PERA
Public Employees
Retirement Association
of New Mexico

INVESTED IN TOMORROW.

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March 11, 2024

New Mexico Office of the State Auditor
Attn: Christopher Hall
2540 Camino Edward Ortiz, Suite A
Santa Fe, New Mexico 87507

RE: Proposed 2024 State Audit Rule Public Comments

Dear Mr. Hall,

Thank you for providing an opportunity to comment on the New Mexico State Audit Rule. The Public Employees Retirement Association of NM (PERA) has reviewed the proposed 2024 New Mexico State Audit Rule and is providing public comments below.

<u>Section 2.2.2.8 F (3) and Section 2.2.2.8 G (1) (b)</u>

Please consider removing the changes in Section 2.2.2.8.F(3) and Section 2.2.2.8.G(1)(b) amending and shortening the auditor rotation rule from eight years to six. The possible benefit of the proposed change may assist with a freshness in perspective; however, this potential benefit does not seem to outweigh the anticipated costs. Listed below are our concerns related to a shortened auditor rotation rule.

Decreased audit quality: Allowing for an eight-year contract period allows auditors to gain a more in-depth understanding of processes and systems in place at an agency resulting in a higher quality audit. PERA is a public pension plan with $17.2 billion in investments and tracks activity for approximately 125,000 members' accounts. While PERA has many common processes for public pension plans, each public pension plan is unique. Retaining auditors for eight years allows auditors to gain additional experience with PERA's processes and systems to help ensure a high-quality audit.

Increased costs: Decreasing the auditor rotation period to six years will likely increase costs for both agencies and auditors. The first year of an audit represents a steep learning curve and requires an investment of resources which may be factored into responses to requests for proposals. If auditors are required to rotate more often, these costs may increase as the investment is for a shorter period. Agencies must also spend additional resources educating auditors on processes and systems in place, adding to the current workload. Additionally, responses to requests for proposals can vary greatly based on current economic conditions. It is more beneficial for agencies to receive a cost proposal for four years to help ensure stability in audit costs and budget accordingly.

Increased administrative burden: Shortening the auditor rotation rule to six years will require more frequent procurements placing an increased administrative burden on agencies. Requests for proposals require significant time and resources for an agency to ensure compliance with the NM Procurement Code. Requiring agencies to complete procurements more often places an additional strain on agencies' limited resources.

Transition concerns: The proposed change in the auditor rotation rule may cause transition issues. PERA currently has a four-year cost proposal in place. If PERA completes the current four-year cost proposal, we will need to solicit an RFP for a two-year cost proposal for future years, which may deter qualified firms from submitting proposals.

Allowing an eight-year audit contract period will assist with efficiencies for auditors and agencies, supporting a more sustainable audit model. We appreciate the opportunity to provide feedback on the proposed change and hope the information above is useful in weighing potential benefits and costs. Professional standards on independence and OSA's oversight have proven effective tools to help ensure fresh perspectives on audits. If concerns with an eight-year auditor rotation rule remain, we respectfully request that OSA explore additional tools to implement prior to changing the auditor rotation rule. Additional tools may include required trainings specific to New Mexico State Audit Rule and additional collaboration with auditors.

Section 2.2.2.10.Y(1)(f)

Please consider updating this section. GASBS 68 has been effective for nine fiscal years and agencies have tailored their notes to reflect pertinent information required for the standard. We believe providing template notes for agencies is no longer necessary and are proposing the following markup changes.

PERA and ERB shall each prepare an employer guide that illustrates the ~~correct use of their respective schedule of employer allocations report by their participant employers~~ use of their respective schedule of employer allocations report to create journal entries generally required by GASBS 68. ~~The guides shall explicitly distinguish between the plan-level reporting and any employer-specific items.~~ The calculations ~~and record keeping necessary~~ at the employer level (for adjusting journal entries, amortization of deferred amounts, etc.) shall be described and illustrated. The employer guides shall be made available to the participant employers by June 30 of the subsequent fiscal year. Stand-alone state agency financial statements that exclude the proportionate share of the collective net pension liability of the state of New Mexico shall include note disclosure referring the reader to the statewide comprehensive annual financial report for the state's net pension liability and other pension-related information.

We appreciate the opportunity to provide feedback on the proposed rule changes and greatly appreciate your consideration.

Sincerely,

Lynette Sanders

Lynette Sanders, CPA, CGFM

ASD Director/CFO