of finance and administration. The budget is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get accrued by the statutory deadline per Section 6-10-4 NMSA 1978. Those accounts payable that do not get paid timely or accrued by the statutory deadline must be paid out of the next year's budget."

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

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

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

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

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

F. ENCUMBRANCES

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

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

G. ASSETS, LIABILITIES AND FUND BALANCE

1. Deposits and Investments

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

The fair value of the investments maintained at the New Mexico State Treasurer’s Office are as follows at June 30, 2012.

<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	\$ 41,854,722
Petty Cash held by the Department		4,325
Total Investments or Cash Equivalents		<u>\$ 41,859,047</u>

* Refer to Note 4 to see individual fund detail regarding holdings held at the New Mexico State Treasurer’s Office.

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

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

2. Accounts Receivable:

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

The Department complies with Article IV, Section 32 of the New Mexico Constitution as it pertains to the remission or forgiveness of debts due to the state or to municipalities. The Department continues to track and communicate with vendors that are listed within its’ outstanding accounts receivable listing to recover outstanding balances still owed to the Department. For financial statement purposes only, the total amount the General and Enterprise funds have estimated as being the allowance to be written off prior to fiscal year 2012 has been \$227,909 and \$190,425, respectively. In fiscal year 2012, the amount to be written off 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	\$ 380,849	\$ 226,906	\$ 607,755
Less: Allowance for doubtful accounts	<u>(227,909)</u>	<u>(190,425)</u>	<u>(418,334)</u>
Net Accounts Receivable	<u>\$ 152,940</u>	<u>\$ 36,481</u>	<u>\$ 189,421</u>

3. Federal Grants Receivable:

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

4. Due from / Due to Other Funds

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

Inter-fund receivables and payables as of June 30, 2012 consist of the following:

Inter-fund Receivables

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due From Other Funds</u>	<u>Due From SHARE Fund Number</u>	<u>Amount</u>
Enterprise Fund	07700	164,289	90700	126,832
			91500	37,457
Totals		<u>\$ 164,289</u>		<u>\$ 164,289</u>

Inter-fund Payables

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due to Other Funds</u>	<u>Due to SHARE Fund Number</u>	<u>Amount</u>
General Fund	90700	126,832	07700	126,832
General Fund	91500	<u>37,457</u>	07700	<u>37,457</u>
Totals		<u>\$ 164,289</u>		<u>\$ 164,289</u>

5. Due to / Due from Other State Agencies

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

Inter-agency receivables and payables as of June 30, 2012 consist of the following:

Interagency Receivables

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due From Other Agencies</u>	<u>Due From SHARE Agency Number</u>	<u>Due From SHARE Fund Number</u>	<u>Amount</u>
General Fund	90700	\$ 1,132,066	33700	60100	\$ 987,995
			80500	20100	88,006
			52100	19900	53,026
			Various	Various	3,039
Enterprise Fund	07700	121,724	80500	20100	12,925
			35000	64100	11,289
			52100	19900	12,458
			Various	Various	85,052
Totals		<u>\$ 1,253,790</u>			<u>\$ 1,253,790</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>
Agency Fund	55700	\$ 28,779	78000	06300	\$ 28,779
General Fund	90700	10,101	30800	11200	7,245
			30500	17000	2,856
Totals		<u>\$ 38,880</u>			<u>\$ 38,880</u>

6. Inventories

Supplies inventory are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Inventories held by the General fund, in the amount of \$4,544,420, consist of generic supplies and materials in the various department operated correctional facilities. Inventories are valued using the average cost method. A portion of the amount reported in nonspendable fund balance represents inventories and indicates that supplies inventories are not available expendable resources for Department programs.

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

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

Raw Materials	\$	333,411
Work in Progress		93,261
Finished Goods		618,487
Total Inventory	\$	<u>1,045,159</u>

7. Prepaid Items

These amounts represent prepayment of postage and fuel, which has benefit to the Department beyond the fiscal year, ending June 30, 2012. Prepaid items are expensed when consumed under the consumption method. Therefore, these items are allocated to the fiscal year in which they are used. A portion of the amount reported in nonspendable fund balance represents prepaid items.

8. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. House Bill 1074 effective date was June 17, 2005 and as a result, 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 2012. The Department has one internally generated intangible asset (software), which is capitalized.

9. Compensated Absences

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

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

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

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

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

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

10. Deferred Revenues

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

11. Due To State General Fund (Reversions)

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

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

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

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

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale dated warrants and prior year reimbursements are also due to the State General Fund. Amounts due to the State General Fund for the year ending June 30, 2012 were paid in September 2012.

Current year reversions *Due to the State General Fund* as of June 30, 2012 were as follows:

	SHARE System Fund 90700	SHARE System Fund 91500	SHARE System Fund 89000	Total
General Fund				
Current Year:				
FY 12 Reversions	\$ 5,747,370	\$ 583,946	\$ -	\$ 6,331,316
Total FY 12 Reversions	5,747,370	583,946	-	6,331,316
State Dated Warrants	4,106	-	347	4,453
Total Reversions Due to General Fund	\$ 5,751,476	\$ 583,946	\$ 347	\$ 6,335,769

12. Reservations of Fund Balance

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

Non-Spendable Fund Balance

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

Restricted Fund Balance

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

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

H. REVENUES, EXPENDITURES AND EXPENSES

Substantially all governmental fund revenues are accrued.

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

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

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

I. NET ASSETS

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

Investment in Capital Assets – is intended to reflect the portion of net assets 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 Assets – are liquid assets (generated from revenues and not bond proceeds), which have third-party constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation limiting their use.

The Department follows GASB 46 "Net Assets Restricted by Enabling Legislation". The government-wide statements of net assets reports \$45,895,996, of which \$13,819,074 is restricted by enabling legislation.

Unrestricted Net Assets – represent all other unrestricted liquid assets that do not meet the definition of "restricted net assets" 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

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.

On June 30, 2012, the Corrections Department had one bank account with a balance above \$250,000:

	Wells Fargo Bank
Total Amount on Deposit	\$ 2,008,408
Less: Amount covered by FDIC	(250,000)
Total Uninsured Funds	<u>1,758,408</u>
Amount requiring collateral (50%) *	<u>\$ 879,204</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.

NOTE 3: Cash (continued)

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

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

SHARE System Fund No.	Type of Account	Interest Bearing	Bank/DFA Statement Balance at 06/30/12	Reconciled Book Balance at 06/30/12
90700	State Treasury	No	\$ 31,275,572	\$ 31,275,572
89800	State Treasury	No	150,602	150,602
91500	State Treasury	No	5,992,746	5,992,746
N/A	Petty Cash	No	2,075	2,075
			<u>37,420,995</u>	<u>37,420,995</u>
90200	State Treasury	No	1,424,660	1,424,660
			<u>1,424,660</u>	<u>1,424,660</u>
07700	State Treasury	Yes	3,010,795	3,010,795
N/A	Petty Cash	No	2,250	2,250
			<u>3,013,045</u>	<u>3,013,045</u>
89000	State Treasury	No	347	347
			<u>347</u>	<u>347</u>
55700	Checking	No	2,008,408	1,951,259
			<u>2,008,408</u>	<u>1,951,259</u>

NOTE 4: CAPITAL ASSETS

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

	Beginning Balance 07/01/11	Net Transfers	Additions	Deletions	Ending Balance 06/30/12
Governmental-type Activities:					
Buildings and Improvements	\$ 32,136,165	\$ 106,283	\$ -	\$ (6,154)	\$ 32,236,294
Improvements other than Buildings	2,815,763	280,953	174,433	-	3,271,149
Machinery and Equipment	23,517,587	(407,486)	305,309	(468,688)	22,946,722
Automotive	2,581,195	20,250	81,079	(42,980)	2,639,544
Total Capital Assets at Historical Cost	61,050,710	-	560,821	(517,822)	61,093,709
Less: Accumulated Depreciation					
Buildings and Improvements	12,221,650	60,963	1,298,157	(6,154)	13,574,616
Improvements other than Buildings	676,106	57,765	135,502	-	869,373
Machinery and Equipment	14,207,893	(118,728)	1,657,474	(439,446)	15,307,193
Automotive	2,217,186	-	74,172	(42,980)	2,248,378
Total Accumulated Depreciation	29,322,835	-	3,165,305	(488,580)	31,999,560
Governmental Activities Capital Assets, Net	<u>\$ 31,727,875</u>	<u>\$ -</u>	<u>\$ (2,604,484)</u>	<u>\$ (29,242)</u>	<u>\$ 29,094,149</u>
Business-type Activities:					
Buildings and Improvements	\$ 630,488	\$ -	\$ -	\$ -	\$ 630,488
Machinery and Equipment	2,069,510	-	-	(4,612)	2,064,898
Automotive	618,497	-	-	-	618,497
Total Capital Assets at Historical Cost	3,318,495	-	-	(4,612)	3,313,883
Less: Accumulated Depreciation					
Machinery and Equipment	1,889,705	56,573	33,713	(4,612)	1,975,379
Buildings and Improvements	492,533	4,585	20,411	-	517,529
Automotive	661,558	(61,158)	14,816	-	615,216
Total Accumulated Depreciation	3,043,796	-	68,940	(4,612)	3,108,124
Enterprise Fund Capital Assets, Net	<u>\$ 274,699</u>	<u>\$ -</u>	<u>\$ (68,940)</u>	<u>\$ -</u>	<u>\$ 205,759</u>

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 \$3,165,305 and \$68,940 for the governmental and enterprise funds, respectively. On the Statement of Activities, these amounts are included in the Public Safety-Corrections and Corrections Industries categories, accordingly.

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

NOTE 5: RETIREMENT PLANS (STATE PERA & ERB)

PERA Plan Description

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

Funding Policy

PERA plan members are required to contribute 7.42% of their gross salary for non-custody employees and 4.78% of their gross salary for custody employees. The Corrections Department is required to contribute 16.59% of the gross salary for non-custody employees and 25.72% 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, 2012, 2011, and 2010 were \$7,130,993, \$7,649,097, and \$8,146,335, respectively, which equal the amount of the required contributions for each year.

ERB Plan Description

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

ERB Funding Policy

Plan members earning \$20,000 or less annually are required by statute to contribute 7.9% of their gross salary. Plan members earning over \$20,000 annually were required to contribute 11.15% of their gross salary in fiscal year 2012 and will be required to contribute 9.40% of their gross salary in fiscal year 2013. The Corrections Department has been required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, in fiscal years 2012 and 2013. In fiscal year 2012, the Corrections Department contributed 9.15% of the gross covered salary of employees earning more than \$20,000 annually. In fiscal year 2013, the Corrections Department will contribute 10.9% of the gross covered salary of employees earning more than \$20,000 annually. 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, 2012, 2011, and 2010, were \$723,567, \$771,185, and \$792,189, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 6: RETIREE HEALTH CARE

RHCA Plan Description

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

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

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

Funding Policy

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

The 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. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute .917% of their salary. In the fiscal years ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

For employees who are members of an enhanced retirement plan (correctional officers), during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.292% of each participating employee's salary, and each participating employee was required to contribute 1.146% of their salary. In fiscal years ending June 30, 2013 the contribution rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.500%	1.250%

Also, employers joining the program after 1/1/98 are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Corrections Department contributions to the RHCA for the years ended June 30, 2012, 2011, and 2010 were \$1,473,539, \$1,427,090, and \$1,467,901, 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, 2012 the value of the Department's interest in the State Permanent Fund was \$216,723,247 at market. Income from the trust for the year then ended was \$11,188,571.

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 \$94,309,406 at June 30, 2012. Income from the trust for the year then ended was \$701,816.

NOTE 8: CONCENTRATIONS AND INTERFUND TRANSACTIONS

All Corrections Industries Division sales are to other government agencies.

In addition, the Enterprise Fund (Corrections Industries) conducts business with the Corrections Department General Fund in the form of sales of goods and services. These sales are at list price unless a sale price or other discount is also available to other customers. Sales to the general fund during fiscal year ended June 30, 2012 amounted to \$1,463,418.

Inmates at various institutions are required to work for the institutions or provide direct labor in the Corrections Industries work programs reflected in Schedules C-1 and C-2. 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, 2012 the Enterprise Fund incurred \$112,685 in inmate wages expense.

The inmates make purchases from the facility canteen (commissaries), which result in Other State Funds revenues to the General Fund. During fiscal year ended June 30, 2012 the General Fund recorded \$1,772,890 in such revenues.

NOTE 9: OPERATING LEASE COMMITMENTS

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,	
2013	\$ 3,412,958
2014	3,151,582
2015	2,425,839
2016	2,039,042
2017	1,931,109
Thereafter	<u>2,631,169</u>
Total Minimum Lease Payments	<u>\$ 15,591,698</u>

During the year ended June 30, 2012, general fund operating lease expenditures for facilities, vehicles, and equipment totaled \$4,180,217.

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

Year Ended June 30,	
2013	\$ 7,212
2014	7,212
2015	2,404
Total Minimum Lease Payments	<u>\$ 16,828</u>

The Penitentiary of New Mexico 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,	
2013	\$ 185,000
2014	185,000
2015	185,000
2016	185,000
2017	185,000
Thereafter	138,750
Total Minimum Lease Payments	<u>\$ 1,063,750</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	\$ 3,661,443	\$ 3,062,040	\$ (3,313,346)	\$ 3,410,137
Compensatory Leave	359,413	1,999,293	(2,035,671)	323,035
Sick Leave	65,979	121,180	(119,732)	67,427
Total Long-Term Liabilities	<u>\$ 4,086,835</u>	<u>\$ 5,182,513</u>	<u>\$ (5,468,749)</u>	<u>\$ 3,800,599</u>

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

	Balance Beginning	Increase	(Decrease)	Balance Ending*
Compensated Absences:				
Annual Leave	\$ 58,270	\$ 24,560	\$ (34,158)	\$ 48,672
Compensatory Leave	1,343	4,829	(4,888)	1,284
Sick Leave	-	1,167	(1,167)	-
Total Long-Term Liabilities	<u>\$ 59,613</u>	<u>\$ 30,556</u>	<u>\$ (40,213)</u>	<u>\$ 49,956</u>

*The estimated amount expected to be paid for Compensated Absences within one year is \$3,800,599, which is listed on the Statement of Net Assets on page 13. 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 \$49,956 for the business-type activities is expected to be paid for within one year.

NOTE 11: CONTINGENT LIABILITIES (CLAIMS & JUDGMENTS)

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

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

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

The civil actions or claims against the Department for money damages are referred to the Risk Management Division (RMD) for payment of any judgment or settlement and for some of these claims the Department and RMD could share the liability for any monetary judgment or settlement. The potential risk of loss to the Department in these pending legal cases is estimated at \$475,000 and is deemed to be "slight to moderate" by the Department's counsel and management and the potential loss would not materially adversely affect the financial statements.

NOTE 12: OTHER FINANCING SOURCES AND OPERATING TRANSFERS

Transfer In/Out:

During the fiscal year, the Department received and transferred funds that were recorded as " Other Financing Sources/Uses". These amounts include (1) \$256,976,500 of State General Fund Appropriations. (2) \$256,063 was received from GSD Risk Management Division for costs related to legal staff defending the Department in Pro Se cases. (3) The Department transferred to the State General Fund as part of its reversions \$6,331,316 (additional information regarding this amount can be found in Note 2-11 starting on page 38). 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	\$ 2,897,900	\$ -
(1) SHARE System Fund 90700	34101-85300	228,176,800	-
(1) SHARE System Fund 91500	34101-85300	25,901,800	-
Total State General Fund Appropriations		\$ 256,976,500	\$ -
General Fund			
(2) SHARE System Fund 90700	35000-35703	\$ 256,063	\$ -
Total Operating Transfers - General Fund		\$ 256,063	\$ -
State General Fund Reversions			
(3) SHARE System Fund 90700	34100-85300	-	5,747,370
(3) SHARE System Fund 91500	34100-85300	-	583,946
Total State General Fund Reversions		\$ -	\$ 6,331,316

NOTE 13: NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has published Statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. Significant change is the requirement to record each governmental entity's pro rate share of unfunded actuarial accrued liability (UAAL) on its financial statements including multi-employer cost sharing plans. The Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB), are multi-employer cost sharing plans. The changes arising from these statements are significant and the Department will comply with these changes as implementation information is provided by the State of New Mexico, PERA, and ERB. The implementation date for Statement No. 68, most relevant to the Department is for FY 2015. The status of the PERA Plan at June 30, 2011, the most recent audited financial statements available, has an unfunded accrued actuarial liability of approximately \$4.97 billion. The status of the ERB Plan at June 30, 2011, the most recent audited financial statements available, has an unfunded accrual liability of approximately \$5.68 billion.

NOTE 14: FUND BALANCE

Government Fund Balances - Restricted and Committed

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

The following is a summary of the Restricted Fund Balance amounts by fund type at June 30, 2012:

Governmental Funds	
General Operating Fund (90700)	\$ 3,735,233
Probation and Parole Fund (91500)	4,011,647
Community Corrections Special Revenue Fund (90200)	181,707
Building Fund (89800)	150,602
	<u> </u>
	<u>\$ 8,079,189</u>

The amounts in Committed Fund Balance is cash balance that would be requested for re-budget in future years. The Department did request the use of \$100,000 and \$260,100 in its' fiscal year 2013 request. These amounts requested were in the General Operating Fund 90700 and 91500, respectively, thereby reducing the amount of the appropriation request. The Community Corrections Special Revenue Fund statutorily does not revert to the State General Fund. The Department has requested to use \$600,000 in its fiscal year 2013 budget request and \$612,700 in its fiscal year 2014 budget request, thereby reducing the amount of the appropriation request.

The following is a summary of the Committed Fund Balance amounts by fund type at June 30, 2012:

Governmental Funds	
General Operating Fund (90700)	\$ 100,000
Probation and Parole Fund (91500)	260,100
Community Corrections Special Revenue Fund (90200)	1,212,700
	<u> </u>
	<u>\$ 1,572,800</u>

The Department has a portion of fund balance in the amount of \$4,806,667 that is Nonspendable. This amount includes prepaid expenses, inventories, and petty cash. The Department also has a portion of fund balance in the amount of \$1,770,946 listed as Unassigned Fund Balance.

NOTE 15: JPA AND MOU DISCLOSURE

The Department was a party to the following Joint Power Agreements (JPA) and Memorandums of Understanding (MOU) during fiscal year 2012:

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

- o Responsible Party for Operations: EMNRD
- o Time period: October 14, 1997 to indefinite
- o Total estimated amount of Project: \$112,105
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: EMNRD
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: EMNRD
- o Time period: July 20, 2001 to indefinite
- o Total estimated amount of Project: \$149,000
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: EMNRD
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: General Services Department (GSD)
- o Time period: July 1, 2008 to June 30, 2012
- o Total estimated amount of Project: \$256,063
- o Portion Applicable to NMCD: Income
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: GSD
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: South Central Solid Waste Authority
- o Time period: May 5, 2005 to Indefinite
- o Total estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: SCSWA
- o Revenue Reported: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

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

- o Responsible Party for Operations: NMDOH
- o Time period: Indefinite
- o Total estimated amount of Project: \$1,000,000
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: NMDOH
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: NMDOT
- o Time period: July 18,2011 to June 30, 2014
- o Total estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: NMDOT
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: SFSWM
- o Time period: September 1, 2001 to Indefinite
- o Total estimated amount of Project: \$90,000
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: SFSWM
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: City of Grants
- o Time Period: December 5, 2008 to Indefinite
- o Total Estimated amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: City of Grants
- o Revenue Reported: NMCD

NOTE 15: JPA and MOU Disclosure (Continued)

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

- 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 2012: -0-
- Audit Responsibility: City of Las Cruces
- Revenue Reported: NMCD

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

- Responsible Party for Operations: NMCD
- Time period: July 1, 2009 - Indefinite
- Total estimated amount of Project: \$25,000 +
- Portion Applicable to NMCD: \$25,000 +
- Amount Agency Contributed in Fiscal Year 2012: \$8,772
- Audit Responsibility: NMCD
- Revenue Reported: NM Attorney General

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

- 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 2012: -0-
- Audit Responsibility: HSD / NMCD
- Revenue Reported: Agreement only, no funds transferred

2012 Financial Audit – MOU between NMCD and the Office of the State Auditor for the 2012 Financial Audit.

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

NOTE 15: JPA and MOU Disclosure (Continued)

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

- 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 2012: \$289,815
- Audit Responsibility: NMCD / INL
- Revenue Reported: NMCD

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

- Responsible Party for Operations: NMCD
- Time Period: May 4, 2005 - Indefinite
- Total Estimated Amount of Project: \$18,065
- Portion Applicable to NMCD: \$18,065
- Amount Agency Contributed in Fiscal Year 2012: \$18,065
- Audit Responsibility: NMCD
- Revenue Reported: DFA

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

- 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 2012: -0-
- Audit Responsibility: NMDMA
- Revenue Reported: NMCD

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

- 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 2012: -0-
- Audit Responsibility: NMCD
- Revenue Reported: NMDOH

NOTE 15: JPA and MOU Disclosure (Continued)

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

- o Responsible Party for Operations: NMCD / FBI
- o Time Period: January 8, 2004 - Indefinite
- o Total Estimated Amount of Project: Income
- o Portion Applicable to NMCD: -0-
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: FBI
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: NMCD
- o Time Period: September 26, 2011 – Indefinite
- o Total estimated amount of project: \$22,000
- o Portion applicable to NMCD: \$22,000
- o Amount Agency Contributed in Fiscal Year 2012 - \$22,000
- o Audit Responsibility: NMCD
- o Revenue Reported: NMCD

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

- o Responsible Party for Operations: NMCD
- o Time Period: Indefinite
- o Total Estimated Amount of Project: Actual Cost/Reimbursement
- o Portion Applicable to NMCD: Actual Cost/Reimbursement
- o Amount Agency Contributed in Fiscal Year 2012: -0-
- o Audit Responsibility: NMCD / US Marshal's Service
- o Revenue Reported: NMCD

Reimbursement of Salary – MOU between NMCD, and the City of Roswell for the reimbursement of salary for Interim Secretary, Alfonso Solis.

- o Responsible Party for Operations: NMCD
- o Time Period: September 5, 2011 – December 2, 2011
- o Total estimated amount of project: Actual Cost
- o Portion applicable to NMCD: Actual Cost
- o Amount Agency Contributed in Fiscal Year 2012: \$26,376.80
- o Audit Responsibility: NMCD
- o Revenue Reported: City of Roswell

NOTE 15: JPA and MOU Disclosure (Continued)

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

- Responsible Party for Operations: NMCD / NENMDF
- Time Period: December 12, 2011 – June 30, 2013
- Total estimated amount of project: -0-
- Portion applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2012: -0-
- Audit Responsibility: NMCD

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

- Responsible Party for Operations: NMCD / LCCF
- Time Period: December 9, 2011 – June 30, 2013
- Total estimated amount of project: -0-
- Portion applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2012: -0-
- Audit Responsibility: NMCD

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

- Responsible Party for Operations: NMCD / GCCF
- Time Period: January 24, 2011 – June 30, 2013
- Total estimated amount of project: -0-
- Portion applicable to NMCD: -0-
- Amount Agency Contributed in Fiscal Year 2012: -0-
- Audit Responsibility: NMCD

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

- 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 2012: -0-
- Audit Responsibility: NMCD

NOTE 16: SUBSEQUENT EVENT - GENERAL FUND INVESTMENT POOL NOT RECONCILED

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, 2012, 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.

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.

GENERAL FUND

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

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

Program Support (Fund 90700)

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

Inmate Management and Control (Fund 90700)

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

Community Offender Management (Fund 91500)

- Probation & Parole Division (PPD)

Community Corrections / Vendor Operated (Fund 90200)

- Community Corrections (CC)

Traditional Budget

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

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL BY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

**GENERAL OPERATING FUND
SHARE FUND 90700**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Modified Accrual Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State General Fund	\$ 228,176,800	\$ 228,176,800	\$ 228,176,800	\$ -
Other State Funds	14,912,000	14,940,650	16,584,345	1,643,695
Inter-Agency Transfers	254,500	254,500	256,063	1,563
Federal Funds	1,120,800	1,960,949	808,155	(1,152,794)
Total Revenues	<u>\$ 244,464,100</u>	<u>245,332,899</u>	<u>245,825,363</u>	<u>492,464</u>
Rebudgeted Cash	<u>100,000</u>	<u>100,500</u>	<u>-</u>	<u>(100,500)</u>
Total Budgeted Revenues	<u><u>\$ 244,564,100</u></u>	<u><u>\$ 245,433,399</u></u>	<u><u>\$ 245,825,363</u></u>	<u><u>\$ 391,964</u></u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 106,331,900	\$ 106,404,941	\$ 101,247,012	\$ 5,157,929
Contractual Services	46,311,800	46,839,056	45,736,462	1,102,594
Other	91,920,400	92,189,402	91,798,782	390,620
Operating Transfers	-	-	-	-
Reversions	-	-	5,747,370	(5,747,370)
Total Budgeted Expenditures	<u><u>\$ 244,564,100</u></u>	<u><u>\$ 245,433,399</u></u>	<u><u>\$ 244,529,626</u></u>	<u><u>\$ 903,773</u></u>

* \$100,500 was re-budgeted from cash balance.

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL BY FUND
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts Modified Accrual Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State General Fund	\$ 25,901,800	\$ 25,901,800	\$ 25,901,800	\$ -
Other State Funds	1,992,500	1,992,500	2,015,400	22,900
Inter-Agency Transfers	-	-	-	-
Federal Funds	-	7,895	7,896	1
Total Revenues	<u>27,894,300</u>	<u>27,902,195</u>	<u>27,925,096</u>	<u>22,901</u>
Rebudgeted Cash	<u>250,000</u>	<u>259,328</u>	<u>-</u>	<u>(259,328)</u>
Total Budgeted Revenues	<u><u>\$ 28,144,300</u></u>	<u><u>\$ 28,161,523</u></u>	<u><u>\$ 27,925,096</u></u>	<u><u>\$ (236,427)</u></u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 18,125,300	\$ 18,142,523	\$ 16,812,316	\$ 1,330,207
Contractual Services	30,900	95,900	74,478	21,422
Other	9,988,100	9,923,100	8,771,735	1,151,365
Operating Transfers	-	-	-	-
Reversions	-	-	583,946	(583,946)
Total Budgeted Expenditures	<u><u>\$ 28,144,300</u></u>	<u><u>\$ 28,161,523</u></u>	<u><u>\$ 26,242,475</u></u>	<u><u>\$ 1,919,048</u></u>

* \$259,328 was re-budgeted from cash balance

**NEW MEXICO CORRECTIONS DEPARTMENT
COMBINING BALANCE SHEET GENERAL FUND TYPES
AS OF JUNE 30, 2012**

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	\$ 31,275,572	\$ 5,992,746	\$ 37,418,920
Petty Cash	-	2,075	-	2,075
Receivables net				
of allowance for doubtful accounts	-	152,940	-	152,940
Federal Grants Receivable	-	317,058	-	317,058
Other Receivables	-	9,809	-	9,809
Due from Other State Agencies	-	1,132,066	-	1,132,066
Inventories	-	4,384,210	160,210	4,544,420
Prepaid Items	-	221,573	38,599	260,172
Total Assets	\$ 150,602	\$ 37,495,303	\$ 6,191,555	\$ 43,837,460
LIABILITIES AND FUND BALANCE				
Liabilities				
Vouchers Payable	\$ -	\$ 17,202,651	\$ 523,780	\$ 17,726,431
Payroll Benefits & Taxes Payable	-	2,688,915	422,562	3,111,477
Accrued Wages Payable	-	984,880	147,154	1,132,034
Due to Other Funds	-	126,832	37,457	164,289
Due to State General Fund	-	5,747,370	583,946	6,331,316
State Dated Warrants - Due to SGF	-	4,106	-	4,106
Due to Other State Agencies	-	10,101	-	10,101
Deferred Revenue	-	522,511	-	522,511
Total Liabilities	-	27,287,366	1,714,899	29,002,265
Fund Balances:				
Reserved for:				
Nonspendable	-	4,607,858	198,809	4,806,667
Restricted	150,602	3,735,233	4,011,647	7,897,482
Committed	-	100,000	260,100	360,100
Unassigned	-	1,764,846	6,100	1,770,946
Total Fund Balance	150,602	10,207,937	4,476,656	14,835,195
Total Liabilities and Fund Balance	\$ 150,602	\$ 37,495,303	\$ 6,191,555	\$ 43,837,460

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

NEW MEXICO CORRECTIONS DEPARTMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND TYPES
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

	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	\$ -	\$ 16,584,345	\$ 2,015,400	\$ 18,599,745
Federal Grants	-	808,155	7,896	816,051
Total Revenues	-	17,392,500	2,023,296	19,415,796
Expenditures, Current				
Personal Services & Employee Benefits	-	101,247,012	16,812,316	118,059,328
Contractual Services	-	45,736,462	74,478	45,810,940
Other	-	91,244,356	8,765,340	100,009,696
Expenditures, Capital Outlay	-	554,426	6,395	560,821
Total Expenditures	-	238,782,256	25,658,529	264,440,785
Excess (deficiency) Revenues over Expenditures	-	(221,389,756)	(23,635,233)	(245,024,989)
Other Financing Sources (uses)				
General Fund Appropriation	-	228,176,800	25,901,800	254,078,600
Operating Transfers-In	-	256,063	-	256,063
Operating Transfers-Out	-	-	-	-
Reversions to State General Fund	-	(5,747,370)	(583,946)	(6,331,316)
Net Other Financing Sources (uses)	-	222,685,493	25,317,854	248,003,347
Excess Revenues and Other Financing Sources over (under) Expenditures & Other Financing Uses	-	1,295,737	1,682,621	2,978,358
Fund Balance, Beginning of Year	150,602	8,912,200	2,794,035	11,856,837
Fund Balance, End of Year	\$ 150,602	\$ 10,207,937	\$ 4,476,656	\$ 14,835,195

* 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, 2012**

PROGRAM SUPPORT

	Budgeted Amounts		Actual Amounts Modified Accrual Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
State General Fund	\$ 7,022,500	\$ 7,022,500	\$ 7,022,500	\$ -
Other State Funds	12,700	12,700	178,956	166,256
Inter-Agency Transfers	254,500	254,500	256,063	1,563
Federal Funds	100,000	100,000	-	(100,000)
Total Revenues	7,389,700	7,389,700	7,457,519	67,819
Rebudgeted Cash	-	-	-	-
Total Budgeted Revenues	\$ 7,389,700	\$ 7,389,700	\$ 7,457,519	\$ 67,819
EXPENDITURES				
Personal Services & Employee Benefits	\$ 5,429,600	\$ 5,429,600	\$ 5,170,786	\$ 258,814
Contractual Services	421,600	492,600	429,603	62,997
Other	1,538,500	1,467,500	1,450,315	17,185
Operating Transfers	-	-	-	-
Reversions	-	-	262,350	(262,350)
Total Budgeted Expenditures	\$ 7,389,700	\$ 7,389,700	\$ 7,313,054	\$ 76,646

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

INMATE MANAGEMENT and CONTROL

	<u>Budgeted Amounts</u>		<u>Actual Amounts Modified Accrual Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State General Fund	\$ 221,154,300	\$ 221,154,300	\$ 221,154,300	\$ -
Other State Funds	14,899,300	14,927,950	16,405,389	1,477,439
Inter-Agency Transfers	-	-	-	-
Federal Funds	1,020,800	1,860,949	808,155	(1,052,794)
Total Revenues	<u>237,074,400</u>	<u>237,943,199</u>	<u>238,367,844</u>	<u>424,645</u>
Rebudgeted Cash	100,000	100,500	-	(100,500)
Total Budgeted Revenues	<u>\$ 237,174,400</u>	<u>\$ 238,043,699</u>	<u>\$ 238,367,844</u>	<u>\$ 324,145</u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 100,902,300	\$ 100,975,341	\$ 96,076,226	\$ 4,899,115
Contractual Services	45,890,200	46,346,456	45,306,859	1,039,597
Other	90,381,900	90,721,902	90,348,467	373,435
Operating Transfers	-	-	-	-
Reversions	-	-	5,485,020	(5,485,020)
Total Budgeted Expenditures	<u>\$ 237,174,400</u>	<u>\$ 238,043,699</u>	<u>\$ 237,216,572</u>	<u>\$ 827,127</u>

* \$100,500 was re-budgeted from cash balance

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

COMMUNITY OFFENDER MANAGEMENT

	Budgeted Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final	Modified Accrual Basis	
REVENUES				
State General Fund	\$ 25,901,800	\$ 25,901,800	\$ 25,901,800	\$ -
Other State Funds	1,992,500	1,992,500	2,015,400	22,900
Inter-Agency Transfers	-	-	-	-
Federal Funds	-	7,895	7,896	1
Total Revenues	27,894,300	27,902,195	27,925,096	22,901
Rebudgeted Cash	250,000	259,328	-	(259,328)
Total Budgeted Revenues	\$ 28,144,300	\$ 28,161,523	\$ 27,925,096	\$ (236,427)
EXPENDITURES				
Personal Services & Employee Benefits	\$ 18,125,300	\$ 18,142,523	\$ 16,812,316	\$ 1,330,207
Contractual Services	30,900	95,900	74,478	21,422
Other	9,988,100	9,923,100	8,771,735	1,151,365
Operating Transfers	-	-	-	-
Reversions	-	-	583,946	(583,946)
Total Budgeted Expenditures	\$ 28,144,300	\$ 28,161,523	\$ 26,242,475	\$ 1,919,048

* \$259,328 was re-budgeted from cash balance

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES & EXPENDITURES – BUDGET AND ACTUAL, BY PROGRAM
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

COMMUNITY CORRECTIONS – VENDOR OPERATED

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Modified Accrual Basis</u>	
REVENUES				
State General Fund	\$ 2,897,900	\$ 2,897,900	\$ 2,897,900	\$ -
Other State Funds	30,700	30,700	44,487	13,787
Inter-Agency Transfers	-	-	-	-
Federal Funds	-	-	-	-
Total Revenues	<u>2,928,600</u>	<u>2,928,600</u>	<u>2,942,387</u>	<u>13,787</u>
Rebudgeted Cash	700,000	700,000	-	(700,000)
Total Budgeted Revenues	<u>\$ 3,628,600</u>	<u>\$ 3,628,600</u>	<u>\$ 2,942,387</u>	<u>\$ (686,213)</u>
EXPENDITURES				
Personal Services & Employee Benefits	\$ 708,800	\$ 708,800	\$ 506,035	\$ 202,765
Contractual Services	500	500	-	500
Other	2,919,300	2,919,300	2,386,300	533,000
Operating Transfers	-	-	-	-
Reversions	-	-	-	-
Total Budgeted Expenditures	<u>\$ 3,628,600</u>	<u>\$ 3,628,600</u>	<u>\$ 2,892,335</u>	<u>\$ 736,265</u>

* \$700,000 was re-budgeted from cash balance

ENTERPRISE FUND

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

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

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

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

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

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

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

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

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

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

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES, BY ENTERPRISE
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

	Furniture	Tele- marketing	Cleaning Products*	Textiles*	SNMCF Solar
Revenue from Sales	\$ 279,290	\$ 98,530	\$ 364,944	\$ 1,263,193	\$ 13,720
Manufacturing Costs:					
Costs of Materials Used:					
Beginning Inventory - Materials	105,776	2,828	40,745	205,040	-
Materials Purchases	143,363	-	190,632	699,037	-
Net Material Transfers	-	-	-	-	-
Materials Available	249,139	2,828	231,377	904,077	-
Less Ending Inventory	(104,308)	(2,404)	(37,295)	(153,468)	-
Cost of Materials Used	144,831	424	194,082	750,609	-
Direct Labor - Inmate Pay	27,820	9,650	6,565	25,224	5,299
Manufacturing Overhead:					
Salaries	88,942	59,833	21,837	72,663	-
Benefits	32,294	21,389	12,005	35,787	-
In-State Travel	-	2,504	-	1,878	-
Maintenance & Repairs	49	-	-	6,959	-
Supplies	3,868	769	-	1,564	-
Contractual Services	-	-	-	-	-
Other Costs	1,998	5,680	675	5,355	-
Out-of-State Travel	-	-	-	-	-
Irrigation Fees	-	-	-	-	-
Depreciation	3,865	290	20,407	2,140	-
Miscellaneous	-	-	-	-	-
Total Manufacturing Overhead	131,016	90,465	54,924	126,346	-
Total Manufacturing Costs	303,667	100,539	255,571	902,179	5,299
Add Beginning Work in Process	116,240	-	-	-	-
Less Ending Work in Process	(93,261)	-	-	-	-
Total Cost of Goods Manufactured	326,646	100,539	255,571	902,179	5,299
Add Beginning Finished Goods	166,090	-	28,546	391,918	-
Less Ending Finished Goods	(198,817)	-	(29,670)	(387,763)	-
Net Finished goods Transfers	-	-	2,670	(442)	-
Total Cost of Goods Sold	293,919	100,539	257,117	905,892	5,299
Gross Profit	(14,629)	(2,009)	107,827	357,301	8,421
Allocated Overhead:					
Facility Overhead	-	-	-	-	-
Sales & Marketing	(9,002)	-	(11,761)	(40,709)	-
Distribution Center	(13,161)	-	(17,197)	(18,010)	-
Central Office	(78,035)	(27,068)	(18,414)	(70,750)	(14,863)
General Fund Subsidy	-	-	-	-	-
Other Income (Expense)	-	-	-	-	-
Net Income (Loss)	\$ (114,827)	\$ (29,077)	\$ 60,455	\$ 227,832	\$ (6,442)

PNM Data Entry	GCCF Print	LLCC Farm	Sales & Marketing	Distribution Center	Central Office	Total Industries
\$ 160,351	\$ 116,735	\$ 194,286	\$ -	\$ 174,096	\$ -	\$ 2,665,145
-	29,509	6,933	-	-	-	390,831
66,208	77,500	38,365	-	70,486	-	1,285,591
-	-	(8,410)	-	8,140	270	-
66,208	107,009	36,888	-	78,626	270	1,676,422
-	(28,505)	(7,431)	-	-	-	(333,411)
66,208	78,504	29,457	-	78,626	270	1,343,011
7,539	12,810	10,640	-	4,370	-	109,917
22,842	1,121	7,627	51,447	68,871	298,875	694,058
15,306	-	3,111	18,839	28,736	58,754	226,221
-	-	-	315	26,353	8,218	39,268
-	6,394	-	-	1,739	673	15,814
118	7,476	-	-	1,409	1,071	16,275
-	1,811	-	-	-	-	1,811
156	10,658	335	894	806	19,830	46,387
-	-	-	-	-	-	-
-	-	32,348	-	-	-	32,348
590	2,127	16,615	-	17,046	5,860	68,940
-	19	-	-	-	(22,106)	(22,087)
39,012	29,606	60,036	71,495	144,960	371,175	1,119,035
112,759	120,920	100,133	71,495	227,956	371,445	2,571,963
-	-	-	-	-	-	116,240
-	-	-	-	-	-	(93,261)
112,759	120,920	100,133	71,495	227,956	371,445	2,594,942
-	3,475	-	-	-	-	590,029
-	(2,237)	-	-	-	-	(618,487)
-	(2,569)	-	-	9	332	-
112,759	119,589	100,133	71,495	227,965	371,777	2,566,484
47,592	(2,854)	94,153	(71,495)	(53,869)	(371,777)	98,661
-	-	-	-	-	-	-
-	(3,762)	(6,261)	71,495	-	-	-
-	(5,501)	-	-	53,869	-	-
(21,145)	(35,932)	(29,845)	-	(12,257)	308,309	-
-	-	-	-	-	-	-
-	-	-	-	-	63,469	63,469
\$ 26,447	\$ (48,049)	\$ 58,047	\$ -	\$ (12,257)	\$ 1	\$ 162,130

* 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, 2012**

	WNMCF Soap Shop	WNMCF Plastics	Total Cleaning Products
Revenue from Sales	\$ 177,265	\$ 187,679	\$ 364,944
Manufacturing Costs:			
Costs of Materials Used:			
Beginning Inventory - Materials	13,352	27,393	40,745
Materials Purchases	91,795	98,837	190,632
Net Material Transfers	-	-	-
Materials Available	<u>105,147</u>	<u>126,230</u>	<u>231,377</u>
Less Ending Inventory	<u>(12,505)</u>	<u>(24,790)</u>	<u>(37,295)</u>
Cost of Materials Used	<u>92,642</u>	<u>101,440</u>	<u>194,082</u>
Direct Labor - Inmate Pay	<u>2,860</u>	<u>3,705</u>	<u>6,565</u>
Manufacturing Overhead:			
Salaries	11,077	10,760	21,837
Benefits	6,034	5,971	12,005
In-State Travel	-	-	-
Maintenance & Repairs	-	-	-
Supplies	-	-	-
Contractual Services	-	-	-
Other Costs	675	-	675
Out-of-State Travel	-	-	-
Irrigation Fees	-	-	-
Depreciation	2,580	17,827	20,407
Loss on Disposal of Equipment	-	-	-
Miscellaneous	-	-	-
Total Manufacturing Overhead	<u>20,366</u>	<u>34,558</u>	<u>54,924</u>
Total Manufacturing Costs	115,868	139,703	255,571
Add Beginning Work in Process	-	-	-
Less Ending Work in Process	-	-	-
Total Cost of Goods Manufactured	<u>115,868</u>	<u>139,703</u>	<u>255,571</u>
Add Beginning Finished Goods	18,169	10,377	28,546
Less Ending Finished Goods	(18,469)	(11,201)	(29,670)
Net Finished goods Transfers	<u>2,670</u>	<u>-</u>	<u>2,670</u>
Total Cost of Goods Sold	<u>118,238</u>	<u>138,879</u>	<u>257,117</u>
Gross Profit	59,027	48,800	107,827
Allocated Overhead:			
Facility Overhead	-	-	-
Sales & Marketing	(5,713)	(6,048)	(11,761)
Distribution Center	(8,353)	(8,844)	(17,197)
Central Office	(8,021)	(10,393)	(18,414)
General Fund Subsidy	-	-	-
Other Income (Expense)	-	-	-
Net Income (Loss)	<u>\$ 36,940</u>	<u>\$ 23,515</u>	<u>\$ 60,455</u>

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF REVENUES AND EXPENSES,
FOR TEXTILES BY FACILITY
For the Fiscal Year Ending June 30, 2012**

	CCA Textiles	LCCF Textiles	WNMCF Textiles	Total Textiles
Revenue from Sales	\$ 372,142	\$ 10,034	\$ 881,017	\$ 1,263,193
Manufacturing Costs:				
Costs of Materials Used:				
Beginning Inventory - Materials	74,246	130,794	-	205,040
Materials Purchases	167,998	274	530,765	699,037
Net Material Transfers	-	-	-	-
Materials Available	242,244	131,068	530,765	904,077
Less Ending Inventory	(101,962)	(51,506)	-	(153,468)
Cost of Materials Used	140,282	79,562	530,765	750,609
Direct Labor - Inmate Pay	17,269	5,164	2,791	25,224
Manufacturing Overhead:				
Salaries	47,022	14,432	11,209	72,663
Benefits	25,486	4,674	5,627	35,787
In-State Travel	1,717	161	-	1,878
Maintenance & Repairs	6,748	211	-	6,959
Supplies	1,564	-	-	1,564
Contractual Services	-	-	-	-
Other Costs	3,395	1,960	-	5,355
Out-of-State Travel	-	-	-	-
Irrigation Fees	-	-	-	-
Depreciation	2,140	-	-	2,140
Loss on Disposal of Equipment	-	-	-	-
Miscellaneous	-	-	-	-
Total Manufacturing Overhead	88,072	21,438	16,836	126,346
Total Manufacturing Costs	245,623	106,164	550,392	902,179
Add Beginning Work in Process	-	-	-	-
Less Ending Work in Process	-	-	-	-
Total Cost of Goods Manufactured	245,623	106,164	550,392	902,179
Add Beginning Finished Goods	69,772	243,771	78,375	391,918
Less Ending Finished Goods	(102,290)	(94,679)	(190,794)	(387,763)
Net Finished goods Transfers	(442)	-	-	(442)
Total Cost of Goods Sold	212,663	255,256	437,973	905,892
Gross Profit	159,479	(245,222)	443,044	357,301
Allocated Overhead:				
Facility Overhead	-	-	-	-
Sales & Marketing	(11,993)	(323)	(28,393)	(40,709)
Distribution Center	(17,537)	(473)	-	(18,010)
Central Office	(48,437)	(14,484)	(7,829)	(70,750)
General Fund Subsidy	-	-	-	-
Other Income (Expense)	-	-	-	-
Net Income (Loss)	\$ 81,512	\$ (260,502)	\$ 406,822	\$ 227,832

**NEW MEXICO CORRECTIONS DEPARTMENT
 SCHEDULE OF REVENUES & EXPENSES – BUDGET AND ACTUAL
 For the Fiscal Year Ending June 30, 2012**

CORRECTIONS INDUSTRIES DIVISION

Revenues	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable
			GAAP Basis	(Unfavorable)
Printing and Reproduction	\$ 400,000	\$ 400,000	\$ 290,831	\$ (109,169)
Furniture Sales	1,647,300	1,647,300	279,289	(1,368,011)
Other Manufacturing	1,405,600	1,405,600	1,641,858	236,258
Farm Products	177,700	177,700	194,286	16,586
Micrographic, Data Entry & Telemarketing Services	328,800	328,800	258,881	(69,919)
Interest on Deposits	2,800	2,800	4,002	1,202
Other Revenue	-	-	59,467	59,467
Total Revenues	3,962,200	3,962,200	2,728,614	(1,233,586)
Rebudgeted Cash	-	-	-	-
Total Budgeted Revenues	\$ 3,962,200	\$ 3,962,200	\$ 2,728,614	\$ (1,233,586)
Expenditures				
Personal Services & Employee Benefits	\$ 1,841,000	\$ 1,841,000	\$ 920,279	\$ 920,721
Contractual Services	25,100	25,100	1,811	23,289
Other	2,096,100	2,096,100	1,575,454	520,646
Operating Transfers	-	-	-	-
Total Budgeted Expenditures	3,962,200	3,962,200	2,497,544	1,464,656
Non-Budgeted Expenditures				
Depreciation Expense	-	-	68,940	(68,940)
Total Budgeted and Non-Budgeted Expenditures	\$ 3,962,200	\$ 3,962,200	\$ 2,566,484	\$ 1,395,716

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
For the Fiscal Year Ending June 30, 2012**

	Balance as of June 30, 2011	Additions	Deletions	Balance as of June 30, 2012
ASSETS				
Cash	\$ 1,658,004	\$ 5,627,683	\$ (5,334,428)	\$ 1,951,259
Due from Others	872,363	265,055	(872,363)	265,055
Total Assets	<u>2,530,367</u>	<u>5,892,738</u>	<u>(6,206,791)</u>	<u>2,216,314</u>
LIABILITIES				
Due to Other State Agencies	33,687	28,779	(33,687)	28,779
Due to Others	783,701	164,155	(783,701)	164,155
Deposits Held for Others	1,712,979	2,023,380	(1,712,979)	2,023,380
Total Liabilities	<u>\$ 2,530,367</u>	<u>\$ 2,216,314</u>	<u>\$ (2,530,367)</u>	<u>\$ 2,216,314</u>



SINGLE AUDIT SECTION

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ending June 30, 2012**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Direct Programs:			
Incarcerated Individuals Program	84.331	Q331A100032	\$ 61,779
Pass-through programs from the New Mexico Higher Education Department			
Adult Basic Education	84.002	71-9981	194,438
Total U.S. Department of Education Programs			<u>256,217</u>
U.S. Department of Justice			
Direct Programs:			
State Criminal Alien Assistance Program	16.606	2010-AP-BX-0143	103,000
Prisoner Reentry Initiative	16.753	2010-DD-BX-0622	191,000
Organized Crime Drug Enforcement Task Forces	16.579	245D-AO-63435	2,328
United States Marshal	16.738	None	21,199
Total Direct Programs			<u>317,527</u>
Pass-through programs from the State Department of Public Safety			
Residential Substance Abuse for State Prisoners	16.593	2008-RT-BX-0041	5,947
Residential Substance Abuse for State Prisoners	16.593	2009-RT-BX-0041	63,216
Residential Substance Abuse for State Prisoners	16.593	2010-RT-BX-0034	19,164
Bullet Proof Vest Program	16.607	None	10,177
Pass-through program from Region III Enforcement Task Force- Santa Fe County			
Narcotics Task Force	16.004	MOU	2,126
Total Pass-through Programs			<u>100,630</u>
Total U.S. Department of Justice Programs			<u>418,157</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	09FHN001	187,018
Total Corporation for National Community Programs			<u>187,018</u>
Total Expenditures of Federal Awards			<u>\$ 861,392</u>

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



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue fund, and the combining and individual fund and related budgetary comparisons presented as supplementary information of the New Mexico Corrections Department (Department) as of and for the year ended June 30, 2012, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 14, 2012. 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.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 10-02 and 11-06 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-01, 11-03, 11-04, 11-07, 12-01, 12-02, 12-03 and 12-04.

We noted certain matters that are required to be reported pursuant to Governmental Auditing Standards paragraph 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978 which is described in the accompanying schedule of findings and questioned costs as item 11-02.

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Department, the State Auditor, The New Mexico Legislature, New Mexico Department of Finance and Administration, and applicable federal grantors and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

Office of the State Auditor

December 14, 2012



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the State of New Mexico Corrections Department's (Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Department's major federal programs for the year ended June 30, 2012. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the New Mexico Office of the State Auditor, Legislative Finance Committee, Department of Finance and Administration, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Office of the State Auditor

December 14, 2012

**NEW MEXICO CORRECTIONS DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

<u>Findings for Fiscal Year 2011</u>		<u>Current Status</u>
08-01	Inventory control	Resolved
10-02	Accounting for Fiduciary Funds	Repeated and Modified (Significant Deficiency)
11-01	Payroll - Lack of supporting documentation	Repeated and Modified (Other)
11-02	Contract billing and rates applied	Repeated and Modified (Other)
11-03	Lack of maintaining a tracking log for receiving money orders, checks, or cash to ensure properly making deposits within 24 hours and 24 hour violations	Repeated and Modified (Other)
11-04	Domicile to duty vehicles	Repeated and Modified (Other)
11-05	Inmate trust accounts - missing documentation	Repeated and Modified and Combined with 10-02 (Other)
11-06	Medical services contract	Repeated and Modified (Significant Deficiency)
11-07	Missing capital assets	Repeated and Modified (Other)
11-08	Unsupported and/or unallowed costs of \$1,325	Resolved
11-09	Lack of support for disbursements	Resolved

**NEW MEXICO CORRECTIONS DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDING JUNE 30, 2012**

A. SUMMARY OF AUDIT RESULTS

Financial Statements:

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

Federal Programs:

- | | |
|---|--------------------|
| 1. Internal Control over major programs: | |
| a. Material Weakness Identified? | No |
| b. Significant Deficiencies not considered to be material weakness? | No |
| 2. Type of auditor's report issued on compliance for major program | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |
| 4. Identification of Major Programs: | |
| <u>Program Name</u> | <u>CFDA Number</u> |
| AmeriCorps Program-Opportunities with AmeriCorps for Reentry Success | 94.006 |
| Residential Substance Abuse for State Prisoners | 16.593 |
| 5. The threshold for distinguishing Types A & B programs: | \$300,000 |
| 6. The Department was determined to be a low-risk auditee? | Yes |

B. FINDINGS - FINANCIAL STATEMENT AUDIT

10-02 Accounting for Fiduciary funds and Missing Documentation - Repeated and Modified - (Significant Deficiency)

Condition:

Accounting

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

The NMCD also uses the fiduciary funds to account for the operation of a number of inmate stores at the various prisons. The inmate stores purchase merchandise for resale to the inmates. The inmate stores sell goods to the inmates for a modest profit. Profits from the sales to the inmates are accumulated and used to purchase items for inmate use, such as, equipment used in the inmates' gymnasium and inmate gratuities upon release. Not all of the merchandise purchased during the fiscal year was sold during the fiscal year. Thus, as of the balance sheet date, the inmate stores also held a small amount of inventory that is omitted from the Statement of Fiduciary Assets and Liabilities. We also noted use of a vendor that provides song kiosks for inmates to purchase music and related listening equipment at the facilities without any type of agreement in place. In addition to a lack of an agreement in place, there is no written or established process in place to track and monitor the commissions given back to the facilities from that vendor, and whether or not distribution of the commissions is being adequately allocated.

The NMCD uses the Inmate Trust Accounting System (ITAS) which is a subsystem of software used to track all inmate-related information for the Department. ITAS is used to account for the fiduciary funds which are funds owned by the inmates and which are in the State of New Mexico's SHARE fund 55700. The ITAS software does not readily produce auditable accounting reports such as a trial balance at the end of each month which consists of total fiduciary funds of \$2,216,314. Further, ITAS was designed to account for agency funds, not operations such as inmate stores.

Documentation

During our testwork of the relate NMCD 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 31 items tested:

- There were no supporting vendor invoices in four disbursements for a total of \$331.
- There was a receiving report that was not timely or accurate for the receipt of goods in one disbursement for a total of \$10.
- There were no supporting documents that included a NMCD designee signature that evidenced the receipt of goods in 15 disbursements for a total of \$5,980.
- The supporting documents key information such as; descriptions, payee, quantities, and account information was missing in one disbursement for a total of \$50.
- There were not any documents evidencing a receipt of payment for prepaid rent in one disbursement for a total of \$960. The check is currently outstanding.
- The supporting documents evidence two purchase orders were created subsequent to payments to vendors for a total of \$2,450.
- There were missing or incomplete inmate debit memos/inmate order forms for inmate purchases in four disbursements for a total of \$2,071.
- There was not a receipt indicating a bus ticket was paid for by NMCD in one disbursement for a total of \$99.

During our testwork of Inmate Trust Account cash receipts, we noted the following out of 27 receipts:

- There was lack of detail in supporting documents to trace the recording of the transaction from the Account Transaction History (general ledger) to the bank deposit in 26 transactions for a total of \$1,884. Key information is not recorded, such as the batch #, deposit ID#, NMCD inmate ID #, or deposit amount, in the

related deposit slip that would allow the deposit at the bank to trace back to the Account Transaction History (general ledger).

- There was a check provided in which key information was illegible in one cash receipt for a total of \$60.
- There was a missing a deposit slip in one cash receipt for a total of \$13.

Criteria:

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

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

Cause:

The NMCD is using a database software application to account for fiduciary funds. This software was never intended to produce accounting reports such as a monthly trial balance or to account for a business-type activity such as an inmate store. It is unclear why there is not a formal agreement in place with the vendor supplying music goods or why there are not established policies and procedures regarding the commission allocation. Also, NMCD's current policies and procedures over Inmate Trust Accounts are not detailed in a manner that captures what constitutes adequate and complete documentation requirements.

Effect:

The NMCD is currently including in its "Statement of Fiduciary Assets and Liabilities" amounts that are not agency funds. Further, it is not disclosing the activity of the inmate stores in a meaningful manner. Also, the NMCD is unable to readily produce a monthly trial balance for the fiduciary funds which can be used by management throughout the fiscal year and by the auditors during the annual financial audit. Further, the NMCD is not able to produce meaningful statements of operations for activities such as the inmate stores and canteens. Without a monthly trial balance, the NMCD does not have a readily determinable "per books" balance of cash to which it can reconcile the Inmate Trust bank account. As of the balance sheet date, the auditors have noted a difference of \$5,896 between the bank account reconciliation of all the fiduciary funds and the amount recorded in the ITAS accounting system. Furthermore, without proper supporting documentation for the disbursement and the receipting of cash, inmate funds are susceptible to misappropriation. In addition, the lack of established allocation for the commissions received increases the risk of misappropriation.

Recommendation:

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

always keep copies of documents that are associated with the disbursements and receipt of monies from the Inmate Trust Account for an adequate time period.

Management Response:

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

11-01 Payroll – Lack of supporting documentation - Repeated and Modified - (Other)

Condition:

During our test work of payroll we noted the following exceptions:

- One of the twenty-four employee files was missing the required I-9 form.

Criteria:

The Immigration Reform Act of 1986 (IRCA) requires that a properly completed Form I-9 be on file for any employees hired after November 6, 1986. 8 USC § 1324b - Unlawful Employment of Aliens requires the hiring entity to retain the properly completed I-9 Form for either three years after the hire date or one year after the individual has been terminated, whichever is longer.

Cause:

The Department is not following federal regulation Immigration Reform Corrections Act or 8 USC § 1324b Code.

Effect:

The department has not maintained complete personnel files, in which federal forms have not been completed and/or maintained properly.

Recommendation:

The department should ensure that all required payroll related documentation is completed as required and properly maintained for the required period.

Management Response:

The Department recognizes the importance in complying with all federal regulations. The Human Resource staff will implement audit procedures to ensure compliance.

11-02 Contract Billing and Rates Applied - Repeated and Modified - (Other)

Condition:

During our testwork, Contract Cash Disbursement, we noted two instances out of three in which invoices totaling \$1,044,767, between NMCD and a municipality, contains verbiage that is unclear to the reader. The contract terms use a schedule to determine the annual rate which is used in the calculation of the facility use fee; however, we found that the schedule was ambiguous, and neither the contract provisions nor the schedule provided clear guidance as to how NMCD should apply the schedule rates to a definite time period.

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

NMCD 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:

An amendment has been drafted to the specific contract noted that will clarify the ambiguous terms. In addition, NMCD has implemented contract review procedures to identify any potential ambiguous terms at the draft stage of contracts.

11-03 Lack of maintaining a tracking log for receiving money orders, checks, or cash to ensure properly making deposits within the required time periods - Repeated and Modified - (Other)

Condition:

During our testwork of NMCD, governmental cash receipts, we noted eight instances out of twenty five totaling \$64,811 that were not properly logged in to identify the date received and therefore unable to determine if the next succeeding business day rule was met.

During our testwork of Inmate Trust Account cash receipts, we noted nine instances out of twenty seven totaling \$416 that were received but not deposited in the bank within the required period. In addition, we noted eight instances out of twenty seven totaling \$543 that a cash receipt did not have identifiable references to a check or money contained with that deposit detail.

Criteria:

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

Cause:

Due to the lack of a system that captures the date deposit received we were unable to determine in the 8 instances out of 25 noted in the condition, if NMCD meets the rule for deposit by end of the succeeding business day deadline on money orders, checks, and/or cash when received.

Related to the inmate trust accounts, when checks and money orders are being deposited staff is not properly referencing all the checks and money orders for the related deposit and deposits are not being made in accordance with policy.

Effect:

An ineffective system in place to log in money orders, checks, or cash when received can lead to an increased risk for misappropriation of receipts from the mail. The items could potentially have been held for days and deposited anytime after the required time period. Also, money orders, checks, or cash received by the Department, but not logged in upon receipt, could be deposited into bank accounts not authorized by the Department.

Recommendation:

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

Management Response:

The Department concurs with the recommendation and recognizes the importance of a tracking log to record all monetary instruments to ensure items are properly deposited within 24 hours. The Department will notify all of its locations of the NMSA Statue, will conduct additional training and will implement a audit processes to ensure compliance.

11-04 Domicile to Duty Vehicle - Repeated and Modified - (Other)

Condition:

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

- In three instances, NMCD could not provide vehicle logs for personnel, thus unable to support the correctness of the amount allocated to taxable income.
- In three instances employee's timesheet did not accurately reflect domicile-to-duty vehicle usage recorded in the employee's vehicle mileage log.
 - This resulted in the following errors in employees' W-2 income: one employee had an overstatement of \$3, one employee had an understatement of \$3, and one employee had an understatement of \$15.
- In ten instances there was no evidence a signed Policy/Procedure Acknowledgement Form was not completed by the employee.
- In two instances individuals' position held were not listed on the Authorized Vehicle list as position that should be authorized to have a state vehicle for commuting purposes.

Criteria:

The State Audit Rule Section 2.2.2.10 H (2) (ii) *IRS Employee Income Tax Compliance Issues* establishes that the use of a commuting vehicle be properly included on an employee's W-2.

NMCD's *Use of State and Privately Owned Privately Owned Motor Vehicles Policy #CD-022000 Section M.* establishes the guidelines for maintaining a car log, submission and recording of usage in employee timesheets, earnings reporting on an employee's paycheck, employee positions qualified for domicile-to-duty, and the required documents acknowledging the policy.

Cause:

NMCD'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.

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 incorrect allocations may have been occurring for years.

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, the domicile to duty employee's supervisor should verify the reporting of the usage of domicile to duty vehicle by the employee that is being entered into SHARE. Furthermore, NMCD should research the employees that have been identified as being incorrectly allocated and determine the proper course of action.

Management Response:

The Department recognizes the significance of correctly reporting and maintaining an updated roster as it pertains to domicile to duty vehicles. The Department will review the its domicile to duty policy and procedures, revise as necessary, and will implement the controls to ensure compliance.

11-06 Medical Services Contract - Repeated and Modified - (Significant Deficiency)

Condition:

During our testwork of accounts payable, we noted seven out of seven instances related to a medical services contract in which NMCD paid invoices prior to verifying the fixed cost portion of the invoice totaling \$13,181,129.

The payment vouchers consist of an invoice with three line items: 1) a fixed contract amount for medical services rendered totaling \$12,103,734 for items tested; 2) variable costs for pharmaceuticals totaling \$1,140,079 for items tested; and 3) staffing totaling \$(62,685) for items tested.

NMCD 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 NMCD staff that oversees medical operations prior to payment. The NMCD relies on reports provided by the vendor in order to reconcile the fixed cost portion of the invoices. Specifically, one NMCD 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 NMCD 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, NMCD does not independently verify the information. For example, if the vendor's staffing report indicates that there were three nurses on a given day, NMCD does not review the vendor's timesheets or take a "head count" to verify that three nurses were actually at the facility.

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]." NMCD should also have a monitoring system in place that allows for the independent verification of the receipt of goods and services prior to making payment.

Cause:

NMCD is lacking the resources to adequately monitor services rendered in order to support costs prior to disbursing payment of invoices related to the medical contract.

Effect:

With the lack of resources to adequately monitor the services rendered prior to disbursement and the lack of support for a portion of the invoice prior to payment, there is potential for payments made for services that are not rendered.

Recommendation:

NMCD should implement a monitoring system that functions as a control over payments that may have unsupported costs. NMCD should also ensure invoices contain enough detailed support prior to disbursing payment to the vendor. Any invoice that fails to include sufficient cost detail should be rejected. NMCD 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. NMCD should review vendor timesheets to ensure that staffing was provided by the vendor and NMCD should also do random "head counts" at the various prison infirmaries.

Management Response:

The Department has hired a critical position (the Health Services Administrator) who is responsible for overseeing the medical contract and is in the process of filling vacant positions who will assist in the responsibility and oversight.

11-07 Missing Capital Assets - (Modified and Repeated) - (Other)

Condition:

Springer Correctional Facility (SCC):

During the capital assets observation testwork at SCC, we noted one instance out of ten where we could not locate capital assets from the capital asset listing, "Location Detail," to its location at the facility. A Gateway M680E Notebook with an initial cost of \$1,524 was on the "Location Detail," however we were unable to locate in the field and were told the asset was "traded approximately two years ago." We also noted two instances out of ten in which the serial number listed on the detail listing did not agree with the serial number on the asset. In the first instance, a New Holland Tractor TL100A located on the property had a serial number that was not consistent with the one listed on the "Location Detail". In the second instance, we noted a Speed Queen dryer with a serial number that was different than what was documented on the "Location Detail".

Western New Mexico Correctional Facility (WNMCF):

During the capital assets testwork at WNMCF, we noted one instance out of ten where the asset listed as active on the "Location Detail" appeared to be no longer in service. The Kewanee Boiler 400 for \$58,970, was located at the WNMCF however it is considered obsolete at the facility.

We also observed five assets at WNMCF in which we were able to locate them on "Location Detail" however the five assets located at WNMCF were missing asset tags. The five assets that were missing asset tags were a Trailer 16 foot with a cost of \$3,975, a light tower with a cost of \$7,700, Loader Skid Steer with a cost of \$39,704, a Solaris Stream Kettle and Mixing Paddle with a cost of \$13,144 and a GE Ion Track-Contraband with a cost \$39,487.

Central New Mexico Correctional Facility (CNMCF):

During the review of NMCD's certification of capital assets inventory count, we noted that CNMCF did not provide the central office with a certification that the facility conducted a physical inventory count on its capital asset.

Criteria:

Title 2, Chapter 20, Part 1 NMAC establishes the requirement that each state agency conduct a physical count of its capital assets each year. This physical count must be documented with a listing that identifies all of the capital assets. Section 2.20.1.16(D) NMAC establishes "The inventory process shall produce a list of the property and the date and cost of acquisition. The annual physical inventory checks against losses not previously revealed and brings to light errors in records of accountability, but more importantly, a systematic physical inventory of fixed assets provides an opportunity for surveying their physical condition, with respect to their need for repairs, maintenance or replacement." Section 2.20.1.18 (A) establishes the standards for disposition of assets which state "Sections 13-6-1 through 13-6-2 NMSA 1978, and the procurement code govern the disposition of fixed assets."

Cause:

Lack of consistent adherence to the Department's capital asset policies and procedures. The SCC and WNMCF are not properly monitoring their capital asset disposals and reporting back to the accounting department on a yearly basis. The SCC, WNMCF and CNMCF are not consistently reviewing the capital asset listing on a yearly basis to verify existence of the assets.

Effect:

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

Recommendation:

To maintain adequate accountability, NMCD 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. We recommend that policies for proper accounting of capital assets be conveyed to all NMCD 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:

The Department concurs and will carry out the recommendation set forth. It is the Department's practice to maintain strong internal controls over capital assets; hence, we are also in agreement that physical counts shall be maintained within the Department and practiced to ensure accountability of all assets coming into and leaving the agency's possession.

12-01 Residential Housing/Trailer Court Benefits at Facilities - (Other)

Condition:

During our audit procedures regarding housing/trailer court benefits, we noted seven out of eight instances, in which the required pre-approval was not documented before housing was assigned. We also noted one out of eight instances in which there was no documentation whatsoever for an employee who was assigned housing/trailer space. Additionally, in one out of eight instances the Residential Housing/Trailer Court Acknowledgement and Agreement Form (CDD-024901) was not completed.

Additionally, there was no evidence that the required annual review was performed.

Criteria:

NMCD'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.

Cause:

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

Effect:

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

Recommendation:

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

Management Response:

The Department concurs with the recommendation. The current policy and procedure will be reviewed and modified as needed to include an oversight and review process.

12-02 Use of State Issued Gasoline Credit Cards - (Other)

Condition:

During the review of the Wright Express fuel card (WEX) activity for the fiscal year we tested eight invoices that represent eight months' worth of activity with total expenditures of \$122,658. 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:

- 55 instances where unleaded plus fuel was purchased at a cost of \$2,241 and 29 instances where super-unleaded fuel was purchased at a cost of \$1,106,
- 8 instances where employees purchased diesel fuel for vehicles requiring regular unleaded fuel at a cost of \$88,
- 58 instances where non-fuel transactions were not supported for a total of \$710,
- One instance where the gas tank capacity is 17 gallons, and the individual purchased 24.573 gallons, the total cost of the fuel was \$85 with \$25 associated with the additional gallons.
- No backup documentation was included with the invoices to show NMCD has been reimbursed for unauthorized or unsupported purchases.

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Management's Response:

The Department recognizes the significance and importance of monitoring all purchases pertaining to State issued gasoline credit cards. The Department will notify all of its' field office to ensure all purchases made with gas credit cards are allowable charges. The Department will also review the its internal policy and procedures, revise as necessary, and will implement the controls to ensure compliance.

12-03 Compensated Absences - (Other)

Condition:

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

- Two instances where employees are currently accruing annual leave at a rate lower than specified by SPO rules.
- Four instances where compensatory time balances exceeded the maximum limit of 240 hours, for a total overage of 96 hours and \$1,366. As there do not appear to be any mechanisms in place to cap the balances at 240, there is potential for that more overages may exist.
- Four instances where compensatory time was issued when overtime should have been paid instead. There is no mechanism in place to automatically pay FLSA covered employees overtime payment according to state and federal regulations, when an employee does not pre-approve comp time in lieu of overtime payment.

We also noted twenty six instances during fifteen payroll tested in which employees exceeded the 160 maximum comp time balances, for a total of 1,727 hours, amounting to \$66,366. As there do not appear to be any mechanisms in place to cap the balances at 160, there is potential that more overages exist.

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

Criteria:

NMAC 1.7.4.14 Section J establishes Agencies shall pay Fair Labor Standards Act covered, non-exempt employees for overtime worked unless the employee, in advance, agrees in writing to compensatory time off. Employees may accrue a maximum of 240 hours of compensatory time, unless otherwise authorized by statute and shall be paid for accrued compensatory time upon separation.

NMAC 1.7.7.8 Section A establishes the rates employees shall accrue annual leave based on years of service.

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

Cause:

NMAC 1.7.4.14 is not being properly followed. NMAC 1.7.7.8 is not being followed. Additionally NMCDs Overtime and Extra Hours Worked Compensation Policy #CD-035100 is not being followed. Additionally, there does not appear to be a mechanism in place at NMCD control level to identify the unallowed overages.

Effect:

Without a monitoring process in place employees are accruing balances of compensatory time that exceed set policy amounts and statutory requirements. Also, other employees are not accruing the amount of annual leave established in NMAC. The impact may be substantial as some of incorrect accruals may have been occurring for years.

Recommendation:

NMCD should implement a monitoring process to ensure employees are not accruing balances of compensatory time that exceed policy limits and statutory requirements. NMCD should research the employees that have been identified as accruing annual leave incorrectly and determine the proper course of action.

Management's Response:

The Department concurs with the recommendation and will implement the controls as noted within the recommendation. Measures will be taken to research the data of the affected employees and steps will be taken to prevent future occurrences.

12-04 Overpayment of AMERICORP Stipend - (Other)

Condition:

During our major program testwork over the AMERICORP grant, CFDA #94.006, we noted one expenditure out of seventeen tested, in the amount \$372 that represents an unsupported overpayment. The amount was paid to an AMERICORP member as a stipend, but the amount exceeded the set stipend amount.

Criteria:

The AMERICORP grant establishes allowable costs, which includes stipends to members. NMCD sets a standard stipend amount under the grant that should not be exceeded.

Cause:

The AMERICORP member was initially shorted on the stipend check. In order to correct the short payment, DFA processed a second payroll to make up the difference owed, but erroneously reprinted a duplicate of the first shorted check, thus overpaying the member. NMCD informed DFA of the error and was told that the additional pay would be reversed on the following payroll, however a system error followed and prevented the completion of the reversal.

Effect:

The overpaid amount represents an unallowed cost. Unallowed costs may jeopardize future federal funding.

Recommendation:

Controls should be in place that ensure all costs paid through the grant are allowable and within set amounts. NMCD may consider reimbursing the grant for the overpaid/unallowed amount.

Management Response:

The Department concurs with the recommendation and will implement the controls as noted within the recommendation.

C. FINDINGS – FEDERAL PROGRAMS

None

NEW MEXICO CORRECTIONS DEPARTMENT
Exit Conference
Year Ended June 30, 2012

An exit conference was held on Tuesday, December 11, 2012 and attended by the following:

New Mexico Corrections Department Personnel:

Gregg Marcantel, Secretary of Corrections
Aurora B. Sánchez, Deputy Secretary of Administration
Joe W. Booker, Jr., Deputy Secretary of Operations
JoAnn R. Duran, ASD Director, Administrative Services Division
Bryan M. Maestas, CGFM, Financial Management Bureau Chief, Financial Management Bureau
Blanca Sena, Accounting Manager, Financial Management Bureau
Toni Rodriguez, Executive Assistant

New Mexico Office of the State Auditor Personnel:

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

Kubiak & Melton, LLC Personnel:

Daniel Trujillo, CPA, CFE, Associate
Don Witman, CPA