



State of New Mexico Office of the State Auditor

January 24, 2024

VIA EMAIL AND U.S. MAIL

Teresa Casados, Cabinet Secretary
Children, Youth and Families Department
Office of the Secretary
1120 Paseo de Peralta
PERA Building
Santa Fe, NM 87502

*RE: Risk Review Letter Children, Youth and Families Department Fiscal Year 2023
(FY23) Independent Public Audit*

Dear Secretary Casados,

The Office of the State Auditor (“OSA”) has released the FY23 Independent Public Auditor’s report (“audit”) for the Children, Youth and Families Department (“CYFD” or “the Agency”). Our Director of Government Accountability Office (“GAO”) has reviewed the risks identified in the report, primarily as audit findings. This letter serves as our formal letter of concern regarding the financial affairs of CYFD. Specifically, the OSA is concerned with a pattern of legal noncompliance with the Audit Act and the Audit Rule, and with larger weaknesses in the internal control framework that remain unresolved from previous fiscal year.

A repeat audit finding in the FY23 audit shows that, for the last two years, CYFD has not complied with elements of the Audit Act (NMSA 1978, § 12-6-6) requiring the Agency to report to OSA any violation of a criminal statute in connection with its financial affairs. When combined with the Agency’s FY21 finding that the Agency did not respond within the required fifteen (15) calendar day period for fact finding procedures pursuant to the Audit Rule, these findings represent a pattern in a lack of timeliness and omissions regarding required OSA interactions.

The OSA is also greatly concerned with Agency management’s reported lack of awareness of reported fraud, waste, and abuse within the Agency, as management oversight is integral to fulfilling any corrective action in this area. Without the active participation and partnership of government agencies in reporting and rooting out fraud, waste, and abuse in government spending,

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the OSA cannot fulfill its financial oversight duties to secure the public purse and the confidence of the public's trust.

Of additional concern are the repeat findings that are the result of internal control deficiencies and failure to take corrective actions to resolve prior year weaknesses in the internal control framework. The OSA specifically wants to express its concern over, and call attention to, the repeat audit finding on attempted vendor fraud schemes by which fraudsters attempted to circumvent controls by initiating a vendor information change on an Internal Revenue Service (IRS) W-9 form. This occurred despite a similar fraud attempt in FY21 and after a delayed policy and procedure implementation around this specific issue.

Please take seriously the uptick in vendor fraud schemes involving information updates. Consistent with the independent public auditor (IPA) recommendation, ensure the new policy and procedure is accompanied with training, a point of contact, a quality control checklist, and ensure adequate time is spent considering all vetting steps to include verbal confirmation of changes with vendors or increased communication with the Department of Finance and Administration (DFA). We note that the management response to the original FY22 audit finding did not reflect the IPA's recommendation for training and the audit finding was repeated.

The OSA is similarly concerned with the material weakness that the adoptions subsidy payments and eligibility testing supporting documentation could not be produced for program activities for a second year in a row, and the IPA reports that there are increased findings from the prior year. Non-compliance with the Social Security Act's Title IV-E requirements could jeopardize the federal funds our state receives for these vulnerable populations. We recommend the Agency revisit the IPA recommendations for resolving the continued inaccurate or nonallowable adoption subsidy payments, missing or inaccurate supporting documentation for eligibility testing, and a general lack of controls around document retention via a program improvement plan.

Please provide a written status update on corrective actions for these repeat findings in your independent public audit. Please ensure that your update expands on your management responses in the independent public audit, addresses the independent public auditor's (IPA's) recommendations, and includes written support for any training, meetings, risk assessments, and any new internal controls implemented so they may also be verified by your IPA.

Regarding the finding of non-compliance with the Audit Act, please also include written support for new "training, implementation and monitoring processes on reporting any possible or even potential crime, non-compliance, fraud, waste and abuse," as well as "frequent and routine meetings between ASD management and the OIG and internal general counsel." Please also

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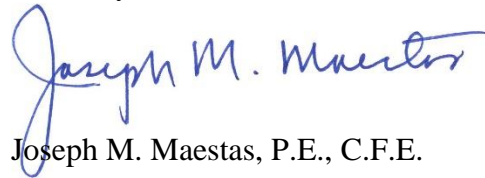
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include what formal risk assessment has taken place and what additional internal controls have been implemented to “prevent and detect fraud and errors, and monitor results and progress be performed by ASD as required.”

Thank you for your attention to these matters. The OSA remains committed to securing the public trust of all New Mexicans in the financial activities of their state government. We look forward to receiving your full response to this letter by February 8, 2024. If you have questions regarding the content of this letter, please do not hesitate to contact Mr. David Craig, Director of Government Accountability Office, at David.Craig@osa.nm.gov or (505) 699-9911.

Sincerely,

A handwritten signature in blue ink that reads "Joseph M. Maestas". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Joseph M. Maestas, P.E., C.F.E.

New Mexico State Auditor

cc via email: Wayne Propst, Cabinet Secretary, Department of Finance and Administration Wayne.Propst@dfa.nm.gov

Charles Sallee, Director, Legislative Finance Committee

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Daniel Schlegel, Chief of Staff, Office of the Governor

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JM/dc