

**Timothy M. Keller**  
State Auditor



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Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**Via Email and U.S. Mail**

October 31, 2017

M. Jay Mitchell  
Secretary  
Department of Homeland Security and Emergency Management  
PO Box 27111  
Santa Fe, New Mexico 87502

Secretary Mitchell:

The Office of the State Auditor (“OSA”) has reviewed and released the Fiscal Year 2016 financial audit for the Department of Homeland Security and Emergency Management (“Department”). The audit was performed by the independent accounting firm CliftonLarsonAllen (“IPA”).

The audit, which was submitted about nine months late, contains 14 findings with respect to an array of problems. As was the case for Fiscal Year 2015, these shortcomings primarily concern grant management practices and weak financial controls. For six of the 10 opinion units, the auditor issued qualified opinions, indicating that the IPA was unable to obtain sufficient information with respect to the completeness and accuracy of these funds and activities, which may in turn result in material misstatements to the financial statements. The audit does indicate some progress is being made; however, many of the same issues remain.

Additionally, as we have noted in the past, the report once again indicates little progress was made with respect to the expenditure of executive order appropriations for natural disasters and other emergencies. From an ending balance for Fiscal Year 2015 of \$34.7 million, only about \$10 million was spent during Fiscal Year 2016. When combined with newly authorized emergency funds, this left the Department with about \$30 million in unspent funds at the end of the fiscal year from emergencies dating back to 2007.

Due to the significant vacancy and turnover challenges that the Department has faced and the impact it was having on agency operations, the OSA wrote to Governor Martinez on September 14, 2016 requesting that the Department of Finance and Administration (“DFA”) assist the Department with its financial affairs and grant management practices. The Administration declined to provide direct DFA support to the Department, and in March 2017, implemented a hiring freeze that was intended to save state funds. Exactly the opposite occurred. As a result of staffing shortages and the inability to hire employees, the Department outsourced this assistance

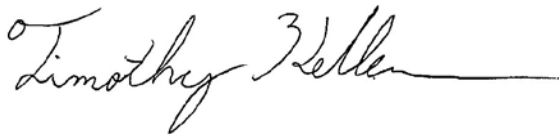
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at considerable cost. For example, in Fiscal Year 2016 the Department spent \$445,932 on temporary staffing services, which appears to have increased to \$646,303 in Fiscal Year 2017.

As the primary agency responsible for emergency management efforts, the Department handles millions of dollars of federal and state funds. Sound fiscal management and operations are critical to maintaining our state's readiness and its capacity to prevent and respond to emergencies. We expect the Fiscal Year 2017 audit to be completed as soon as possible to provide a more current perspective regarding any corrective actions that Department has taken.

We appreciate the Department's attention to these matters.

Sincerely,

A handwritten signature in cursive script that reads "Timothy M. Keller". The signature is written in black ink and includes a long horizontal flourish at the end.

Timothy M. Keller  
State Auditor

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2016**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
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**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
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**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
OFFICIAL ROSTER  
JUNE 30, 2016**

M. Jay Mitchell, Cabinet Secretary

Vacant, Deputy Cabinet Secretary

Sarah Peterson, Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the budgetary comparisons for the Special Appropriations Fund and Executive Orders State Disasters Fund of the New Mexico Department of Homeland Security and Emergency Management (the Department) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the major Capital Projects Fund presented as supplementary information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2016, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

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

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

**Summary of Opinions**

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Qualified
Special Appropriation Fund	Unmodified
Special Appropriation Fund – Budgetary Comparison	Unmodified
Federal Direct Operating Grants Fund	Qualified
Federal Flow-Through Grants Fund	Qualified
Executive Orders State Disasters Fund	Qualified
Executive Orders State Disasters Fund – Budgetary Comparison	Qualified
Capital Projects Fund	Unmodified
Capital Projects Fund – Budgetary Comparison	Unmodified

**Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund, Federal Direct Operating Grants Fund, Federal Flow-Through Grants Fund and Executive Orders State Disasters Fund (Including Budgetary Comparison)**

We were unable to obtain sufficient appropriate audit evidence relating to the completeness, existence, accuracy, and valuation of the Department’s federal accounts receivable/payable reported as of June 30, 2016. Accounting principles generally accepted in the United States of America require that amounts reported as accounts receivable represent net realizable amounts to be received by the Department or valid liabilities due to the federal government. However, management is unable to provide sufficient audit evidence to support these balances of the Department. The amount by which this departure would affect the assets, liabilities, revenues, fund balance, net position of the Federal Direct Operating Grants Fund and governmental activities has not been determined.

Management has not calculated the Department’s reversion and related amounts due to the State General Fund as of and for the year ended June 30, 2016. As a result, we were unable to obtain sufficient appropriate audit evidence relating to the completeness, existence, accuracy, and valuation of the Department’s amount due to the State General Fund as of June 30, 2016 and any related reversions to the State General Fund. Accounting principles generally accepted in the United States of America require that any liabilities and related expenditures be properly accrued and reflected in the Department’s financial statements. The amount by which this departure would affect the liabilities, other



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

financing uses (reversions), fund balance, and net position of the General Fund, Federal Direct Operating Grants Fund, Executive Orders State Disasters Fund, and governmental activities has not been determined.

Management was unable to provide sufficient audit evidence relating to the completeness, existence, and accuracy of the balances and related activity of each executive order accounted for within the Executive Orders State Disasters Fund. Accounting principles generally accepted in the United States of America require that the assets, liabilities, and fund balance of a fund be properly reported for and accounted as of and for the year ended June 30, 2016. The amount by which this departure would affect the liabilities, other financing uses (reversions), fund balance, net position of the Executive Orders State Disasters Fund, and governmental activities has not been determined.

Management has presented the Federal Flow-Through Grants and the Executive Orders State Disasters Fund as special revenue funds, however, the expenditures of both funds are funded with other financing sources (transfers in from other agencies of the State). Accounting principles generally accepted in the United States of America only allows for a special revenue fund classification to account for and report the proceeds of specific revenue sources that are restricted and committed to expenditure for specific purposes. Because these funds only receive transfers in from other agencies, which do not qualify as revenue, the Department would need to present these in the appropriate fund classification other than a special revenue fund as of and for the year ended June 30, 2016. The amount by which this departure would affect the assets, liabilities, other financing uses (reversions), fund balance, net position of the General Fund, Federal Direct Operating Grants Fund, Federal Flow-Through Grants Fund, and the Executive Orders State Disasters Fund has not been determined.

Management was unable to provide the budgeted amounts for the Executive Orders Disasters Fund by expenditure category for the remaining unexpended balance from prior years, which is required to prepare the budgetary comparison on a budgetary basis as of and for the year ended June 30, 2016.

### ***Qualified Opinions***

In our opinion, except for the matters described in the “Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund, Federal Direct Operating Grants Fund, Federal Flow-Through Grants Fund, and Executive Orders State Disasters Fund” paragraphs above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, General Fund, Federal Direct Operating Grants Fund, Federal Flow-Through Grants Fund, and Executive Order State Disasters Fund of the Department as of June 30, 2016, and the respective changes in financial position and budgetary comparison of the Executive Order State Disasters Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Special Appropriation Fund and Capital Projects Fund as of June 30, 2016, and the respective changes in financial position and budgetary comparisons of the Special Appropriation Fund and the Capital Projects Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 13, the Department recorded a restatement to the Department’s net position to correct previously reported balances. Our opinion is not modified with respect to this matter.

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

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the budgetary comparison statements, and the aggregate remaining fund information of the State of New Mexico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 12 and the Statement of Revenues, Expenditures, and Changes in Fund Balance — Budget and Actual — 2005x Funds Program Budget on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

The schedule of expenditures of federal awards and other schedules required by 2.2.2 NMAC as listed in the table of contents as schedule of special appropriations, schedule of executive orders, and schedule of joint powers agreements and memorandums of understanding are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the Executive Order State Disasters Fund as described in the "Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund, Federal Direct Operating Grants, and Executive Orders State Disasters Fund", the schedule of expenditures of federal awards and other

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State of New Mexico  
Department of Homeland Security and Emergency Management  
and Mr. Tim Keller, New Mexico State Auditor  
Santa Fe, New Mexico

schedules required by 2.2.2 NMAC as listed in the table of contents as schedule of special appropriations, schedule of executive orders, and schedule of joint powers agreements and memorandums of understanding are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of vendor information required by 2.2.2 NMAC has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
August 31, 2017

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2016**

This discussion and analysis of the New Mexico Department of Homeland Security and Emergency Management provides an overview of financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the financial statements. This section will assist the reader in understanding the following:

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

**Department's Role for the State of New Mexico**

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

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

**Financial Highlights**

- In fiscal year 2016, the Department received \$60,089,017 in revenue, the majority from federal operating grants.
- Change in net position for the year-ended June 30, 2016 was \$(6,824,240).
- At the end of the current fiscal year, assets decreased primarily due to decreased grant receivables and liabilities decreased primarily due to decreases in the Department's Overdraft of its Investment in State Treasurer's General Fund Investment Pool.

**Overview of the Financial Statements**

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

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

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2016**

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

The government-wide financial statements can be found on pages 13 and 14 of this report.

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

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

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

Department of Homeland Security and Emergency Management maintains its fund structure in the Statewide Human Resources, Accounting and Management Reporting (SHARE) System. The Department maintains the General Fund (Fund No. 20050), four (4) special revenue funds – Special Appropriation (Fund No. 93100), Federal Direct Operating Grants (Fund No. 20052), Federal Flow-Through Operating Grants (Fund No. 20054), and Executive Orders State Disasters Fund (Fund No. 20380), and one (1) capital projects fund, Capital Projects Fund (Fund No. 89200).

Department of Homeland Security and Emergency Management adopts an annual appropriated budget for the activities of the Department. A budgetary comparison statement has been provided for the 2005x Funds as a program budget presented as required supplementary information and the other major special revenue funds that have legally adopted budgets and are presented as part of the basic financial statement. All other budget comparisons that have legally adopted budgets are presented as supplementary information.

The basic governmental fund financial statements can be found on pages 15 through 22 of this report.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2016**

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 37 of this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Department of Homeland Security and Emergency Management, current assets (excluding capital assets) decreased by \$10,750,248 or by 23%. This change primarily results from decreased grants receivable. The Department's liabilities have also decreased by \$2,526,841. The governmental activities net position decreased by \$6,824,240, which was primary attributable to a decrease in Executive Orders awarded and reversion of a capital project appropriation to the state general fund.

The restricted portion (\$31,156,781) of Department of Homeland Security and Emergency Management's net position represents resources that are subject to external restrictions on how they may be used, such as special appropriations that can only be used towards specific declared disaster relief efforts.

	<u>Governmental Activities</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current and Other Assets	\$ 34,593,134	\$ 43,689,156
Capital Assets	1,947,737	3,601,963
Total Assets	<u>\$ 36,540,871</u>	<u>\$ 47,291,119</u>
Current Liabilities	\$ 3,335,689	\$ 5,848,593
Noncurrent Liabilities	-	13,937
Total Liabilities	<u>3,335,689</u>	<u>5,862,530</u>
Net Position:		
Net Investment in		
Capital Assets	1,947,737	3,601,963
Restricted for:		
Other Purposes	-	38,017,954
Unrestricted	100,664	(191,328)
Total Net Position	<u>2,048,401</u>	<u>41,428,589</u>
Total Liabilities, Deferred		
Inflows of Resources,		
and Net Position	<u>\$ 5,384,090</u>	<u>\$ 47,291,119</u>

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2016**

**Changes in Net Position**

The Department's total revenues of \$60,089,017, total expenses of \$72,601,870, and total general revenues and expenses of \$5,688,613 resulted in a change in net position of \$(6,824,240). The Department had a decrease in grant and executive order revenue and an increase in program expenses and transfers out from the prior year.

The table shows the summarized revenues and expenditures for the years ended June 30, 2016 and 2015.

	Governmental Activities	
	June 30, 2016	June 30, 2015
<b>REVENUES</b>		
Program Revenues:		
Operating Grants	\$ 60,027,213	\$ 61,606,502
Charges for Services	61,804	59,875
Total Revenues	60,089,017	61,666,377
<b>EXPENSES</b>		
Program Expenses:		
Public Safety	72,601,870	71,364,995
Total Expenses	72,601,870	71,364,995
<b>GENERAL REVENUES AND (EXPENSES)</b>		
State General Fund Appropriations	8,004,600	11,898,000
Transfers In	928,557	-
Transfers Out	(3,255,013)	-
Reversions to State General Fund	-	(1,868,572)
Other Revenue	10,469	90,051
Total General Revenues and Expenses	5,688,613	10,119,479
<b>CHANGE IN NET POSITION</b>	(6,824,240)	420,861
Net Position - Beginning of Year	41,428,589	40,133,868
Net Position - Restatement	(1,399,167)	873,860
Net Position - As Restated	40,029,422	41,007,728
<b>NET POSITION - END OF YEAR</b>	\$ 33,205,182	\$ 41,428,589

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2016**

**Financial Analysis of the Government's Funds**

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

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

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

As of the end of fiscal year 2016, Department of Homeland Security and Emergency Management's governmental funds reported combined ending fund balances of \$31,420,613, a decrease of \$6,541,127 in comparison with the prior year. \$31,156,781 is *restricted* for specific purposes.

The combined ending fund balance is attributable to the Executive Orders State Disasters Fund balance of \$30,406,781 and General Fund balance \$1,013,832. The decrease in fund balance in fund balance is primarily attributed to decreases in special appropriations resulting from executive orders from the Governor.

**Budget Amendment Highlights**

The annual operating budget is approved by the New Mexico Governor. Over the course of the year, the Department's budget is subject to approval by the New Mexico Department of Finance and Administration. Comparison of actual expenditures on a budgetary basis to approved budget amounts is presented in the basic financial statements section of the financial statements. Budgetary basis expenditures were within approved budgeted amounts. The difference in budget to actual expenditures for the total categories is \$134,123,245. There were no unexpected budget variances during the year.

	Final Budget	Actual (Budgetary) Basis	Favorable (Unfavorable) Variance
2005X Funds Program Budget	\$ 167,679,061	\$ 62,383,918	\$ 105,295,143
Special Appropriation Fund	3,255,013	3,255,013	-
Executive Orders State Disasters Fund	38,512,941	9,866,629	28,646,312
Capital Projects Fund	250,000	68,210	181,790
Total for Governmental Funds	<u>\$ 209,697,015</u>	<u>\$ 75,573,770</u>	<u>\$ 134,123,245</u>



**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2016**

**Capital Asset and Debt Administration**

Capital Assets

The investment in capital assets consists mainly of buildings, equipment, and automobiles. The following net change occurred in the capital assets during the years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Net Capital Assets - Beginning of Year	\$ 3,601,963	\$ 3,933,913
Restatement to Capital Assets	(1,399,167)	-
Capital Assets Purchased	275,591	259,444
Current Year Depreciation/Adjustments	<u>(530,650)</u>	<u>(591,394)</u>
Net Capital Assets - End of Year	<u>\$ 1,947,737</u>	<u>\$ 3,601,963</u>

Consistent with application of GASB No. 34, the Department has recognized depreciation for assets during the fiscal year of \$530,650. During the fiscal year-end inventory for fiscal year 2017, the Department identified items wrongfully included and excluded on the Capital Asset balances in past fiscal years. In fiscal year 2016, the balances were adjusted. The cumulative adjustment amount is \$(1,399,167). The summary of changes in capital asset and accumulated depreciation balances can be found in Note 5 of the financial statements.

**Economic Factor and Next Year's Budgets**

The Department's fiscal year 2017 budget recommendation was submitted with an additional \$600,000 in appropriations to support development efforts of the Statewide Mass Notification System and enhancements for radio communications statewide.

**Request for Information**

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

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

<b>ASSETS</b>	<u>Governmental Activities</u>
Current Assets:	
Investment in State General Fund Investment Pool	\$ 20,865,137
Due from Federal Government	11,869,115
Due from Other State Agencies	1,846,054
Other Assets	12,828
Total Current Assets	<u>34,593,134</u>
Non-Current Assets:	
Capital Assets, Net of Depreciation	<u>1,947,737</u>
Total Assets	<u><u>\$ 36,540,871</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 2,588,149
Accrued Payroll and Benefits	98,489
Other Liabilities	-
Due to State General Fund	360,875
Due to Other State Agencies	8,175
Due to Federal Government	116,833
Compensated Absences, Due Within One Year	163,168
Total Current Liabilities	<u>3,335,689</u>
Total Liabilities	3,335,689
<b>NET POSITION</b>	
Net Investment in Capital Assets	1,947,737
Restricted	31,156,781
Unrestricted	100,664
Total Net Position	<u>33,205,182</u>
Total Liabilities and Net Position	<u><u>\$ 36,540,871</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

	Governmental Activities
<b>EXPENSES</b>	
Public Safety	\$ 72,601,870
Total Program Expenses	72,601,870
<b>PROGRAM REVENUES</b>	
Operating Grants	60,027,213
Charges for Services	61,804
Total Program Revenues	60,089,017
Net Program Expense	(12,512,853)
<b>GENERAL REVENUES AND (EXPENSES)</b>	
State General Fund Appropriations	8,004,600
Transfers In	928,557
Transfers Out	(3,255,013)
Reversions to State General Fund	-
Other Revenue	10,469
Total General Revenues and Expenses	5,688,613
<b>CHANGE IN NET POSITION</b>	(6,824,240)
Net Position - Beginning of Year	41,428,589
Restatement	(1,399,167)
Net Position - Beginning of Year, Restated	40,029,422
<b>NET POSITION - END OF YEAR</b>	\$ 33,205,182

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	Major Funds		
	20050/20051/ 20055  General Fund	93100  Special Appropriation	20052  Federal Direct Operating Grants
<b>ASSETS</b>			
Investment in State General			
Fund Investment Pool	\$ 1,851,934	\$ -	\$ -
Due from Other State Agencies	164	-	-
Due from Federal Government	-	-	11,869,115
Other Assets	-	-	11,316
	<u>-</u>	<u>-</u>	<u>11,316</u>
Total Assets	<u>\$ 1,852,098</u>	<u>\$ -</u>	<u>\$ 11,880,431</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Investment in State Treasurer General			
Fund Investment Pool (Overdraft)	\$ -	\$ -	\$ 10,222,407
Accounts Payable	443,024	-	1,472,055
Accrued Payroll and Benefits	69,437	-	26,736
Due to State General Fund	297,679	-	62,351
Due to Other State Agencies	8,175	-	-
Due to Federal Government	19,951	-	96,882
Total Liabilities	<u>838,266</u>	<u>-</u>	<u>11,880,431</u>
Fund Balances:			
Restricted	750,000	-	-
Unassigned	263,832	-	-
Total Fund Balances	<u>1,013,832</u>	<u>-</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,852,098</u>	<u>\$ -</u>	<u>\$ 11,880,431</u>

See accompanying Notes to Financial Statements.

Major Funds			
20054 Federal Flow-Through Grants	20380 Executive Orders State Disasters Fund	89200 Capital Projects Fund	Total Governmental Funds
\$ -	\$ 29,330,572	\$ -	\$ 31,182,506
27,680	1,750,000	68,210	1,846,054
-	-	-	11,869,115
1,512	-	-	12,828
<u>\$ 29,192</u>	<u>\$ 31,080,572</u>	<u>\$ 68,210</u>	<u>\$ 44,910,503</u>
\$ 26,752	\$ -	\$ 68,210	\$ 10,317,369
107	672,963	-	2,588,149
2,316	-	-	98,489
17	828	-	360,875
-	-	-	8,175
-	-	-	116,833
<u>29,192</u>	<u>673,791</u>	<u>68,210</u>	<u>13,489,890</u>
-	30,406,781	-	31,156,781
-	-	-	263,832
<u>-</u>	<u>30,406,781</u>	<u>-</u>	<u>31,420,613</u>
<u>\$ 29,192</u>	<u>\$ 31,080,572</u>	<u>\$ 68,210</u>	<u>\$ 44,910,503</u>

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

<b>Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)</b>	\$	31,420,613
 Amounts reported for governmental activities in the statement of net position are different because:		
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Cost of Capital Assets		8,606,607
Accumulated Depreciation		(6,658,870)
Total Capital Assets, Net		1,947,737
 Long-Term and Other Liabilities:		
Compensated Absences Payable		(163,168)
Total Long-Term and Other Liabilities		(163,168)
 <b>Net Position of Governmental Activities (Statement of Net Position)</b>	 \$	 <u><u>33,205,182</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2016**

	Major Funds		
	20050/20051/ 20055  General Fund	93100  Special Appropriation	20052 Federal Direct Operating Grants
<b>REVENUES</b>			
Federal Grant Revenue	\$ -	\$ -	\$ 60,027,213
Miscellaneous Revenue	61,804		-
Total Revenues	<u>61,804</u>	<u>-</u>	<u>60,027,213</u>
<b>EXPENDITURES</b>			
Public Safety:			
Current:			
Personal Services	1,312,904	-	2,539,259
Contractual Services	233,055	-	863,582
Other Costs	464,092	-	56,585,088
Capital Outlay	236,307	-	39,284
Total Expenditures	<u>2,246,358</u>	<u>-</u>	<u>60,027,213</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	(2,184,554)	-	-
<b>OTHER FINANCING SOURCES (USES)</b>			
State General Fund Appropriations	2,504,600	-	-
Other Financing Sources - Federal Flow-Through	-	-	-
Other Financing Sources - Transfers In	750,000	-	-
Other Financing Uses - Transfers Out	-	(3,255,013)	-
Reversions to State General Fund	-	-	-
Total Other Financing Sources (Uses)	<u>3,254,600</u>	<u>(3,255,013)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,070,046	(3,255,013)	-
Fund Balance - Beginning of Year	<u>(56,214)</u>	<u>3,255,013</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,013,832</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

Major Funds				
20054 Federal Flow-Through Grants	20380 Executive Orders State Disasters Fund	89200 Capital Projects Fund	Total Governmental Funds	
\$ -	\$ -	\$ -	\$	60,027,213
-	10,469	-		72,273
-	10,469	-		60,099,486
87,238	-	-		3,939,401
150	75,465	-		1,172,252
22,959	9,791,164	68,210		66,931,513
-	-	-		275,591
<u>110,347</u>	<u>9,866,629</u>	<u>68,210</u>		<u>72,318,757</u>
(110,347)	(9,856,160)	(68,210)		(12,219,271)
-	5,500,000	-		8,004,600
110,347	-	-		110,347
-	-	68,210		818,210
-	-	-		(3,255,013)
-	-	-		-
<u>110,347</u>	<u>5,500,000</u>	<u>68,210</u>		<u>5,678,144</u>
-	(4,356,160)	-		(6,541,127)
-	34,762,941	-		37,961,740
<u>\$ -</u>	<u>\$ 30,406,781</u>	<u>\$ -</u>	<u>\$</u>	<u>31,420,613</u>



**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

**Net Changes in Fund Balances - Total Governmental Funds**  
**(Statement of Revenues, Expenditures, and Changes in Fund Balances)** \$ (6,541,127)

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

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

Capital Outlay	275,591
Depreciation Expense	(519,620)
Loss on Disposal of Capital Assets	<u>(11,030)</u>
Excess of Capital Outlay Over Depreciation Expense	(255,059)

Change in Compensated Absence Balance Not Recorded in the Governmental Funds	<u>(28,054)</u>
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**Change in Net Position of Governmental Activities (Statement of Activities)** \$ (6,824,240)

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL  
SPECIAL APPROPRIATION – SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	Special Appropriation - Special Revenue Fund			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Federal Funds	\$ -	\$ -	\$ -	\$ -
General Funds	-	-	-	-
Other State Funds	-	-	-	-
Inter-Agency Transfers	-	-	-	-
Total Revenues	-	-	-	-
Budgeted Fund Balance	3,255,013	3,255,013	3,255,013	-
Total Revenues and Budgeted Fund Balance	<u>\$ 3,255,013</u>	<u>\$ 3,255,013</u>	3,255,013	<u>\$ -</u>
<b>EXPENDITURES</b>				
Personnel Services and Benefits	\$ -	\$ -	-	\$ -
Contractual Services	-	-	-	-
Other Costs	-	-	-	-
Other Financing Uses	3,255,013	3,255,013	3,255,013	-
Total Expenditures	<u>\$ 3,255,013</u>	<u>\$ 3,255,013</u>	<u>3,255,013</u>	<u>\$ -</u>
<b>NET CHANGE IN FUND BALANCES</b>			<u>\$ -</u>	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL  
EXECUTIVE ORDERS STATE DISASTERS FUND – SPECIAL REVENUE FUND  
YEAR ENDED JUNE 30, 2016**

	Executive Orders State Disasters Fund - Special Revenue Fund			
	Budgeted Amounts		Actual Amounts	Variance From Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
<b>REVENUES</b>				
Federal Funds	\$ -	\$ -	\$ -	\$ -
General Funds	3,750,000	3,750,000	5,500,000	1,750,000
Other State Funds	-	-	10,469	10,469
Inter-Agency Transfers	-	-	-	-
Total Revenues	<u>3,750,000</u>	<u>3,750,000</u>	<u>5,510,469</u>	<u>1,760,469</u>
Budgeted Fund Balance	<u>34,762,941</u>	<u>34,762,941</u>	<u>-</u>	<u>(34,762,941)</u>
Total Revenues and Budgeted Fund Balance	<u>\$ 38,512,941</u>	<u>\$ 38,512,941</u>	5,510,469	<u>\$ (33,002,472)</u>
<b>EXPENDITURES</b>				
Personnel Services and Benefits	\$ 50,000	\$ 50,000	-	\$ 50,000
Contractual Services	75,465	75,465	75,465	-
Other Costs	38,387,476	38,387,476	9,791,164	28,596,312
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 38,512,941</u>	<u>\$ 38,512,941</u>	<u>9,866,629</u>	<u>\$ 28,646,312</u>
<b>NET CHANGE IN FUND BALANCES</b>			<u>\$ (4,356,160)</u>	

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

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

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

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

Based upon the application of the criteria in GASB Statement No. 61 (an amendment of No. 14 and No. 39), the Department had no component units as of June 30, 2016.

**Government-Wide and Fund Financial Statements**

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

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

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

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Department did not have any funds classified as proprietary for the year ended June 30, 2016.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

The Department reports the following major governmental funds:

*The General Fund* is the Department's operating fund. The fund numbers in the Statewide Human Resource Accounting and Management Reporting System (SHARE) are funds 20050, 20051, 20053, and 20055. It is used to account for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in some other fund. The general fund is a reverting fund.

*The Special Appropriation Special Revenue Fund* (SHARE fund 93100) was established to account for the plan, design, and construction of improvements to roads, bridges, and infrastructure damaged by severe flooding in several New Mexico counties, as authorized by the 51st Legislature, 1st session, Laws 2013, Chapter 202.

*The Federal Direct Operating Grants Special Revenue Fund* (SHARE fund 20052) was established to account for specific revenue sources awarded pursuant to grant agreements. This fund was created under the authority of the New Mexico Department of Finance and Administration.

*The Federal Flow-Through Operating Grants Special Revenue Fund* (SHARE fund 20054) was established to account for specific revenue sources awarded pursuant to grant agreements. This fund was created under the authority of the New Mexico Department of Finance and Administration.

*The Executive Orders State Disasters Special Revenue Fund* (SHARE fund 20380) was established in accordance with Section 6-7-3 NMSA 1978 to account for funds designated for disaster assistance and rendering aid in emergency situations.

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities, and Net Position**

Cash and Investments

For the fiscal year ended June 30, 2016, all of the Department's cash was maintained on deposit with the State Treasurer's General Fund Investment Pool (SGFIP). The State Treasurer has the authority to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through O, NMSA 1978 as amended. State law requires the New Mexico Department of Finance and Administration to complete the reconciliations of balances and accounts kept by the New Mexico State Treasurer's Office. The Department does not have a separate bank account.

Federal Grants Receivable

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

Capital Assets and Depreciation

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

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

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

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Position (Continued)**

Compensated Absences

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

When applicable, the compensated absence liability is presented in two parts in the government-wide financial statements: a current portion and long-term portion. The current portion is the amount *estimated* to be expended during fiscal year 2016.

Pensions

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

Fund Balance Classification Policies and Procedures

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and



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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities and Net Position (Continued)**

Fund Balance Classification Policies and Procedures (Continued)

Executive branches of the state. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation. Unassigned fund balances represent the residual amount of fund balance after all classifications described above have been considered. As of June 30, 2016, the Department has no nonspendable fund balances. In addition, the Department has \$31,156,781 in amounts restricted for special appropriations and in accordance with Section 6-7-3 NMSA 1978 for executive orders.

Spending Policy Disclosure

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

Net Position Classifications

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

- 1) *Net investment in capital assets.* This classification of net position consists of capital assets net of accumulated depreciation as of June 30, 2016.
- 2) *Restricted.* This classification consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation. The Department has \$31,156,781 in restricted amounts for special appropriations related to statewide projects and in accordance with Section 6-7-3 NMSA 1978 for executive orders of state disasters as of June 30, 2016.
- 3) *Unrestricted.* This classification consists of all other net position amounts that do not meet the definition of "restricted" or "net investment in capital assets."

Estimates

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

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**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

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

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

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

The Department budgeted all 2005x funds in a single budget; however, these funds are presented in 3 different governmental funds in the FY16 financial statements. Because of these perspective differences, the program budget for all of these funds is presented as required supplementary information.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 STATE GENERAL FUND INVESTMENT POOL**

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

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control Division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

The State Controller indicated on August 8, 2016 that calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months; resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP; and all claims will be honored at face value.

The Department has lacked established daily and monthly procedures that mitigate the risk of misstatement of the Department's balances within the Pool during FY16. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

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

**STATE OF NEW MEXICO  
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**NOTE 4 INVESTMENT IN THE STATE GENERAL FUND INVESTMENT POOL**

At June 30, 2016, the Department had the following invested in the State General Fund Investment Pool:

<u>Fund</u>	<u>Fund No.</u>	<u>Fair Value June 30, 2016</u>
General Fund	20050/51/55	\$ 1,851,934
Federal Direct Operating Grants	20052	(10,222,407)
Fed Flow-Through Operating Grants	20054	(26,752)
Executive Orders State Disasters	20380	29,330,572
Special Appropriations	93100	-
Capital Projects Fund	89200	(68,210)
Total		<u>\$ 20,865,137</u>

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

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

For additional GASB 40 disclosure information regarding the investment in the New Mexico State Treasurer's General Fund Investment Pool, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2016.

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**NOTE 5 CAPITAL ASSETS**

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

	June 30, 2015*	FY16 Additions	FY16 Deletions/ Adjustments	June 30, 2016
<b>Assets:</b>				
Buildings	\$ 3,266,201	\$ -	\$ -	\$ 3,266,201
Data Processing Equipment	1,569,059	-	(29,196)	1,539,863
Furniture and Fixtures	-	27,059	-	27,059
Equipment and Machinery	1,684,178	248,532	-	1,932,710
Automobiles	1,993,268	-	(152,494)	1,840,774
Total Assets	<u>8,512,706</u>	<u>275,591</u>	<u>(181,690)</u>	<u>8,606,607</u>
<b>Accumulated Depreciation:</b>				
Buildings and Improvements	(1,883,117)	(156,227)	-	(2,039,344)
Data Processing Equipment	(1,326,320)	(79,781)	18,166	(1,387,935)
Furniture and Fixtures	-	(902)	-	(902)
Equipment and Machinery	(1,289,498)	(228,380)	-	(1,517,878)
Automobiles	(1,810,975)	(54,330)	152,494	(1,712,811)
Total Accumulated Depreciation	<u>(6,309,910)</u>	<u>(519,620)</u>	<u>170,660</u>	<u>(6,658,870)</u>
Net Total	<u>\$ 2,202,796</u>	<u>\$ (244,029)</u>	<u>\$ (11,030)</u>	<u>\$ 1,947,737</u>

\* Beginning Balances as Restated

The Department does not have any debt related to capital assets. Depreciation expense of \$519,620 is considered a public safety expense.

**NOTE 6 COMPENSATED ABSENCES**

The changes in liabilities for compensated absences are as follows:

	Balance, June 30, 2015	Increase	(Decrease)	Balance, June 30, 2016	Due Within One Year
Governmental Activities	\$ 135,114	\$ 115,095	\$ (87,041)	\$ 163,168	\$ 163,168
Net Total	<u>\$ 135,114</u>	<u>\$ 115,095</u>	<u>\$ (87,041)</u>	<u>\$ 163,168</u>	<u>\$ 163,168</u>

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

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 DUE FROM OTHER STATE AGENCIES**

The following amounts are due from other state agencies as of June 30, 2016:

Fund	Agency	Agency Number	Fund Number	Amount	Purpose
20050	Department of Transportation	80500	20100	\$ 164	Reimbursements
20054	Energy, Minerals, & Natural Resources	52100	19902	27,680	Reimbursable Expenditures for Grant Award
89200	BOF-Dept. of Finance and Administration	34103	TBD-BOF	68,210	Reimbursable Expenditures for Grant Award
20380	Dept. of Finance and Administration	34103	85300	1,750,000	EO-2015-013
	Total			<u>\$ 1,846,054</u>	

**NOTE 8 INTERAGENCY TRANSFERS**

The following interagency transfers occurred during FY16:

To Fund	Agency	Agency Number	From Fund	Amount	Purpose
20050	Regulation & Licensing	42000	04400	\$ 500,000	Special Appropriation
20050	Dept. of Finance and Administration	34101	85300	250,000	Special Appropriation
20054	Energy, Minerals, & Natural Resources	52100	19902	110,347	Federal Flow-Through
89200	BOF-Dept. of Finance and Administration	34103	TBD-BOF	68,210	STB Projects
	Total			<u>\$ 928,557</u>	

**NOTE 9 DUE TO STATE GENERAL FUND**

At June 30, 2016, the amount due to the State General Fund is made up of the following fiscal year reversions and stale dated warrants:

Year Ending June 30,	Amount
2015	\$ 296,626
2016	-
Stale Warrants	64,249
Total	<u>\$ 360,875</u>

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**NOTE 10 PENSION PLAN – PUBLIC EMPLOYEES’ RETIREMENT ASSOCIATION**

**Plan Description**

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

**Funding Policy**

The contribution requirements of plan members and the Department are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Department’s contributions to PERA for the fiscal years ending June 30, 2016 and 2015 were \$455,686 and \$438,845, respectively, which equal the amount of the required contributions for each fiscal year.

**NOTE 11 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

**Plan Description**

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

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

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

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**NOTE 11 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN  
(CONTINUED)**

**Funding Policy**

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plans 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Department's contributions to the RHCA for the years ended June 30, 2016, 2015, and 2014 were \$53,527, \$58,347, and \$50,966, respectively, which equal the required contributions for each year.



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DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 12 RISK MANAGEMENT**

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

**NOTE 13 RESTATEMENT**

During fiscal year 2016, the Department recorded a restatement to correct previously reported balances. A summary of the restatement to beginning net position is as follows:

	Governmental Activities
Beginning Net Position, as Previously Reported	\$ 41,428,589
Capital Assets	<u>(1,399,167)</u>
Beginning Fund Balance/Net Position, Restated	<u><u>\$ 40,029,422</u></u>

During FY16 the Department became aware of a building, with a net book value of \$1,399,167 that was also reported on the books of the NM General Service Department. As a result, the Department removed the asset and related net book value from the Department's capital asset listing and financial statements as of June 30, 2016.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 14 CONTINGENCIES**

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

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

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL  
2005X FUNDS PROGRAM BUDGET  
YEAR ENDED JUNE 30, 2016**

<b>P579</b>	2005X Funds Program Budget			
	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
<b>REVENUES</b>				
Federal Funds	\$ 39,775,300	\$ 164,314,461	\$ 60,137,560	\$ (104,176,901)
General Funds	2,504,600	2,504,600	2,504,600	-
Other State Funds	110,000	110,000	61,804	(48,196)
Inter-Agency Transfers	-	-	750,000	750,000
Total Revenues	<u>\$ 42,389,900</u>	<u>\$ 166,929,061</u>	63,453,964	<u>\$ (103,475,097)</u>
<b>EXPENDITURES</b>				
Personnel Services and Benefits	\$ 4,885,900	\$ 6,562,215	3,939,401	\$ 2,622,814
Contractual Services	1,311,000	3,031,052	1,096,787	1,934,265
Other Costs	36,193,000	157,335,794	57,347,730	99,988,064
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 42,389,900</u>	<u>\$ 166,929,061</u>	62,383,918	<u>\$ 104,545,143</u>
<b>Special/Capital Appropriations</b>				
<b>REVENUES</b>				
General Funds	\$ 750,000	\$ 750,000	750,000	\$ -
Inter-Agency Transfers	-	-	-	-
Total Revenues	<u>\$ 750,000</u>	<u>\$ 750,000</u>	750,000	<u>\$ -</u>
<b>EXPENDITURES</b>				
Personnel Services and Benefits	\$ -	\$ -	-	\$ -
Contractual Services	-	-	-	-
Other Costs	750,000	750,000	-	750,000
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 750,000</u>	<u>\$ 750,000</u>	-	<u>\$ 750,000</u>
<b>NET CHANGE IN FUND BALANCES (Budgetary Basis)</b>			<u>\$ 1,820,046</u>	
Net Change in Fund Balance - General Fund 20050/51/55			\$ 1,070,046	
Net Change in Fund Balance - Federal Direct Operating Grants 20052			-	
Net Change in Fund Balance - Federal Flow-Through Grants 20054			-	
Net Change in Fund Balance GAAP Basis			<u>\$ 1,070,046</u>	

\* The Department budgets all 2005x funds as a single budget. Due to this perspective difference, the program budget is presented as required supplementary information

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – BUDGET (BUDGET BASIS) AND ACTUAL  
CAPITAL PROJECTS FUND  
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Federal Funds	\$ -	\$ -	\$ -	\$ -
General Funds	-	-	-	-
Other State Funds	-	-	-	-
Inter-Agency Transfers	250,000	250,000	68,210	(181,790)
Total Revenues	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>68,210</u>	<u>\$ (181,790)</u>
<b>EXPENDITURES</b>				
Personnel Services and Benefits	\$ -	\$ -	-	\$ -
Contractual Services	-	-	-	-
Other Costs	250,000	250,000	68,210	181,790
Other Financing Uses	-	-	-	-
Total Expenditures	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>68,210</u>	<u>\$ 181,790</u>
<b>NET CHANGE IN FUND BALANCES</b>			<u>\$ -</u>	

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF SPECIAL APPROPRIATIONS  
YEAR ENDED JUNE 30, 2016**

Authority	Appropriation Expiration	Original Appropriation	Current Year Reversions	Current Year Expenditures	Previous Year's Expenditures	Appropriation Expired	Unexpended Portion	Restricted Fund Balance
Laws of 2016, Ch 12 HB 311	2/29/2016	\$ 4,900,000	\$ 3,255,013	\$ -	\$ 1,644,987	\$ -	\$ -	\$ -
Laws of 2016, Ch 11 HB 2	6/30/2017	250,000	-	-	-	-	250,000	250,000
Laws of 2015, Ch 3 SB 1	6/30/2019	500,000	-	-	-	-	500,000	500,000
		<u>\$ 5,650,000</u>	<u>\$ 3,255,013</u>	<u>\$ -</u>	<u>\$ 1,644,987</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF EXECUTIVE ORDERS  
YEAR ENDED JUNE 30, 2016**

Description	Appropriation Period	Original Appropriation	Audit Balance June 30, 2015	New Orders	Current Year Expenditures	Reversion	Balance, June 30, 2016
NMEO 07-19 1659 Matching Funds	2007 - Gov Rescinds	\$ 750,000	\$ 1,403	-	-	-	\$ 1,403
NMEO 07-20 1659 Matching Funds	2007 - Gov Rescinds	750,000	392,794	-	-	-	392,794
NMEO 07-22 1659 Matching Funds	2007 - Gov Rescinds	750,000	-	-	-	-	-
NMEO 08-37 Drought in State (Water Hauls) - Stand Alone	2008 - Gov Rescinds	500,000	291,919	-	-	-	291,919
NMEO 10-31 Flash Flooding, San Miguel Co. - Stand Alone	2010 - Gov Rescinds	200,000	105,061	-	-	-	105,061
NMEO 10-034 Flood Damage 1936 Matching McKinley Co., Farmington, Acoma - Matching Funds	2010 - Gov Rescinds	750,000	339,270	-	(56,250)	-	283,020
NMEO 10-035 Flooding 1936 Matching Mora Co. - Matching Funds	2010 - Gov Rescinds	400,000	397,712	-	-	-	397,712
NMEO 10-036 Flooding 1936 Matching Socorro Co. - Matching Funds	2010 - Gov Rescinds	750,000	426,568	-	(161,394)	-	265,174
NMEO 10-042 Flooding Kewa Pueblo - Stand Alone	2010 - Gov Rescinds	250,000	-	-	-	-	-
NMEO 11-014 1962 Winter Storm - Matching Funds	2011 - Gov Rescinds	750,000	417,817	-	-	-	417,817
NMEO 11-040 Wallow Fire Catron County - Stand Alone	2011 - Gov Rescinds	200,000	-	-	-	-	-
NMEO 11-047 Track Fire Colfax, Mora, and San Miguel - Stand Alone	2011 - Gov Rescinds	200,000	-	-	-	-	-
NMEO 11-053 Las Conchas Fire Los Alamos - Stand Alone	2011 - Gov Rescinds	750,000	470,180	-	-	-	470,180
NMEO 11-061 Donaldson Fire Lincoln County - Stand Alone	2011 - Gov Rescinds	100,000	-	-	-	-	-
NMEO 12-007 Flood Potential Due to Wild Fires - Stand Alone	2012 - Gov Rescinds	250,000	62,276	-	(2,573)	-	59,703
NMEO 12-008 Flooding 4047 Cibola, Los Alamos, and Sandoval Co. - Matching Funds	2012 - Gov Rescinds	450,000	247,025	-	-	-	247,025
NMEO 11-075 4047 Cibola and Sandoval - Matching Funds	2011 - Gov Rescinds	300,000	164,101	-	-	-	164,101
NMEO 12-014 FMAG 2978 Whitewater Baldy Fire Catron County	2012 - Gov Rescinds	500,000	166,811	-	-	-	166,811
NMEO 12-015 FMAG 2979 Little Bear Fire Lincoln County - Stand Alone	2012 - Gov Rescinds	750,000	288,672	-	-	-	288,672
NMEO 12-018 FMAG Whitewater Baldy and Little Bear Fires, Catron, Grant & Lincoln County - Stand Alone	2012 - Gov Rescinds	750,000	198,191	-	-	-	198,191
NMEO 12-032 Flooding Cibola, Los Alamos, and Sandoval Counties - Matching Funds	2012 - Gov Rescinds	750,000	157,985	-	-	-	157,985
NMEO 12-038 Hurricane Sandy - Matching Funds	2012 - Gov Rescinds	200,000	-	-	-	-	-
NMEO 13-001 Flooding Disaster Lincoln, Los Alamos, Sandoval Counties - Stand Alone	2013 - Gov Rescinds	10,500,000	8,938,954	-	(155,266)	-	8,783,688
NMEO 13-004 Sub-Freezing Temps Navajo Nations, San Juan, McKinley, Valencia - Stand Alone	2013 - Gov Rescinds	100,000	-	-	-	-	-
NMEO 13-008 Tres Lagunas Fire - Stand Alone	2013 - Gov Rescinds	750,000	748,540	-	-	-	748,540
NMEO 13-010 Thompson Fire - Stand Alone	2012 - Gov Rescinds	500,000	458,525	-	-	-	458,525
NMEO 13-022 Flood Threat - Stand Alone	2013 - Gov Rescinds	750,000	623,280	-	(174,533)	-	448,748
NMEO 2014-004 Flooding Disaster in Lincoln Chavez - Matching Funds	2014 - Gov Rescinds	8,000,000	7,967,075	-	-	-	7,967,075
NMEO 2014-006 Flooding Disaster in Catron, Chavez, Cibola - Matching Funds	2014 - Gov Rescinds	5,500,000	2,067,550	-	(745,116)	-	1,322,434
NMEO 2014-005 Flooding Disaster in Bernalillo - Matching Funds	2014 - Gov Rescinds	1,375,000	373,963	-	(57,226)	-	316,737
NMEO 2014-013 Monsoonal Flooding - Matching Funds	2014 - Gov Rescinds	750,000	533,760	-	(560,769)	-	(27,009)
NMEO 2014-015 Flooding from Hurricane Odile - Matching Funds	2014 - Gov Rescinds	750,000	413,297	-	(413,297)	-	-
NMEO 2013-034 Severe Winter Storms and Freezing Temp. - Stand Alone	2013 - Gov Rescinds	100,000	-	-	-	-	-
NMEO 2013-031 Declaring a Disaster Statewide Due to Flooding - Stand Alone	2013 - Gov Rescinds	750,000	316,009	-	-	-	316,009

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF EXECUTIVE ORDERS (CONTINUED)  
YEAR ENDED JUNE 30, 2016**

Description	Appropriation Period	Original Appropriation	Audit Balance June 30, 2015	New Orders	Current Year Expenditures	Reversion	Balance, June 30, 2016
NMEO 2013-027 Emergency Due to Storms and Flooding - Stand Alone	2013 - Gov Rescinds	\$ 500,000	\$ 319,203	\$ -	\$ (149,980)	\$ -	\$ 169,223
NMEO 2015-008 Providing Additional Funding for Flooding Disaster in Colfax, Eddy, Lea, Lincoln Counties - Matching Funds	2015 - Gov Rescinds	7,125,000	7,125,000	-	(6,140,306)	-	984,694
NMEO 2015-007 Enhanced Flood Potential - Stand Alone	2015 - Gov Rescinds	750,000	750,000	-	(24,950)	-	725,050
NMEO 2015-003 Providing Additional Funding for Flooding Disaster in Bernalillo, Colfax, Sandoval, Sierra, Socorro, and Luna Counties; the Cochiti, Kewa, Sandia, San Felipe Pueblos; and the Navajo Nation	2016 - Gov Rescinds	1,750,000	-	1,750,000	(131,815)	-	1,618,185
NMEO 2015-016 Declaring An Emergency in San Juan County Due to Gold King Mine Contaminated Water Release	2016 - Gov Rescinds	750,000	-	750,000	(204,832)	-	545,168
NMEO 2015-017 Declaring an Emergency Throughout New Mexico Due to Monsoon Flooding	2016 - Gov Rescinds	750,000	-	750,000	(314,254)	-	435,746
NMEO 2015-021 Declaring an Emergency Throughout New Mexico Due to Severe Winter Storms and Freezing Temperatures	2016 - Gov Rescinds	750,000	-	750,000	(558,712)	-	191,288
NMEO 2016-004 Providing Additional Funding for Flooding Emergency Statewide	2016 - Gov Rescinds	750,000	-	750,000	-	-	750,000
NMEO 2016-007 Declaring an Emergency in Bernalillo and Torrance Counties Due to Dog Head Wildfire	2016 - Gov Rescinds	750,000	-	750,000	(4,887)	-	745,114
			<u>\$ 34,762,941</u>	<u>\$ 5,500,000</u>	<u>\$ (9,856,160)</u>	<u>\$ -</u>	<u>\$ 30,406,781</u>

**STATE OF NEW MEXICO**  
**DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT**  
**SCHEDULE OF JOINT POWERS AGREEMENTS**  
**AND MEMORANDUMS OF UNDERSTANDING**  
**YEAR ENDED JUNE 30, 2016**

<u>Participants</u>	<u>Responsible Party for Operations</u>	<u>Description</u>	<u>Beginning &amp; Ending Dates</u>	<u>Total Estimated Amount of Project</u>	<u>Agency Contributions in FY 2015</u>	<u>Audit Responsibility</u>	<u>Fiscal Agent &amp; Responsible Reporting Entity</u>
None							



**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF VENDOR INFORMATION  
YEAR ENDED JUNE 30, 2016**

Agency	Agency Name	Agency Type	RFB#/RFP# (if applicable)	Type of Procurement	Bidder/Vendor Name	Did Bidder/Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Estimated Contract Value	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
79500	Department of Homeland Security & Emergency Management	State Agencies		Statewide Pricing Agreement	EXCEL STAFFING COMPANIES LLC	Winner	\$ 79,405.09	\$ 79,405.09	\$ 79,405.09	2100 Osuna Rd. NE, Albuquerque, NM 87113	No	No	Temporary staffing	
79500	Department of Homeland Security & Emergency Management	State Agencies		Statewide Pricing Agreement	RPC CPAS + CONSULTANTS, LLP	Winner	\$ 138,815.62	\$ 537,753.21	\$ 537,753.21	2700 San Pedro NE, Albuquerque, NM 87110	No	No	Accounting consultants	
79500	Department of Homeland Security & Emergency Management	State Agencies		Statewide Pricing Agreement	ALTURA COMMUNICATION SOLUTION	Winner	\$ 110,624.97	\$ 110,624.97	\$ 110,624.97	PO Box 679141, Dallas, TX 75267-9141	No	No	IT Services	
79500	Department of Homeland Security & Emergency Management	State Agencies		Exempt - Agency	THE UNIVERSITY OF NEW MEXICO	Winner	\$ 140,678.11	\$ 140,678.11	\$ 140,678.11	1 University of New Mexico, Albuquerque, NM 87131-0001	No	No	GIS Services	
79500	Department of Homeland Security & Emergency Management	State Agencies		Competitive (RFP or RFB)	H2O PARTNERS, INC.	Winner	\$ 125,000.00	\$ 225,000.00	\$ 225,000.00	260 Addie Roy Road, Ste. 150, Austin, TX 78746	No	No	Hazard Mitigation Project Planning	
79500	Department of Homeland Security & Emergency Management	State Agencies		Statewide Pricing Agreement	ATA SERVICES, INC.	Winner	\$ 366,527.10		\$ 366,527.10	4801 Lang Ave. NE, Suite 110, Albuquerque, NM 87109-0000	No	No	Temporary staffing	

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

Federal Agency/ Pass-Through Agency	Federal CFDA Number	Amount Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Homeland Security (DHS): Federal Emergency Management Agency (FEMA):</b>			
Community Assistance Program	97.023	\$ 15,091	\$ 106,398
National Urban Search and Rescue (US&R) Response System	97.025	-	495,986
Disaster Grants - Public Assistance	97.036	44,863,834	46,369,145
Hazard Mitigation Grant	97.039	98,049	535,119
Emergency Management Performance Grants	97.042	3,520,623	5,962,609
Cooperating Technical Partners	97.045	-	493
Fire Management Assistance	97.046	15,450	15,450
Pre-Disaster Mitigation	97.047	28,047	32,824
Homeland Security Grant Program	97.067	4,525,473	6,348,982
Total U.S. Department of Homeland Security (DHS): Federal Emergency Management Agency (FEMA):		53,066,567	59,867,006
<b>U.S. Department of Transportation:</b>			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	48,975	160,207
<b>U.S. Department of Energy - Passed-through NM EMNRD Passed Through New Mexico Energy &amp; Minerals Dept.</b>			
Transport of Transuranic Wastes to the Waste Isolation Pilot Plan: States and Tribal Concerns, Proposed Solutions	81.106	-	110,347
Total Federal Awards Expended		<u>\$ 53,115,542</u>	<u>\$ 60,137,560</u>
<b>Reconciliation to the Financial Statements</b>			
Federal Revenue			\$ 60,027,213
Other Financing Sources - Federal Flowthrough			110,347
Total Federal Revenue			<u>\$ 60,137,560</u>

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

**1. Basis of Presentation**

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

**2. Noncash Assistance Provided**

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

**3. Loans**

The Department does not have any loans outstanding with the Federal government at June 30, 2016.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the New Mexico Department of Homeland Security and Emergency Management (the Department), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the related budgetary comparisons and have issued our report thereon dated August 31, 2017. Our report included various qualified opinions because of the matters described in the "*Basis for Qualified Opinions on Governmental Activities and Governmental Funds — General Fund, Federal Direct Operating Grants Fund, Federal Flow-Through Grants Fund and Executive Orders State Disasters Fund (Including Budgetary Comparison)*" paragraph in our report starting on page 3.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: 2016-001 and 2016-002.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-010, 2016-011, 2016-012, 2016-013, and 2016-014.

### **The Department's Response to Findings**

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

### **Purpose of this Report**

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



### **CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
August 31, 2017

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the New Mexico Department of Homeland Security and Emergency Management's (the Department) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2016. The Department's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

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

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

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Disaster Grants — Public Assistance (CFDA 97.036) as described in finding numbers 2016-003 for Subrecipient Monitoring and 2016-004 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Disaster Grants — Public Assistance (CFDA 97.036) for the year ended June 30, 2016.

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

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Emergency Management Performance Grants (CFDA 97.042) as described in finding numbers 2016-003 for Subrecipient Monitoring, 2016-004 for Reporting and 2016-005 for Period of Availability. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

***Qualified Opinion on Emergency Management Performance Grants (CFDA 97.042)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Emergency Management Performance Grants (CFDA 97.042) for the year ended June 30, 2016.

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

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the Homeland Security Grant Program (CFDA 97.067) as described in finding numbers 2016-003 for Subrecipient Monitoring, 2016-004 for Reporting, and 2016-005 for Period of Availability. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

***Qualified Opinion on Homeland Security Grant Program (CFDA 97.067)***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Homeland Security Grant Program (CFDA 97.067) for the year ended June 30, 2016.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-006, 2016-007, 2016-008, and 2016-009. Our opinion on each major federal program is not modified with respect to these matters.

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

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

### **Report on Internal Control over Compliance**

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-003, 2016-004, and 2016-005 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-006, 2016-007, 2016-008, and 2016-009 to be significant deficiencies.

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



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

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
August 31, 2017

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

Type of auditors’ report issued: Modified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

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

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

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

Identification of major programs:

**CFDA**

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

Dollar threshold used to distinguish between type A and type B programs \$1,804,127

Auditee qualified as low-risk auditee?  yes  no

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2016-001 Internal Control over Financial Close and Reporting (Material Weakness) – (Prior Year Findings 2015-001, 2015-010, and 2015-011 - Partially Repeated)**

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

- The receipts held in suspense is a liability account used to temporarily record receipts that have not been assigned to a revenue or accounts receivable account. This account should not report a balance at year-end. The Department incorrectly reported a debit balance in the amount of approximately \$32,000 at year-end, which required an audit adjustment to correct.
- Numerous balance sheet accounts reported balances unchanged from the prior year that should have changed. The Department lacks controls to ensure all accounts are reconciled during the year or at year-end.
- The capital project fund (89200) reported reimbursement-based expenditures totaling approximately \$68,000. However the fund did not report the corresponding other financing source and receivable from the board of finance, which resulted in an audit adjustment. In addition, the Department has yet to submit a draw to the board of finance for reimbursement of these expenditures.
- Executive order 2015-013 was issued on July 1, 2015 to provide additional funding for a disaster in the amount of \$1,750,000. The Department was not aware that the funds were not transferred to the Department from the Department of Finance and Administration, which resulted in an audit adjustment to record this receivable.
- During our testing of the accrued payroll, we identified a misstatement that totaled approximately \$38,000 due to an error from 2014.
- The Department lacks processes and controls to reconcile the Department's claim to the State General Fund Investment Pool.
- The Department reported a receivable from the Energy, Minerals, and Natural Resources Department (EMNRD) at June 30, 2015 in the amount of \$18,260. The actual draw established and received was in the amount of \$24,119, which was incorrectly recorded in fund 20052 as revenue instead of a credit to the established receivable in fund 20054. As a result an audit adjustment was required.
- During our testing over accounts payable, there were numerous material adjustments proposed by the auditor and recorded by the Department.
- The Department was unable to provide sufficient audit evidence regarding the accuracy, completeness, and valuation of the federal accounts receivable/payable balance as of June 30, 2016.
- The Department was unable to provide sufficient audit evidence regarding the accuracy, completeness, and valuation of the amount due to the State General Fund or any related reversions as of June 30, 2016.
- The Department utilizes an Excel worksheet as a subsidiary record for tracking the various executive order appropriations and related activity. The worksheet provided to the auditors contained numerous variances in the ending balance when compared to a roll forward from prior year including FY17 activity. In addition, the ending balances per the trial balance in fund 20380 compared to the subsidiary records have a variance of approximately \$330K.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2016-001 Internal Control over Financial Close and Reporting (Material Weakness) – (Prior Year Findings 2015-001, 2015-010, and 2015-011 - Partially Repeated) (Continued)**

**Condition (Continued):**

- We noted numerous transactions within the travel advance account that appear to be more than one year old that have not been cleared. The Department was unable to provide documentation that travel advances are reconciled or any documentation to support the accuracy of the account.
- The Department lacks processes and controls to reconcile the Department's payroll data from the HCM module to the Department's general ledger.
- During our review of 5 journal entries posted during the year we noted that 2 that were posted to the incorrect fund and/or account.

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

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

**Cause:** Staff turnover and lack of established internal controls and processes over financial reporting to ensure timely and accurate financial reporting.

**Effect:** Without effective internal controls and processes, the Department's financial statements contained misstatements that required adjustment. Some of the Department's balances lack certainty as to the accuracy of the balances. The Department is not in compliance with applicable statutes and other regulations. Furthermore, the Department's assets are more susceptible to misappropriation without adequate internal controls.

**Recommendation:** We recognize that the Department has been working on a number of issues over the past two years related to financial and grant management and has made progress towards resolving some of the issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for timely and accurate reporting, as well as compliance with all applicable state and federal laws and regulations.

**Management Response:** Management concurs with this finding. The need for two Accountant and Auditor positions was identified in FY2016: one for the Grants Management Unit and one for the Financial Services Unit. Both positions have been filled; the Grants Management Unit Accountant and Auditor position in April 2016, and the Financial Services Unit Accountant and Auditor in November 2016. A monthly reconciliation is the goal of the Department and it is currently working on a process to ensure all financial information is reported timely, complete, and accurate.

Corrective Action Plan Timeline: Corrective action is estimated to be implemented no later than December 31, 2017.

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2016-001 Internal Control over Financial Close and Reporting (Material Weakness) – (Prior Year Findings 2015-001, 2015-010, and 2015-011 - Partially Repeated) (Continued)**

**Management Response (Continued):**

Designation of Employee Position Responsible for Meeting Deadline: The Chief Financial Officer, Financial Services Unit Manager, Grants Management Unit Manager, and both Accountant and Auditors are tasked for this corrective action.

**2016-002 Internal Control over Capital Asset Management (Material Weakness) – (Prior Year Finding 2015-013 – Partially Repeated)**

**Condition:** During FY16, the Department lacked effective internal controls to ensure timely and accurate reporting of the Department's capital assets. In July 2017, the Department completed a comprehensive reconciliation and analysis of the Department's capital assets. The following issues were a result of their analysis:

- The Department has been reporting a building with an original cost of \$2.3M, which is also reported by the General Services Department. This required an adjustment to the Department's capital asset listing and a restatement to the Department's beginning net position in the amount of approximately \$1.3M, which represented the net book value of the building.
- The Department identified assets that were substantially fully depreciated with a total original cost of approximately \$182,000, which the Department was unable to locate or had previously disposed of, but lacked the appropriate documentation regarding the disposition.

In addition, the Department does not maintain their capital asset listing to include the funding source of the assets as required by §200.313.

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

**Criteria:** NMSA 1978, section 13-6-1 requires agencies to notify the State Auditor at least 30 days prior to the disposal of capital assets. NMAC 2.20.5.8 requires agencies to ensure that all reporting of financial information be timely, complete, and accurate. Per §200.313, property records must include certain information, to include the funding source.

**Cause:** Staff turnover and lack of established internal controls and processes over capital asset management.

**Effect:** Without effective internal controls and processes, the Department's financial statements contained misstatements that required a restatement to the opening net position. The Department is not in compliance with applicable statutes and other regulations. Furthermore, the Department's assets are susceptible to misappropriation without adequate internal controls.

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**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**2016-002 Internal Control over Capital Asset Management (Material Weakness) – (Prior Year Finding 2015-013 – Partially Repeated) (Continued)**

**Recommendation:** We recognize that the Department has been working on a number of issues over the past two years related to financial and grant management and has made progress towards resolving some of the issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for timely and accurate reporting, as well as compliance with all applicable state and federal laws and regulations.

**Management Response:** Management concurs with this finding. New management was hired in FY2016. Upon review of its Capital Assets, the Department identified several issues. The Department has determined the need for an updated asset management program, and this was implemented beginning in FY2018. The department created a Policy and Procedure for Capital Asset (FIN108-Capital Assets), and is working on a process to ensure its capital assets are recorded, depreciated, and disposed of correctly.

Corrective Action Plan Timeline: Corrective Action has already begun and is due to be complete by December 31, 2017

Designation of Employee Position Responsible for Meeting Deadline: The Chief Financial Officer, General Services Unit Manager, Financial Services Unit Accountant and Auditor, and IT Systems Managers are tasked with this corrective action.

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**SECTION III – FEDERAL FINDINGS**

**2016-003 Subrecipient Monitoring (Material Weakness, Material Noncompliance) – (Prior Year Finding 2015-015 – Partially Repeated)**

**Federal Programs:**

CFDA 97.036-Disaster Grants – Public Assistance

CFDA 97.042-Emergency Management Performance Grants

CFDA 97.067-Homeland Security Grant Program

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

**Federal Award Number/Year:** Various

**Questioned Costs:** None

**Condition:** During FY16, the Department lacked proper subrecipient monitoring procedures. The following issues were noted during our audit:

- **All Major Programs** - §200.331 requires the pass-through entity to follow up with the subgrantee on any deficiencies pertaining to the federal award and ensure that the subrecipient takes timely and appropriate action. However, the Department lacked a process for all federal programs to review the audits of subrecipients that would allow the Department to identify any potential deficiencies that would require follow-up.
- **All Major Programs** - During FY16, the Department lacked a process to ensure timely reporting by all subgrantees of financial reporting, performance reporting, and inventory reporting.
- **All Major Programs** - During FY16, the Department lacked evidence that a risk assessment was performed for any subrecipients as relates to the risk of noncompliance for those subawards subject to the Uniform Guidance.
- **97.036** - During our review of 13 subrecipient grant files, there was no evidence that timely quarterly financial reports were being submitted by the subgrantee.
- **97.042** - During our review of 16 subrecipient grant files, there was no evidence that timely quarterly financial reports were being submitted by the subgrantee on two files. In addition, the Department was unable to locate one grant file selected in our sample.
- **97.067** - During our review of 16 subrecipient grant files, there was no evidence that timely quarterly financial reports were being submitted by the subgrantee on two files.

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

**2016-003 Subrecipient Monitoring (Material Weakness, Material Noncompliance) – (Prior Year Finding 2015-015 – Partially Repeated) (Continued)**

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

Pass-through entity monitoring of the subrecipient must include:

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

**Cause:** Staff turnover and lack of established internal controls and processes over financial grant management to ensure compliance with applicable compliance requirements.

**Effect:** Noncompliance with the applicable compliance requirements.

**Recommendation:** We recognize that the Department has been working with FEMA on a number of issues related to the Department's grant management as a result of several monitoring visits performed by FEMA, and the Department has shown it has made progress toward resolving these issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

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

Corrective Action Plan Timeline: Corrective Action has already begun and is due to be complete by December 31, 2017.

Designation of Employee Position Responsible for Meeting Deadline: The Deputy Secretary, All Bureau Chiefs, the Grants Management Unit Manager, Recovery Officer, State Hazard Mitigation Officer, Local Preparedness Manager, Grant Analysts, and Sub-Grant Analysts are tasked with this corrective action.



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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

**2016-004 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) – (Prior Year Finding 2015-012 – Partially Repeated)**

**Federal Programs:**

CFDA 97.036-Disaster Grants – Public Assistance

CFDA 97.042-Emergency Management Performance Grants

CFDA 97.067-Homeland Security Grant Program

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

**Federal Award Number/Year:** Various

**Questioned Costs:** None

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

- **All Major Programs** – As previously reported to the Department during a FEMA Region VI monitoring visit, the Department is not in compliance with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements through at least fiscal year 2016.
- **All Major Programs** – During FY16, the Department lacked a process to ensure timely reconciliation and closeout of grants as required. The Department has numerous grants which the Department will be reconciling and that are well beyond the grant expiration and are still pending final grant closeout.
- **97.036** – A total of 12 financial reports were selected for testing. The Department was unable to provide supporting documentation to support the amounts reported in the financial report. In addition, six of the reports were not filed timely.
- **97.042** – A total of five financial reports were selected for testing. The Department was unable to provide documentation to support the amounts reported in the financial report. In addition, the Department was unable to provide the actual reports and evidence of approval on two of the five reports tested.
- **97.067** – A total of five financial reports were selected for testing. The Department was unable to provide documentation to support the amounts reported in the financial report. In addition, the Department was unable to provide the actual reports and evidence of approval on two of the five reports tested.

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

**2016-004 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) – (Prior Year Finding 2015-012 – Partially Repeated) (Continued)**

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

**Cause:** Staff turnover and lack of established internal controls and processes over financial grant management to ensure compliance with applicable compliance requirements.

**Effect:** Noncompliance with the applicable compliance requirements.

**Recommendation:** We recognize that the Department has been working with FEMA on a number of issues related to the Department's grant management as a result of several monitoring visits performed by FEMA, and the Department has shown it has made progress toward resolving these issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**Management Response:** Management concurs with the finding.

**FFATA Reporting:** The requirement to enter FFATA Reporting began with any grants awarded on or after July 1, 2010. The Department had not entered a single report until September 2016. Many of the sub-grants have been entered for the Emergency Management Grant Program for all required years, and are pending final grant submission. The Department has signed a new Policy and Procedure, (GRA416-FFATA), effective June 30, 2017. This Policy and Procedure requires each Sub-Grant Analyst to enter FFATA sub-grant information upon award, and the Grant Analyst and Grant Manager will complete final submission for each grant awarded. The Department will continue its efforts to enter reports for grants awarded from July 2010 to June 2017.

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

**Grant Reporting Documentation:** In FY2017, the Department began filing backup documentation for each report. Backup documentation includes a printout of the grant balance according to the draw system and a full financial reconciliation of the grant.

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

**2016-004 Federal Grant Reporting and Grant Closeout (Material Weakness, Material Noncompliance) – (Prior Year Finding 2015-012 – Partially Repeated) (Continued)**

**Management Response (Continued):**

FFATA Reporting:

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

Designation of Employee Position Responsible for Meeting Deadline: The Administrative Services Bureau Chief, Grants Management Unit Manager, Grant Analysts, and Sub-Grant Analysts are tasked with this corrective action.

Grant Closeout:

Corrective Action Plan Timeline: Grant Closeout corrective action began in FY2017 and will continue through FY2018 until all expired grants are closed.

Designation of Employee Position Responsible for Meeting Deadline: The Administrative Services Bureau Chief, Grants Management Unit Manager, and Grants Management Unit Staff are tasked with this corrective action.

Grant Reporting Documentation:

Corrective Action Plan Timeline: Corrective action for Grant reporting has already been implemented.

Designation of Employee Position Responsible for Meeting Deadline: The Administrative Services Bureau Chief, Grant Management Unit Manager, and the Grant Accountant and Auditor are tasked with this corrective action.

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

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

**Federal Programs:**

CFDA 97.042-Emergency Management Performance Grants

CFDA 97.067-Homeland Security Grant Program

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

**Federal Award Number/Year:** Various

**Questioned Costs:** Unknown

**Condition:** During our testing of period of availability and period of performance, we noted the following issue:

- **97.067 and 97.042** – Based on our discussions with management and our review of general ledger coding, the Department was not properly coding expenditures to the correct operating unit during the fiscal year. The Department utilizes the operating unit code to assign expenditures to various grants, which the Department utilizes to determine which grants to draw down. The Department intends to reconcile all prior grants before closing them out, however, we are currently unable to obtain sufficient audit evidence to determine if the Department complied with the applicable compliance requirements related to the period of availability.

**Criteria:** Per the grant agreement for CFDA 97.306, the performance period of the grant is clearly stated in the sub-grant agreement. For Category A and B work (Emergency Work), the performance period is six months from the declaration date, with the possibility of one six-month extension. For other categories of work (Permanent Work), the performance period is 18 months from the declaration date, with the possibility of several 6-month extensions. OEM will execute a sub-grant agreement amendment to validate each time extension. In addition, A-102 Common Rule and 2 CFR states that where a funding period is specified, a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal program.

**Cause:** Staff turnover and lack of established internal controls and processes over financial grant management to ensure compliance with applicable compliance requirements.

**Effect:** Noncompliance with the applicable compliance requirements.

**Recommendation:** We recognize that the Department has been working with FEMA on a number of issues related to the Department's grant management as a result of several monitoring visits performed by FEMA, and the Department has shown it has made progress toward resolving these issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

**2016-005 Period of Availability (Material Weakness, Material Noncompliance) (Continued)**

**Management Response:** Management concurs with this finding. The Department modified its payroll coding in SHARE in FY2011. Since then, this modification caused repeated errors for grants awarded after 2011. New management did address this coding issue in December 2016, after a new budget structure was adopted and put in place starting FY2017. The Department is now undergoing a thorough reconciliation of its grants back to FY2011 and correcting the coding errors in SHARE.

Corrective Action Plan Timeline: Corrective action has been implemented. The Department expects the reconciliation project to run the duration of FY2018 with the help of contracted support.

Designation of Employee Position Responsible for Meeting Deadline: The Cabinet Secretary, Deputy Secretary, Administrative Services Bureau Chief, Grant Management Unit Manager, and Financial Services Unit Manager are tasked with this corrective action.

**2016-006 Cash Management (Significant Deficiency, Instance of Noncompliance) – (Prior Year Finding 2015-009 – Partially Repeated)**

**Federal Programs:**

CFDA 97.036-Disaster Grants – Public Assistance

CFDA 97.042-Emergency Management Performance Grants

CFDA 97.067-Homeland Security Grant Program

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

**Federal Award Number/Year:** Various

**Questioned Costs:** None

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

- **All Major Programs** - During our review of all 23 drawdown packets for all major programs, we noted no evidence of a review and approval by someone independent of the preparer.
- **All Major Programs** - During FY16, the Department was not performing timely drawdowns of federal awards.
- **97.036** - During our review of 13 drawn down packets, we noted two instances in which the Department incorrectly drew down federal funds for the state match share in the amount of \$5,531 and one instance in which the Department incorrectly drew down \$8,830 from the state match fund instead of drawing from the federal grant.

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

**2016-006 Cash Management (Significant Deficiency, Instance of Noncompliance) – (Prior Year Finding 2015-009 – Partially Repeated) (Continued)**

**Condition (Continued):**

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

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

**Cause:** Staff turnover and lack of established internal controls and processes over financial grant management to ensure compliance with applicable compliance requirements.

**Effect:** Noncompliance with the applicable compliance requirements.

**Recommendation:** We recognize that the Department has been working with FEMA on a number of issues related to the Department's grant management as a result of several monitoring visits performed by FEMA, and the Department has shown it has made progress toward resolving these issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**Management Response:** Management concurs with the finding. In FY2016, the draw request form required the signatures of the Grant Unit Manager, ASB Chief, DHSEM Finance, and DHSEM Budget, but the employee preparing the draws neglected to obtain the required signature and drew funds without approval. This issue was brought to the surface and corrected in April of 2016.

Corrective Action Plan Timeline: The Department has implemented a new Policy and Procedure (GRA415-Grant Drawdowns), effective June 30, 2017. Corrective action has taken place.

Designation of Employee Position Responsible for Meeting Deadline: The Administrative Services Bureau Chief, Grants Management Unit Manager, and both Accountant and Auditors are tasked with this corrective action.

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

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

**Federal Program:** CFDA 97.036-Disaster Grants – Public Assistance

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

**Federal Award Number/Year:** Various

**Questioned Costs:** None

**Condition:** During our testing over special tests on CFDA 97.036, we noted one of 13 large projects that were closed, which lacked evidence of closeout and certification to FEMA. In addition, we noted two of the 13 large projects that were closed and indicated funds in the amount of approximately \$62,000 were due back to the Department and federal government; however, the file lacked documentation and support as to whether the funds were actually received from the local government.

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

**Cause:** Staff turnover and lack of established internal controls and processes over financial grant management to ensure compliance with applicable compliance requirements.

**Effect:** Noncompliance with the applicable compliance requirements.

**Recommendation:** We recognize that the Department has been working with FEMA on a number of issues related to the Department's grant management as a result of several monitoring visits performed by FEMA, and the Department has shown it has made progress toward resolving these issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**Management Response:** Management concurs with the finding. The Department plans to create a process and checklist for Public Assistance subgrant files to ensure grant compliance. Files will be kept by project worksheet to mirror FEMA's award process. The files will contain award, cost, reporting, and closeout documentation. Additionally, a Request for Proposal is currently in the process for a grant management system which will assist in the proper management of Public Assistance grants and subgrants.

**Corrective Action Plan Timeline:** Corrective action will be assessed and complete by June 30, 2018.

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

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

**Management Response (Continued):**

Designation of Employee Position Responsible for Meeting Deadline: The Cabinet Secretary, Deputy Secretary, Administrative Services Bureau Chief, Response and Recovery Bureau Chief, Grant Management Unit Manager, Financial Services Unit Manager, and Recovery Officer are tasked with this corrective action.

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

**Federal Programs:**

**CFDA 97.036**-Disaster Grants – Public Assistance

**CFDA 97.042**-Emergency Management Performance Grants

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

**Federal Award Number/Year:** Various

**Questioned Costs:** None

**Condition:** During our testing over matching requirements we noted the following issues:

**97.036** – During our review of 13 files, we noted the following:

- One instance in which the subgrant agreement required the local match to be 10% and the state match to be 15%; however, the state paid the entire 25% match. The total project amount was \$12,885.
- One instance in which the file only contained documentation for \$51,119.47 of the total \$111,205.59 in expenditures. Of the \$51,119.47 of included expenditures, \$6,125.15 was supposed to be drawn from the state match fund instead of the federal fund.
- As noted during our cash management testing, we noted two instances in which the Department incorrectly drew down federal funds for the state match share in the amount of \$5,531 and one instance in which the Department incorrectly drew down \$8,830 from the state match fund instead of drawing from the federal grant.
- All 13 instances included internal requisition forms which lacked authorized signatures by the required parties.



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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

**2016-008 Matching Requirements (Significant Deficiency, Instance of Noncompliance)  
(Continued)**

**Condition (Continued):**

**97.042** – During our review of 16 files, we noted the following:

- One instance in which the state match share was \$5,000 and the federal share was \$5,000, yet the Department drew the entire \$9,732 of incurred expenditures from the federal grant.
- One instance in which the local government used the payroll expenses of an employee as the match for a period that extended beyond the performance period in the amount of \$1,458.
- Two instances in which the documentation was not clear that the 50% match was properly achieved by the local governments. Total project amounts totaled \$33,906.
- The Department was unable to locate one file from our sample selection for review. Project amount totaled \$7,066.

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

**Cause:** Staff turnover and lack of established internal controls and processes over financial grant management to ensure compliance with applicable compliance requirements.

**Effect:** Noncompliance with the applicable compliance requirements.

**Recommendation:** We recognize that the Department has been working with FEMA on a number of issues related to the Department's grant management as a result of several monitoring visits performed by FEMA, and the Department has shown it has made progress toward resolving these issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**Management Response:** Management concurs with the finding. The Department has implemented a process for nondisaster grants which requires match to be provided prior to disbursement. A Request for Proposal is currently in process for a grant management system which will assist in the proper management of grants and subgrants. This system will be used to track federal, state, and local/subrecipient shares.

**Corrective Action Plan Timeline:** Corrective action has begun and total implementation is due to be complete by December 31, 2018.

**Designation of Employee Position Responsible for Meeting Deadline:** The Cabinet Secretary, Deputy Secretary, Administrative Services Bureau Chief, Response and Recovery Bureau Chief, Grant Management Unit Manager, Financial Services Unit Manager, and Recovery Officer are tasked with this corrective action.

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**SECTION III – FEDERAL FINDINGS (CONTINUED)**

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

**Federal Program:** CFDA 97.042-Emergency Management Performance Grants

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

**Federal Award Number/Year:** Various

**Questioned Costs:** None

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

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

**Cause:** Staff turnover and lack of established internal controls and processes over financial grant management to ensure compliance with applicable compliance requirements.

**Effect:** Noncompliance with the applicable compliance requirements.

**Recommendation:** We recognize that the Department has been working with FEMA on a number of issues related to the Department's grant management as a result of several monitoring visits performed by FEMA, and the Department has shown it has made progress toward resolving these issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for compliance with all applicable federal laws, regulations, and compliance requirements of the various federal grants.

**Management Response:** Management concurs with this finding. The Department recognizes the training and exercise requirements were not being met in FY2016. On July 26, 2016, the Cabinet Secretary signed the Department's Training Policy and Procedure (PER510-TRAINING), and it is currently working on an exercise policy and procedure. These policies and procedures ensure all department employees understand their responsibilities with regard to training and exercise requirements. The Department has seen an increase in training and exercise attendance and compliance over the last year.

**Corrective Action Plan Timeline:** Corrective action has begun and should be fully implemented by December 31, 2017.

**Designation of Employee Position Responsible for Meeting Deadline:** All DHSEM employees are tasked with this corrective action.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION IV – OTHER FINDINGS**

**2016-010 Internal Controls over Cash Receipts (Compliance and Other Matters) - (Prior Year Finding 2014-001 – Partially Repeated)**

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

- During FY16, the Department did not maintain a cash receipts log. As a result, we are unable to determine if cash receipts during FY16 were deposited before the close of the next succeeding business day after the receipt of the money.
- We noted three instances of 22 cash receipts tested in which the revenue deposit form lacked an approval signature by the grants manager or CFO.

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

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

**Cause:** Staff turnover and lack of established internal controls and processes.

**Effect:** Noncompliance with applicable regulations and possible misstatements to the Department's financial statements.

**Recommendation:** We recognize that the Department has been working on a number of issues over the past two years related to financial and grant management and has made progress towards resolving some of the issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for timely and accurate reporting, as well as compliance with all applicable state and federal laws and regulations.

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

Corrective Action Plan Timeline: Corrective action has been implemented.

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

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION IV – OTHER FINDINGS (CONTINUED)**

**2016-011 Untimely Audit Report and Data Collection Submission (Compliance and Other Matters) – (Prior Year Findings 2015-003 and 2015-007)**

**Condition:** The Department's FY16 audit was not submitted by the due date of December 1, 2016 and the data collection form was not submitted no more than nine months after the close of the fiscal year.

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

**Criteria:** Per the NM State Audit Rule the FY16 audit was due December 1, 2016. Per §200.512, the audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

**Cause:** Staff turnover and lack of established internal controls and processes.

**Effect:** Noncompliance with applicable regulations.

**Recommendation:** We recognize that the Department has been working on a number of issues over the past two years related to financial and grant management and has made progress towards resolving some of the issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for timely completion of their annual audit and data collection submission.

**Management Response:** Management concurs with the finding. The Department was unable to submit the June 30, 2016 Data Collection Form timely as the audit started late, due to the previous year's audit not being completed until January 2017. Management expects to deliver a timely Audit Report and Data Collection form for period ending June 30, 2017.

**Corrective Action Plan Timeline:** Corrective action will take place immediately upon completion of the audit for period ending June 30, 2016.

**Designation of Employee Position Responsible for Meeting Deadline:** The Administrative Services Bureau Chief, Financial Services Unit Manager and the Financial Accountant and Auditor are tasked with this corrective action.

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

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

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

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION IV – OTHER FINDINGS (CONTINUED)**

**2016-012 User System Access (Compliance and Other Matters) (Continued)**

**Cause:** Staff turnover and lack of established internal controls and processes.

**Effect:** Possible unauthorized access to the Department’s system.

**Recommendation:** We recognize that the Department has been working on a number of issues over the past two years related to financial and grant management and has made progress towards resolving some of the issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for timely and accurate reporting, as well as compliance with all applicable state and federal laws and regulations.

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

Corrective Action Plan Timeline: Corrective action for this finding will be completed by September 30, 2017.

Designation of Employee Position Responsible for Meeting Deadline: The Chief Financial Officer and General Services Unit Manager will be tasked with this corrective action.

**2016-013 Untimely Reversion to the State General Fund (Compliance and Other Matters) –  
(Prior Year Finding 2015-018 – Partially Repeated)**

**Condition:** As of June 30, 2016, the Department reported amounts payable to the State General Fund in the amount of approximately \$361,000, of which approximately \$331,000 is related to reversions prior to FY16. In addition, the Department did not calculate the FY16 reversion and accrue any amount payable to the State General Fund.

*Management’s Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

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

**Cause:** Staff turnover and lack of established internal controls and processes.

**Effect:** Noncompliance with applicable regulations.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION IV – OTHER FINDINGS (CONTINUED)**

**2016-013 Untimely Reversion to the State General Fund (Compliance and Other Matters) –  
(Prior Year Finding 2015-018 – Partially Repeated) (Continued)**

**Recommendation:** We recognize that the Department has been working on a number of issues over the past two years related to financial and grant management and has made progress towards resolving some of the issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for timely and accurate reporting, as well as compliance with all applicable state and federal laws and regulations.

**Management Response:** Management concurs with this finding. The Department will research the amount in the Due To State General Fund account and General Fund balances for FY2016 and revert amounts as required. The Cabinet Secretary signed FIN112,-Fund Reversion Policy and Procedure, on June 30, 2017.

Corrective Action Plan Timeline: Corrective action is set to be complete by December 31, 2017.

Designation of Employee Position Responsible for Meeting Deadline: The Administrative Services Bureau Chief, the Financial Services Unit Manager, and the Financial Accountant and Auditor are tasked with this corrective action.

**2016-014 Travel and Per Diem (Compliance and Other Matters) - (Prior Year Finding 2015-006)**

**Condition:** During FY16, the Department lacked a process to submit a notification to the Secretary when an employee is reimbursed per diem in excess of \$1,500 individually or in the aggregate during the year.

*Management's Progress for Repeated Findings: Management failed to implement adequate controls to resolve the finding from the prior year due to the delays and significant issues associated with the FY15 and FY16 audits.*

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

**Cause:** Staff turnover and lack of established internal controls and processes.

**Effect:** Noncompliance with applicable regulations.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**SECTION IV – OTHER FINDINGS (CONTINUED)**

**2016-014 Travel and Per Diem (Compliance and Other Matters) - (Prior Year Finding 2015-006)  
(Continued)**

**Recommendation:** We recognize that the Department has been working on a number of issues over the past two years related to financial and grant management and has made progress towards resolving some of the issues. We recommend that the Department continue to make it a high priority to implement adequate internal controls and processes that allow for timely and accurate reporting, as well as compliance with all applicable state and federal laws and regulations.

**Management Response:** Management concurs with the finding. In May 2017, the Intra-Department Memo was updated to include language regarding 10-8-5(l) NMSA. This memo is submitted to the Cabinet Secretary for all employee travel reimbursements. The FIN102-TRAVEL Policy and Procedure was revised to include this information on June 30, 2017.

Corrective Action Plan Timeline: Corrective action is complete.

Designation of Employee Position Responsible for Meeting Deadline: All DHSEM must adhere to the FIN102-TRAVEL.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

Legend for Type of Findings:

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance to Federal Awards
- G. Noncompliance with State Audit Rule, NM State Statutes, NMAC, or other entity compliance

**2014-001 Internal Controls Over Cash Receipts (Repeated as Finding 2016-010)**

**Type of Finding: C, G**

**Condition:** During the audit, no controls were identified to ensure documentation of when a check was received in the mail. As a result, we were unable to determine if checks deposited were made timely.

**2015-001 Lack of Cash Reconciliation Process (Repeated as a Component of Finding 2016-001)**

**Type of Finding: A, G**

**Condition:** The Department does not perform timely reconciliations for amounts held at the State Treasurer's Office. Auditors were unable to obtain documentation supporting the implementation and effectiveness of the reconciliation process for these amounts.

**2015-002 Certification of Capital Assets Annual Inventory (Corrective Action Was Taken)**

**Type of Finding: B, G**

**Condition:** The Department did not conduct an annual physical inventory of its capital assets consisting of those with a historical cost of five thousand dollars or more as of June 30, 2015, as required by State Statute.

**2015-003 Late Data Collection Form (Repeated as a Component of Finding 2016-011)**

**Type of Finding: E, F**

*Funding Agency: U.S. Department of Homeland Security*

*Title: All programs*

*CFDA #: All awards*

*Award #: All awards*

*Award Period: All periods*

*Estimated Questioned Costs: N/A*

**Condition:** The Department has yet to submit the Data Collection Form as required by OMB Circular A-133. The form is due no more than nine months after the close of the fiscal year under audit.



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SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2015-004 IT Controls – Lack of Disaster Recovery (Corrective Action Was Taken)**

**Type of Finding: A**

**Condition:** Per our review of IT controls, the following were identified as areas where controls should be improved.

1. There is not a complete off-site storage for backup data.
2. The Department's contingency plan for alternative processing in the event of loss or interruption of the IT function needs to be up-to-date based on changes to its systems.
3. A functional disaster recovery plan has not been developed.

**2015-005 Controls over Disbursements (Corrective Action Was Taken)**

**Type of Finding: B, C**

**Condition:** During testing of transactions, the following control deficiencies were noted:

- For 24 of the 40 random disbursement transactions tested, totaling \$258,712, the purchase order was not attached to the disbursement packet.
- For 5 of the 20 significant disbursement transactions tested, totaling \$6,862,370, the purchase order was not attached to the disbursement packet.
- For 3 of the 40 random disbursement transactions tested, no supporting documentation was provided. The missing voucher numbers were as follows: 20290, 21232, and 21518.
- For 2 of the 20 significant disbursement transactions tested, there was not a payment approval form.

Alternative procedures were performed to determine if the disbursement was valid and proper.

**2015-006 Controls Over Travel and Per Diem Expenses (Repeated as 2016-014)**

**Type of Finding: G**

**Condition:** During our test work over travel and per diem expenditures, we noted the Department did not maintain in writing the approval of reimbursements over \$1,500 singly or in the aggregate, in any one year for 5 out of 10 items tested for a total of \$731.33.

**2015-007 Late Audit Report (Repeated as a Component of 2016-011)**

**Type of Finding: G**

**Condition:** The audit report for the Department's fiscal year ended June 30, 2015 was not submitted by the December 1, 2015 due date. The audit report was submitted November 17, 2016.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2015-008 Approval of Journal Entries (Corrective Action Was Taken)**

**Type of Finding: B**

**Condition:** For 7 of the 14 journal entries tested, totaling \$2,014,648, there is no evidence that the journal entry was approved by someone other than the preparer.

**2015-009 Controls over Grant Draw Downs (Repeated as a Component of 2016-006)**

**Type of Finding: B, E**

*Funding Agency: All agencies*

*Title: All programs*

*CFDA #: All awards*

*Award #: All awards*

*Award Period: All periods*

*Estimated Questioned Costs: N/A*

**Condition:** In six out of the 12 drawdowns relating to the major program, and in nine out of the 15 drawdowns relating to other federal awards, the revenue deposit form was missing approval signatures. The form requires signatures from the Grant Unit Manager, ASB Chief, and the Budget Director.

**2015-010 Material Adjustments by Auditor (Repeated as a Component of 2016-001)**

**Type of Finding: A, D**

*Funding Agency: All agencies*

*Title: All programs*

*CFDA #: All awards*

*Award #: All awards*

*Award Period: All periods*

*Estimated Questioned Costs: N/A*

**Condition:** According to Statement on Auditing Standards 115 (SAS 115), identification by the auditor of a material misstatement of the financial statements under audit, in circumstances that indicate that the misstatement would not have been detected by the entity's internal control, is considered a material weakness.

Specifically, in 2015, the auditor identified material adjustments to:

- Accounts payable – understated by approximately \$1,500,000
- Grants to subrecipients expense – understated approximately \$1,500,000
- Grants receivable – understated by approximately \$1,500,000
- Federal grant revenue – understated by approximately \$1,500,000
- Amounts that effect reversion, fund balance and federal grants by approximately \$578,000

Additionally, the Schedule of Expenditures of Federal Awards was understated by approximately \$1,500,000.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2015-011 Insufficient Audit Evidence (Repeated as a Component of 2016-001)**

**Type of Finding: A, E, F**

Funding Agency: U.S. Department of Homeland Security

Title: All programs with subgrantees

CFDA #: 97.036, 97.042, 97.047, 97.023, 97.045, 97067, 20.703

Award #: All subgrant awards identified in the notes to the schedule of federal awards

Award Period: All periods

Estimated Questioned Costs: Unknown

**Condition:** During our audit, we were unable to obtain sufficient appropriate audit evidence to conclude that the financial statements, as a whole, are free from material misstatement. The following are key areas in which audit evidence was deemed insufficient:

- Confirmation of subgrantee payables
- Inaccurate deliverables related to:
  - accounts payables and subgrantee payables,
  - correspondence with any federal and state agencies related to compliance

Although we eventually received updated balances for accounts payables and subgrantee payables, we were unable to adequately test and confirm the subgrantee payables and the timeliness of payments, which was determined to be a necessary audit procedure. If subgrantee payables are inaccurate, it is possible that grant receivables, revenue and expenditures as well as the schedule of expenditures of federal awards would be inaccurate as well.

As for correspondence with federal and state agencies, management responded that there was no correspondence from regulatory type agencies, which we have documented. After we questioned this response, we eventually obtained FEMA 2015 and 2016 monitoring reports from management. However, we were made aware of additional correspondence received from third parties, which management did not disclose or provide to the auditors. Therefore, there is a concern that we may not have received significant correspondence that could materially affect the financial statements and compliance over federal programs.

Lastly, per our conversations with the Cabinet Secretary, it was brought to our attention that since the Department's creation by statute in 2007, indirect and shared costs may have been incorrectly allocated throughout its existence. Although this information has not been substantiated with the Department's cognizant agency, the determination on how this affects the financials for the year ended June 30, 2015 is unknown.

The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor's report contains a disclaimer of opinion.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2015-012 Federal Funding Accountability and Transparency Act (FFATA) Reporting Requirements (Repeated as a Component of 2016-004)**

**Type of Finding: E, F**

Funding Agency: U.S. Department of Homeland Security

Title: All programs with subgrantees

CFDA #: 97.036, 97.042, 97.047, 97.023, 97.045, 97067, 20.703

Award #: All subgrant awards identified in the notes to the schedule of federal awards

Award Period: All periods

Estimated Questioned Costs: None

**Condition:** The Department did not report financial information in accordance with Federal Funding Accountability and Transparency Act reporting requirements, increasing the risk that the public will not have access to transparent, accurate information regarding expenditures of federal awards.

**2015-013 Equipment Management (Repeated as a Component of 2016-002)**

**Type of Finding: E, F**

Funding Agency: U.S. Department of Homeland Security

Title: All programs

CFDA #: All

Award #: All

Award Period: All periods

Estimated Questioned Costs: None

**Condition:** The Department does not have a formal policy and procedure for equipment and property as required by 44 CFR §13.32(b), which includes listing property and equipment to include the identification of the federal program from which the equipment was funded.

**2015-014 Suspension and Debarment Exception (Corrective Action Was Taken)**

**Type of Finding: E**

Funding Agency: U.S. Department of Homeland Security

Title: All programs

CFDA #: All

Award #: All

Award Period: All periods

Estimated Questioned Costs: None

**Condition:** During our understanding of internal controls over federal funds, we noted that the Department had not always performed procedures to verify federal funds were not being awarded to suspended or debarred parties.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2015-015 Grant and Subrecipients Monitoring (Repeated as a Component of 2016-003)**

**Type of Finding: E, F**

Funding Agency: U.S. Department of Homeland Security

Title: All programs

CFDA #: All

Award #: All

Award Period: All periods

Estimated Questioned Costs: None

**Condition:** The Department is responsible for monitoring the programmatic and financial activities of its subrecipients to ensure proper stewardship of its federal grants that it has subawarded to other organizations.

44 CFR §13.40 as well as OMB Circulars require pass-through entities like the Department to evaluate each subrecipient's risk of noncompliance in order to determine the appropriate monitoring level, monitor the activities of subrecipient organizations to ensure that the subaward is in compliance with applicable federal statutes and regulations and terms of the subaward, and verify that subrecipients are audited as required by Subpart F of the Uniform Guidance.

Although the Department has designed what appears to be an adequate monitoring policy, the following areas do not appear to be properly implemented:

Per our review of the Department's monitoring policies and procedures, the Department was able to provide evidence of documentation of performance and financial reports, as well as documentation of on-site visits, for our sample of subrecipients tested. However, per our review of the prior two years of monitoring reports conducted by the U.S. Department of Homeland Security, FEMA requires the following in regards to monitoring of subrecipients:

- Consistently compare and reconcile financial and performance reports to actual performance prior to project completion for all grant subrecipients.
- Consistently completing on-site monitoring of all projects in order to validate the achievement of performance goals consistent with 44 CFR §13.40.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2015-016 Pre-Award Cost Eligibility (Corrective Action Was Taken)**

**Type of Finding: E, F**

Funding Agency: U.S. Department of Homeland Security  
Title: All programs  
CFDA #: All  
Award #: All  
Award Period: All periods  
Estimated Questioned Costs: None

**Condition:** Although not audited as major programs during our audit, per our review of the U.S. Department of Homeland Security June 30, 2016 Monitoring Report it was stated that: two hazard mitigation projects funded through two separate disasters have activities resulting in questioned costs. The first project is DR1936-005, City of Ferguson; the subrecipient incurred \$22,024.48 on activities that were performed/delivered before the award of the grant. In accordance with the FY2010 Hazard Mitigation Assistance (HMA) Unified Guidance, the following line items must be listed separately in the budget:

- Pre-award cost
- Subapplicant management cost.

The costs incurred were not identified in the project budget as pre-award activities. As a result, the costs are being questioned as ineligible for reimbursement.

In the second project, DR4153-0017, Nambe Pueblo Debris Flow Barrier project, the subrecipient incurred pre-award costs of \$13,875.74 with High Water Mark. In accordance with the FY2013 Hazard Mitigation Assistance (HMA) Unified Guidance 3, in order to be eligible for HMA funding, pre-award costs must be identified as separate line items in the cost estimate of the subapplication.

**2015-017 Maintenance of Grant Files (Repeated, but as Components of Other Findings)**

**Type of Finding: E, F**

Funding Agency: U.S. Department of Homeland Security  
Title: All programs  
CFDA #: All  
Award #: All  
Award Period: All periods  
Estimated Questioned Costs: None

**Statement of Condition:** The Department does not have a standardized file management system across all of its programs. Lack of a standardized file management system creates challenges to ensure grant files contain all required documentation. Specifically, some programs maintained separate files for programmatic and financial information, while other programs maintained one file.

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**2015-018 Prior Year Reversion Not Made Timely (Repeated as a Component of 2016-013)**

**Type of Finding: C, D**

**Statement of Condition:** As of June 30, 2015, the Department had a liability of \$39,797 owed to the State General Fund for funds related to reversions related to the prior fiscal year (FY 2014).

**STATE OF NEW MEXICO  
DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT  
EXIT CONFERENCE  
JUNE 30, 2016**

An exit conference was held with the Department on September 1, 2017. The conference was held at the Department's offices in Santa Fe, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

**NEW MEXICO DEPARTMENT OF HOMELAND SECURITY**

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

**CLIFTONLARSONALLEN LLP**

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

**PREPARATION OF FINANCIAL STATEMENTS**

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