



OFFICE OF THE STATE AUDITOR
GOVERNMENT ACCOUNTABILITY OFFICE

September 2024

FISCAL YEAR 2021-2022 FINDINGS REPORT

Summarizing New Mexico's Governmental Audit Reports

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Credits:

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Note on Presentation of State Financial Audit Data

As explained on page 10 and elsewhere in the report, there are many entities for whom data is unavailable due to late or missing audits. As such, many entities have data excluded from the Fiscal Year 2021-2022 Findings Report. Additionally, there are some entities that are administratively attached to another entity but may have a stand-alone audit or component units which we separately tabulate a financial audit. As such, the report provides counterintuitive presentation for some categories of entities. The reader is advised that state government financial reporting is separate and distinct from Operations data.

EXECUTIVE SUMMARY

Financial Audit

An audit of financial statements is a written report expressing and attesting whether the accompanying financial statements are stated fairly by the entity's management and presented in accordance with applicable accounting standards. Auditors review underlying data and processes that went into preparing the financial statements.

The Office of the State Auditor (OSA) has statutory oversight responsibilities for annual financial audits of New Mexico's governmental entities. The OSA ensures that financial audits are completed in accordance with governmental accounting and auditing standards and helps ensure timely completion. For government audits, an OSA-approved independent public accountant (IPA) or OSA auditor review whether the financial statements of an entity are presented fairly in all material respects and in accordance with generally accepted accounting principles (GAAP) and government auditing standards (GAGAS). Audits test and review supporting documentation for financial data and review management processes related to the financial statement preparation. The annual audit process provides data on a government's financial operations and can help identify operations in need of corrective action. The format in which the auditor presents areas of deficiencies or issues of non-compliance in a public audit is termed a finding.

Audit Opinion

Audit reports include an opinion by the auditor as to whether there is reasonable assurance that the financial statements prepared by management are free from material misstatements. Audit opinions generally are presented as one of the following: unmodified (providing reasonable assurance the financial statements are free from material misstatement), modified (disclaimed or adverse opinions where the auditor does not reach reasonable assurance), or multiple (expressing different opinions on different sections of the government).

Audited financial statements provide important information on government operations, and for the history of the OSA's Government Accountability Office (GAO), a report analyzing trends in the findings presented in audits has been published. Originally envisioned as a way to empower government leaders to use audit reports as a management tool to guide financial decisions, the findings report has often focused on aggregate trends in all state audits. These larger scale trends are important; they inform government stakeholders of whether the issues being faced in their entity are an outlier or part of a larger trend of similar issues faced by all state governments. However, for fiscal year 2021-2022 (FY22), the OSA GAO also analyzed trends within government entities to further highlight potential areas of risk for subunits of government. Just as the issues faced by the state may differ from a federal government, the areas of risk for a state agency or municipality may differ as well. For FY22, the GAO wants to bring focus on areas of risk for all government subgroups, as well as traditionally presenting the larger statewide trends.

Purpose

The purpose of the FY22 Findings Report is to provide both high-level and more granular data and statistical evidence on the outcomes found in state and local government FY22 audits. This report helps accomplish OSA’s mission of establishing and maintaining the public’s trust in the use of public funds by enacting a core element of the OSA vision of being the chief steward to help public entities remain financially compliant. The report also helps fulfill the GAO’s mission to increase accountability for non-compliant entities, increase transparency of government operations, and strive for excellence in state government financial operations by identifying areas of improvement for state government entities. The GAO also intends that trends within subgroups of government will help alike entities identify areas of risk to address.

Procedures

When the IPA submits an audit to the OSA for review, it also submits a summary of findings report. Staff from the OSA’s Financial Audit Division (FAD) compile these reports into a master findings summary sheet and provide preliminary data validation work steps. The spreadsheet is transferred to the GAO for further validation and data analysis, and this report reflects the results of that analysis. Regrettably, there are always entities for whom an audit is submitted late. As such, entities without a FY22 audit submission as of July 9, 2024 are identified on page 10 in the report and their findings are omitted from any analysis. The FY22 Findings Report includes data from 550 full financial audits and 113 agreed-upon-procedures attestations which are for entities that require less than a financial audit according to the statutory tiered system of reporting (see Appendix A). In the report, we also analyze categories of findings for subgroups of governments to find trends that allow these government subgroups to better refine their financial operations.

Fiscal Year 2021-2022 Introduction

In audits of financial statements, the government management asserts that the financial statements are fairly stated in accordance with GAAP and GAGAS. The OSA approved auditor will issue an opinion on whether or not the statements are fairly stated in accordance with GAAP and GAGAS. With regard to the state of New Mexico’s governments in FY22, the vast majority of state audits have no issues as demonstrated by 96 percent of all the state’s 550 government audits being presented fairly (i.e., with an unmodified opinion). After adding in the 113 agreed-upon-procedures (AUP’s) attestations, over half of all audits and AUP’s had no findings whatsoever.

In past findings reports, these opinions have been sometimes given “clean bills of health” by the OSA. Auditors provide an assurance on management’s preparation of financial statements from a single historical point in time. It does not detect or prevent all instances of fraud, waste or abuse in an entity, nor does it provide a comprehensive, exhaustive test of all transactions or funds. Many entities without findings or an unmodified opinion in an audit report from prior years may have many financial issues currently or going undetected. The state auditor expresses caution with overemphasizing financial health of government agencies that have an unmodified opinion or a lack of audit findings in any given year. However, the public should have confidence that the majority of government leaders and management were conducting their financial affairs in FY22 in a sufficiently effective manner. Additionally, this level of governmental performance has stayed relatively consistent across over at least the last five years, with the level of unmodified opinions staying at this high level.

OSA AND GAO

Office of the State Auditor (OSA)

The OSA is a constitutionally established, separately elected office in the Executive branch of state government. The State Auditor maintains independence from both the Governor and the Legislature while examining and auditing the financial affairs of state and local entities.

When the state's leaders prepared the New Mexico Constitution in 1911, they created a strong, independent Office of the State Auditor to oversee how government officials spend taxpayers' dollars. As the New Mexico Supreme Court stated in 1968, "the Office of State Auditor was created and exists for the basic purpose of having a completely independent representative of the people, accountable to no one else, with the power, duty and authority to examine and pass upon the activities of state officers and agencies who, by law, receive and expend public moneys." *Thompson v. Legislative Audit Commission*, 79 NM. 693, 448 P.2d 779 (1968).

Included in the OSA's statutory mandate is the requirement that the financial affairs of every agency be thoroughly examined and audited each year by the State Auditor, personnel of the OSA designated by the State Auditor, or Independent Public Accountants (IPAs) approved by the OSA. The OSA also has the authority to cause the financial affairs and transactions of an agency to be audited in whole or in part. These two statutory provisions grant the OSA the authority to conduct both annual financial audits and special audits. The Audit Act (New Mexico Statutes Annotated 1978, Sections 12-6-1 to 12-6-14), and the Audit Rule, (NMAC 2.2.2 1978), are the office's primary operating laws and regulations.

Government Accountability Office (GAO)

The OSA's Government Accountability Office (GAO) informs and reports on statewide issues relating to the use of public funds and government financial operations. The GAO is a key lever in fulfilling the OSA's mission, and it ensures the public's trust in the use of public funds by bringing transparency and accountability to the use of public funds. As part of the OSA, the GAO is uniquely positioned to analyze audit data in a way that is accessible and useful to government stakeholders. In addition to yearly reports, the GAO releases various issue-specific GAO reports (such as the annual findings and operations reports), risk reviews (communicating financial issues of concern to those charged with governance of state and local government), risk advisories (giving notice of concerns that the OSA has discovered regarding transparency, accountability or compliance), bulletins (which are used to promote and support content areas related to accounting and audit areas for stakeholders) and transparency reports (which discuss specific issues of interest related to how our public dollars are managed and spent). Through these transparency and accountability reports, the GAO promotes excellence in government finances.

OSA's Mission

"Establish and maintain the public's trust in the use of public funds through an office free from external influence and entrusted with the authority to scrutinize the undertakings of state officials and entities."

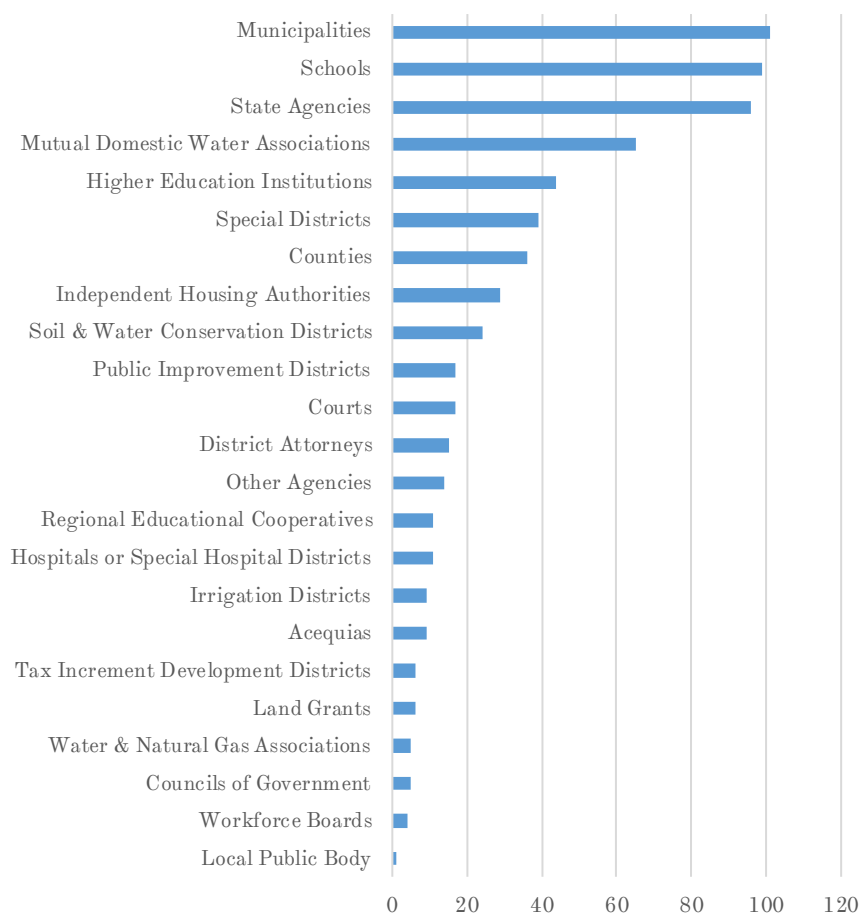
FISCAL YEAR 2022 OVERVIEW

High Level Overview of Audits/Agreed-upon-procedures: Opinions and Findings

Audits and Agreed-Upon-Procedures (AUPs)

Information presented in this report draws on the financial audits and agreed-upon-procedures (AUPs) from the 663 agencies submitting reports for review in FY22. The determination for whether an entity receives a full audit or an AUP is based upon the statutory tiered system of reporting, which is outlined in Appendix A. Though the OSA staff has the authority to audit any government agency, the vast majority of government audits were conducted by Independent Public Accountants (IPAs) that are approved and overseen by the OSA. Due to a lack of OSA staffing and the long-standing contracting-out model, the IPAs conduct the majority of the state's government audits and OSA evaluates the IPA's through an approval process and reviews the work performed by the IPA to ensure it meets professional standards. For FY22, the OSA tracked 23 agency types, which are consolidated for purposes of this report's agency type breakouts into nine groupings based upon similarities in operations.

Fiscal Year 2022 Audits and Agreed-upon-Procedures by Agency Type



Audit Review Process

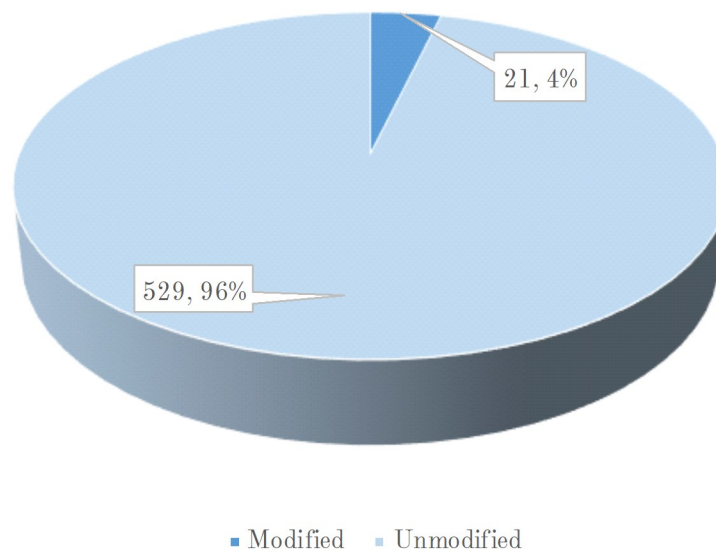
In FY22 the OSA oversaw required financial reporting for 663 governmental entities, with many backlogged AUPs or late audits. The OSA performs regulatory work in ensuring the audits or AUPs conducted by the IPAs maintain a high level of quality and is in compliance with generally accepted accounting principles (GAAP) and government auditing standards (GAGAS). OSA supplements its audit review with approval and verification of IPAs and limiting contracting to those approved. It also performs workpaper reviews to ensure conclusions are supported. However, the OSA does not determine whether opinions and findings in an audit conducted by an IPA are correct - reviews are limited to quality control and assurance. The views expressed in any government audit conducted by an IPA are based on the IPA's professional judgment. As the IPA industry contracts, the state faces challenges in continuing the contracting-out model.

Fiscal Year 2022 Unmodified Audit Opinions

As described earlier, when performing a governmental audit, an auditor determines whether the financial statements of the entity are presented fairly by management and in accordance with accounting standards by looking at the underlying information and processes that went into preparing the financial statements. The auditor also examines the entity's internal control framework. As part of their field work, the auditor selects a sample of the records and tests those records to see if they support the information presented in the financial statements. After concluding field work, the auditor provides an opinion about the information presented by management and whether the financial statements are in conformity with the applicable reporting framework. Audit reports indicate an opinion as to whether there is reasonable assurance that the financial statements are free from material misstatements, but they are not intended to identify every financial challenge in an organization's finances. In AUP's, an auditor expresses no opinion.

In FY22, 96 percent of the 550 entities receiving a full financial audit received an unmodified audit opinion, reflecting that there is reasonable assurance the financial statements are free from material misstatement. When the majority of our state's government entities have unmodified opinions, the public can rely on the financial information as presented.

Fiscal Year 2022 Audit Opinions



Unmodified Opinions

The auditor concludes that the financial statements of a given entity are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Fiscal Year 2022 Modified or Multiple Audit Opinions

For the four percent of entities that did have modified or multiple opinions, risks to relying on management's presentation of the financial statements increases. When an entity receives a modified opinion, more than public scrutiny is implicated. Modified opinions can impact many other financial activities of the recipient government agency. Downgraded bond ratings, decreased access to direct capital outlay appropriations, increased scrutiny from federal grantee agencies and increased turnover of high level financial staff in an already stressed labor market for accounting and finance professionals are all common occurrences. It behooves all state government finance stakeholders to seek financial improvement for entities with modified or multiple opinions. Among other negative state impacts, often bonding debt will be impacted when backed with the full faith and credit of the state, direct legislative appropriations may go unspent, the state may be asked to backfill withdrawn federal grants or the state may have to step in and operate a government entity's finances if the underlying issues related to the modified opinion cannot be resolved.

Fiscal Year 2022 Agencies with Multiple or Modified Opinions

Multiple

Belen Consolidated School District No. 2
 City of Eunice
 City of Grants
 La Merced del Pueblo de Cebolleta
 New Mexico Public School Facilities Authority
 Taos County
 Village of Tularosa
 Village of Columbus
 Village of Tijeras

Qualified

City of Jal
 New Mexico Department of Homeland Sec. and Em. Mgmt.
 New Mexico General Services Department
 Northern New Mexico College
 Village of Pecos

Disclaimer

City of Elephant Butte
 City of Moriarty
 Estancia Valley Solid Waster Authority
 Mesalands Community College
 Public Education Department (Charter Components)
 Village of Wagon Mound Housing Authority

Qualified Opinions

An auditor concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements, or the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinions

An auditor concludes that misstatements, individually or when grouped with other misstatements, are both material and pervasive to the financial statements.

Disclaimer of Opinion

The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Modified Opinion

A broad term used to group a series of increasingly severe audit opinions including: qualified, adverse or disclaimer of opinion.

Multiple Opinions

An auditor expresses different opinions on various aspects of the financial statements. For example, an auditor may express an unmodified opinion on general fund activities, but the federal activities may be qualified.

Fiscal Year 2022 Late and Missing Audits

More egregious than a modified audit, many entities do not adhere to legal deadlines for financial audit or AUPs completion and submission to the OSA for review. In these instances, the OSA and other state financial stakeholders have no information or confidence in the financial operations of these select government entities. In instances where a financial audit or AUP review is late, the OSA negotiates between the engaged IPA and the government entity with the late review to attempt to assist with reaching timely reporting. In extreme instances, the OSA may contact appropriate oversight entities referencing the published late audit list to inform decisions the oversight entity makes regarding withholding funds until such time as the financial audits become current. The entities listed below did not have a FY22 financial audit that had finished the OSA review process and was published on the OSA website by July 9, 2024. Additionally, it is frequent that the OSA finds a small local public body that has been operating without an AUP completed for years that needs to come current with financial compliance because it receives a capital outlay appropriation. The OSA then engages the entity through its Small Local Public Body Initiative to provide them the resources to achieve compliance by becoming current with their tier certification and, by extension, current with any outstanding AUP. No entity has a comprehensive list of statewide government entities. OSA is in the process of developing a known entity list.

Government Entities with Findings Data Omitted from the FY22 Findings Report

Government Entity Name	Type	Last Published Year	Last Published Opinion
Rio Pecos Estates Limited Partnership	Other Agencies	2021	Unmodified
Luna Community College	Higher Education Institutions	2021	Unmodified
REDI Net	Other Agencies	2021	Qualified
San Miguel County	Counties	2021	Unmodified
Village of Capitan	Municipalities	2020	Disclaimer
City of Deming	Municipalities	2021*	Unmodified
Village of Eagle Nest	Municipalities	2021	Unmodified
Village of Jemez Springs	Municipalities	2021	Disclaimer
Village of Willard	Municipalities	2019	AUP-No Opinion
Cobre Consolidated Schools	Schools	2021	Unmodified
Coronado Soil & Water Conservation District	Soil & Water Conserv. Dist.	2021	AUP-No Opinion
Grant Soil & Water Conservation District	Soil & Water Conserv. Dist.	2021	AUP-No Opinion
Northern Regional Housing Authority	Independent Housing Authorities	2021	Unmodified
Acequia Madre de Las Vegas	Other Agencies	2021	AUP-No Opinion

*The City of Deming has a special report on utility services and billing released in 2023

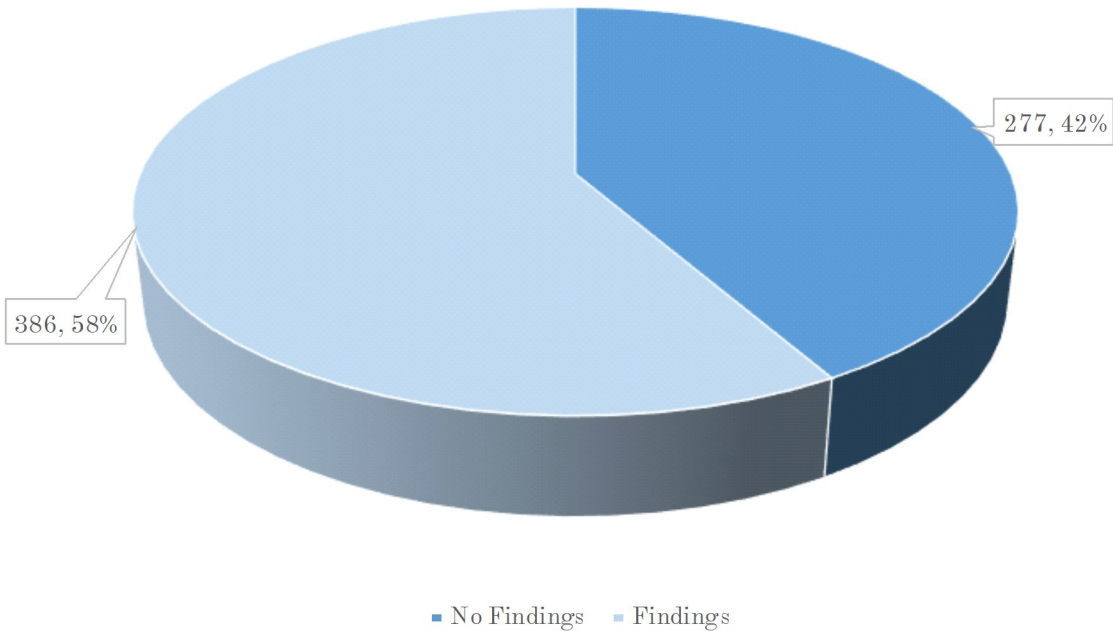
“The state auditor shall notify the legislative finance committee and the secretary of finance and administration if a state agency, state institution, municipality or county has failed to submit a required audit report within ninety days of the due date specified by the state auditor; and the state auditor has investigated the matter and attempted to negotiate with the state agency, state institution, municipality or county but the state agency, state institution, municipality or county has not made satisfactory progress toward compliance with the Audit Act.” 12-6-3 G NMSA 1978

Fiscal Year 2022 Audit and AUP Findings

In addition to the opinion, a financial audit report contains findings that the auditor observes during their fieldwork reviewing support for financial statements. Though AUPs do not contain an opinion, they do document findings. A finding presents a deficiency or an issue of non-compliance that auditors find when analyzing the procedures of an entity or conducting audit test work. Audit findings are how auditors discuss errors, omissions, exceptions, or deficiencies as a result of analyzing the procedures of the agency or looking at audit support provided by the government entity and samples. Findings include a condition or problem documented, the criteria against which they determined the problem exists, the cause of the problem identified (in the opinion of the auditor), and the effect of the condition on the entity’s operations. Auditors then also document recommendations to resolve the problem discussed in the finding, and are designed to inform continuous quality improvements by management. Findings also conclude with management’s response to the problem and document plans to take corrective action to improve the condition.

In FY22, over half of the 113 AUPs and 550 financial audits had no findings. The majority of entities in the state conduct their operations in a manner that public stakeholders can be confident that management financial operations are effective.

Fiscal Year 2022 Occurence of Findings



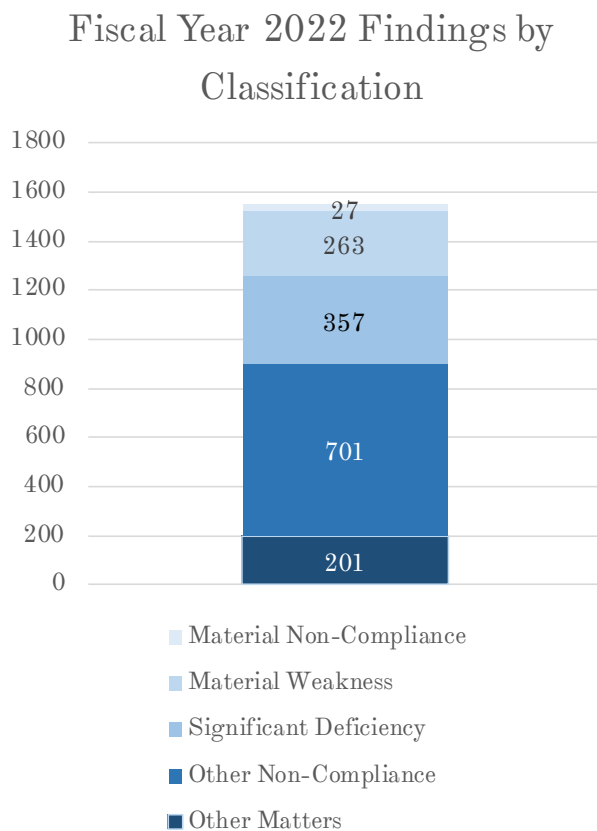
Audit Findings

An written observation from evaluation of audit evidence when compared to legal or principled criteria. Documents a nonconformity to the criteria by describing the condition, cause and effect and makes a recommendation for remediation. Findings also include management’s response and proposed corrective action.

Fiscal Year 2022 Audit and AUP Findings Classifications

Each audit finding can be grouped into a specific classification, based upon the severity of the problem leading to the auditor reporting the finding and the potential risk that the financial statements are misstated. Classifications can illustrate whether the problems are the result of internal control deficiencies, noncompliance with state laws or other deviations that impact the potential for financial statements to be misstated. The five finding classifications by increasing severity are: other matters, other non-compliance, significant deficiency, material weakness and material non-compliance. Findings do not exist in a vacuum and must be considered in concert with the audit opinion, other audit findings, past financial audits and management's responses and proposed corrective actions. Material non-compliance and material weaknesses both discuss impacts to materiality of financial statements presented, with the difference being that the former is the result from being non-compliant with laws, regulations, contracts and/or grants and the latter often the result of internal controls deficiencies but not rising to the level of violating any laws, regulations, contracts and/or grants.

One cannot judge an entity's financial health through a count of findings alone. For example, one audit with an unmodified opinion may have multiple other audit findings, none of which impact the materiality or presentation of the financial statements. Alternatively, another financial audit may have a disclaimer of opinion resulting from one material non-compliance finding for misspending a federal grant that throws all ability to produce a trial balance and therefore accurate financial statements into disarray. Though an unlikely example, in these instances the financial audit with more audit findings is actually *less* financially risky than the audit with fewer findings. However, when taken in concert with other elements of the audit or compared with findings of other similarly situated governments, the frequency of audit findings can provide information on trends of government audit risk. The overall frequency of audit finding risk classifications is demonstrated below.



Material Non-Compliance	A failure to comply with laws, regulations, contracts or grant agreements that is quantitatively or qualitatively material, either individually or when aggregated with other non-compliance, to the compliance requirement as a whole, or at the individual program level.
Material Weakness	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the agency's financial statements will not be prevented, or detected and corrected on a timely basis.
Significant Deficiency	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.
Other Non-Compliance	A failure to comply with laws, regulations, contracts, or grant agreements that may affect the financial statements as a whole, or at the individual fund or program level.
Other Matters	A finding that is any violation of law or good accounting practices found by the audit, that does not rise to the level of a significant deficiency.

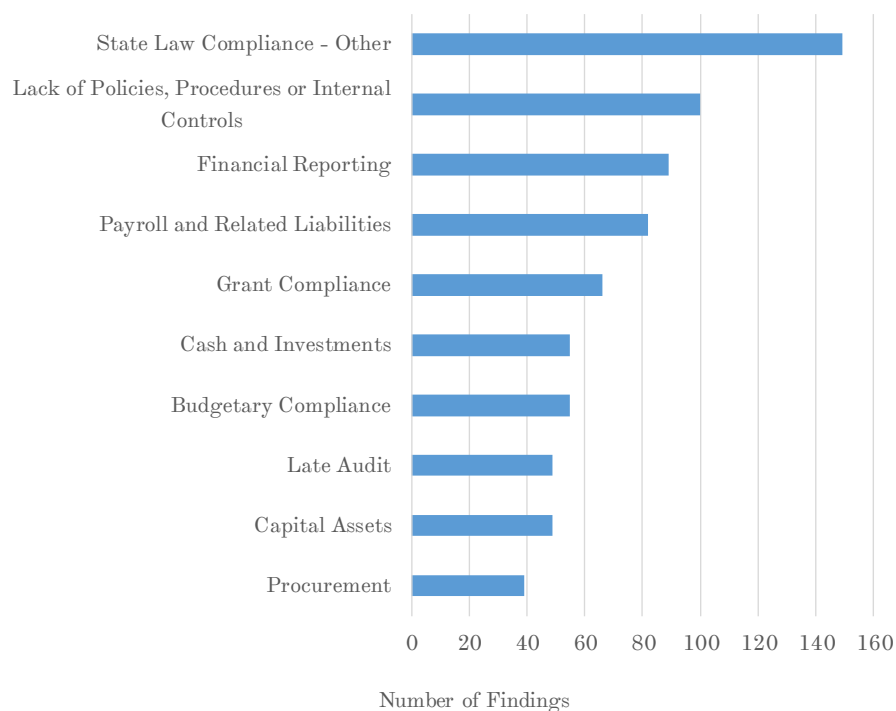
Fiscal Year 2022 Common Audit and AUP Findings

The frequency of audit findings can illuminate trends in government audit risk. The purpose of audit findings are to identify areas of improvement for government management as well as identifying to stakeholders areas of risk in the governmental entity. Government management should be using the information in their entity's audit findings to engage in continuous quality improvement efforts. However, government entities should also be analyzing trends in the state's overall government audit findings to see where similarities exist between their government's audit findings and the state's audit findings in aggregate.

The overall statewide frequency of audit finding categories is demonstrated below and the definitions for categories of findings in FY22 are available in Appendix B. The top three categories presented below were over 35 percent of all findings state wide. Many entities will have at least one of the top three categories for the state in the top findings categories for their government subgroup, as depicted later beginning on page 14.

After review of trends in why these findings were occurring, state governmental entities may wish to review state legal requirements in general to ensure compliance with state law. OSA recommends paying special attention to requirements for pledged collateral¹, the requirements for audit submission deadlines and accuracy of reporting to oversight or grantee agencies. When reviewing the lack of policies, procedures and internal controls finding, entities should ensure they have accounting and procurement policies and procedures manuals and that they reflect current law and are in use. Entities should also perform risk assessments on their internal control framework. For financial reporting, entities should review their accuracy in the closing and opening of the fiscal year's accounting, and their entity's ability to produce a trial balance and schedule of expenditure of federal awards (SEFA) that is accurate and without error.

Fiscal Year 2022 Top Ten Findings by Category



More information on pledged collateral and requirements is available on the OSA website at https://www.osa.nm.gov/wp-content/uploads/2023/10/OSA_STO-Joint-ALERT.pdf

GOVERNMENT ENTITY SUBGROUPS

Detailed Overview of Audits/Agreed-upon-procedures: Findings and Operational Trends

Government Subgroups Overview

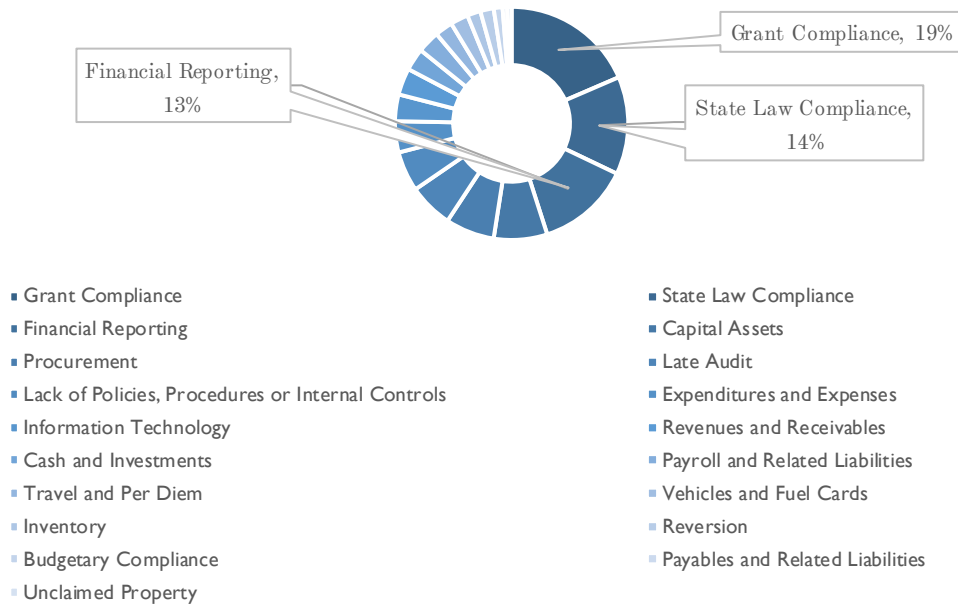
In order to facilitate better and more pertinent trend analyses across subgroups of our state governmental entities, the OSA grouped similarly situated governmental entities into nine broad categories of government to help highlight trends in categories of findings, and provide more valuable guidance in improvements to financial operations within these subgroupings. What follows this overview are detailed breakouts of trends within each entity, and within each classification of finding. This further disaggregates state-level trend data as certain entities may not experience the same state-level trends in findings classification. For example, though state law compliance was the number one finding in the statewide frequency results, within the state agencies government subgroup, grant compliance was the most frequent finding classification. The subgroup breakout sections of the report answer why this is happening and what management efforts may have resulted in less audit findings. OSA includes entities with AUPs as those reports include findings and some governments that are similarly situated to other entities receive AUPs due to meeting tier requirements while their similarly situated peers receive full financial audits. For example, while the Town of Dexter has a full financial audit, the Village of Des Moines receives an AUP. Yet, these two municipalities may encounter similar challenges in their financial operations and all municipalities can benefit from including their peer's AUP trend data to identify areas of increased risk to target with continuous quality improvement initiatives. Descriptive data on the subgroupings of government entities is included below. Information on which traditional OSA database categories are included in the subgroupings are included in the individual breakout sections, as is the most frequent categories of audit findings. For a full list of findings categories modeled, please see Appendix B.

Fiscal Year 2022 Agency Overview

Agency Category Group	AUP - No Opinion	Modified	Unmodified	No Findings	Number of Findings
Counties	0	1	35	13	90
Higher Ed. Institutions	0	2	42	24	70
Hospitals or Special Hospital Dist.	0	0	11	2	27
Judiciary	0	0	32	19	20
Local Public Bodies	105	2	73	103	189
Municipalities	8	10	113	38	387
Other Government	0	0	23	14	23
Public Schools	0	1	109	23	475
State Agencies	0	4	92	41	268
<i>Totals</i>	<i>113</i>	<i>20</i>	<i>530</i>	<i>277</i>	<i>1549</i>

State Agencies

FY22 State Agencies Findings (by category)



Subgroup Summary

The state agencies reflect the government entities that constitute state Executive branch agencies, but also includes standing agencies of the Legislature and quasi-governmental entities like the Public Schools Insurance Authority. State agencies have robust administrative services divisions and most often have proven track records of financial performance. Given the robust financial and accounting infrastructure in state agencies, some entities receiving modified opinions is concerning. OSA recommends LFC and DFA strengthen financial oversight of state agencies.

Top Three Findings Categories

The first most frequent audit finding in state agencies is *grant compliance*. The frequency of this audit finding was often due to charging unallowable costs to grants, a lack of subrecipient monitoring on federal grants and improper reporting requirements to federal oversight entities or grantees. OSA recommends that governments ensure that allowable costs and activities for payroll charged to federal grants is supported with documentation, that proper oversight is being conducted of sub-awardees, and that all reporting to federal agencies is performed accurately and timely.

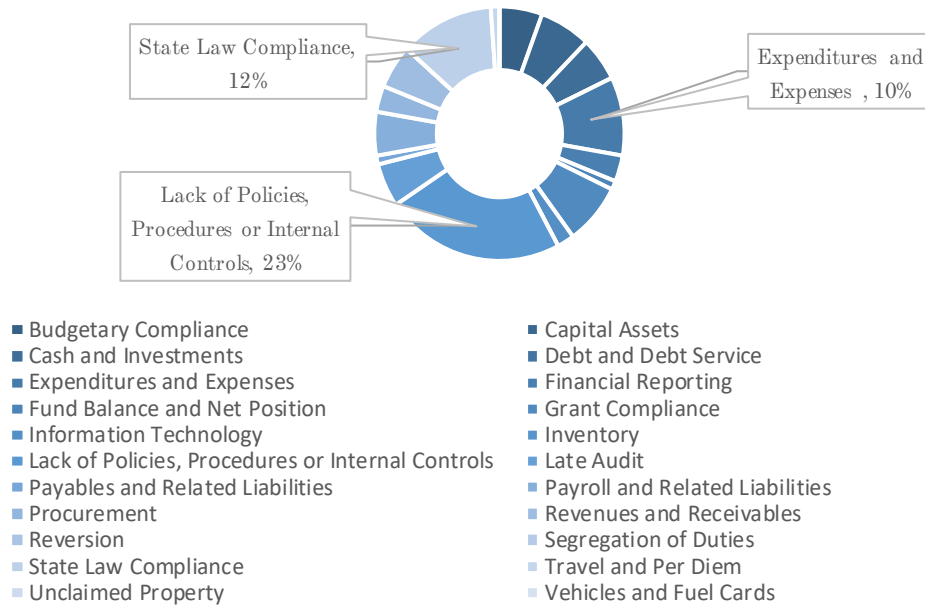
Second, state agencies were increasingly found to be out of *state law compliance* in their audit findings. Often these findings were for late audit reports, but also include not following procedures for capital outlay disposition, or not providing timely notification to the OSA of instance with fraud, waste and abuse. State agencies should be preparing for the audit process far in advance of the close of the fiscal year and possess expertise in complying with state financial laws and regulation.

Lastly, state agencies experienced a high frequency of *financial reporting* findings. These are deficiencies related to improper reporting and the ability to accurately and timely close prior fiscal year accounting and open the next fiscal year. State agencies were improperly reporting leases and related liabilities (as required by GASB 87), interfund transfers and accounts receivable. In addition improperly preparing the SEFA delayed state agency final accounting. In addition to internal controls lacking around the fiscal year accounting close, auditors also identified issues with the need for additional adjusting journal entries, and construction close-out accounting.

State agencies should strengthen their timeliness of audit preparation, federal grant compliance and ensure accurate open and close procedures. Internal controls around financial accounting should also be improved, as should the timeliness of the annual comprehensive financial report (ACFR).

Counties

FY22 County Findings (by category)



Subgroup Summary

The majority of counties have their findings report grouping match their grouping in the findings summary—that of counties. There were 35 county government entities analyzed county governments, but also the County Insurance Authority, the Regional Emergency Dispatch Authority and the Bernalillo County Affordable Housing Nonprofit. Counties as a whole are a high performing government subgroup; only one county had multiple opinions which was Taos County's financial statements.

Top Three Findings Categories

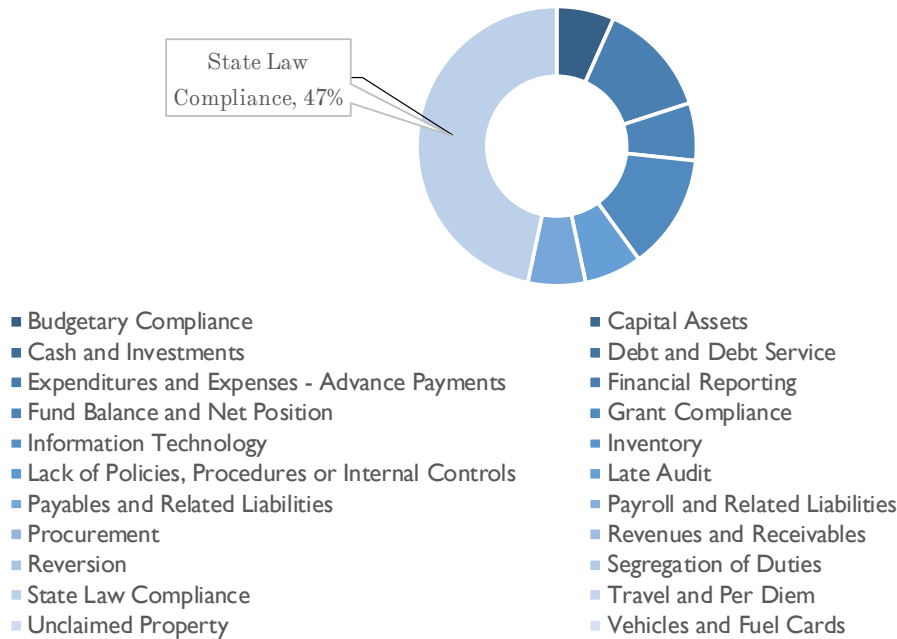
First counties experience a high frequency of *lack of policies and procedures, and internal controls*. This finding category can reference issues with internal control frameworks and counties could seek improvement in this area. When reviewing these finding summaries, counties experienced a lack of monitoring or evidence of monitoring in their internal control framework. This may have taken the form of a lack of supervisory oversight on common accounting items or reconciliations and no proof of review of work product or oversight of submission to deadlines. Counties should look at having two layers of review for accounting work.

Second, counties also experienced high rates of *state law compliance* findings. These were most frequently in the areas of vouchers/deposits. Counties should have a process by which they cancel all stale dated checks once yearly, maintain compliance with the 24 hour deposit rule, and ensure invoices are reviewed and paid within 90 days. Like many entities statewide, counties also must ensure compliance with pledged collateral at their local bank. For more guidance on pledged collateral please see the Communications section of the OSA website at https://www.osa.nm.gov/wp-content/uploads/2024/08/2024_OSA-Advisory_Collateral_FINAL.pdf.

Lastly, counties experienced a high frequency of *expenditure and expenses* findings. These are deficiencies or exceptions in public spending carried out by the county. When analyzing these findings, many occurred in disbursements, with some counties overpaying entities with expired contracts or at rates different from amounts of pay in contractual documents. When counties engage in a new contract, processes should be put in place to ensure that amounts of pay are also modified within the accounting information system, or other large enterprise resource planning system.

Judiciary

FY22 Courts Findings (by category)



Subgroup Summary

The courts consist of the 13 district courts and Offices of the District Attorney, the Bernalillo County Metropolitan Court, and the Administrative Offices of the District Attorney.

Findings Category Frequency

The courts' highest frequency finding category is state law compliance, accounting for half of all findings in the subgroup. All of these findings corresponded to the district courts themselves (as opposed to the district attorneys), and were directly related to inaccurate reporting around bond payments. Whether having inaccurate bond forms, inaccurate charging of fees, or missing and inaccurate bond logs, OSA recommends the district courts review their internal controls around prisoner bonding processes.

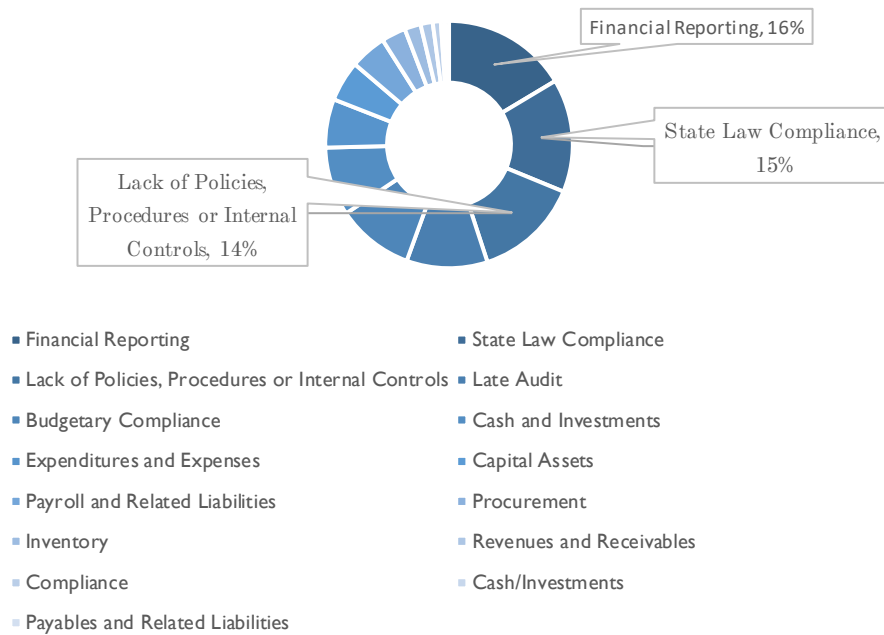
Judiciary Subgroup Entities

First Judicial District Court and District Attorney
Second Judicial District Court and District Attorney
Third Judicial District Court and District Attorney
Fourth Judicial District Court and District Attorney
Fifth Judicial District Court and District Attorney
Sixth Judicial District Court and District Attorney
Seventh Judicial District Court and District Attorney
Eighth Judicial District Court and District Attorney
Ninth Judicial District Court and District Attorney
Tenth Judicial District Court and District Attorney
Eleventh Judicial District Court and District Attorneys (I/II)
Twelfth Judicial District Court and District Attorney
Thirteenth Judicial District Court and District Attorney
Bernalillo County Metropolitan Court
Administrative Office of the District Attorneys

District Attorneys had audit findings across the categories, but should be aware of business email compromise fraud schemes (please see the GAO risk advisory on this issue on the GAO section of the OSA website at: https://www.osa.nm.gov/wp-content/uploads/2024/05/Risk-Advisory-Business-Email-Compromise_Final2_2024_0502.pdf), ensure adherence to the procurement code, and review accounting around position of fund balances at the close of the fiscal year.

Local Public Bodies

FY22 Local Public Bodies Findings (by category)



Subgroup Summary

The Local Public Bodies (LPBs) subgroup captures acequias, irrigation districts, land grants, mutual domestic water associations, public improvement districts, soil and water conservation districts, special districts, tax increment development districts, and water and natural gas associations. LPBs have been a policy focus of the OSA, in terms of both oversight and technical assistance. As explained in Appendix B., the Office (with support from the Governor and Legislature) has implemented a new Small Local Public Bodies Initiative. As such, we are capturing more of the state's small governments in our AUP reviews as the local public bodies seek financial review compliance to access capital outlay appropriations.

The small local public bodies are often volunteer, quasi-governmental or community organizations with limited administrative services infrastructure, limited financial and accounting expertise among their personnel, and frequent turnover. These local public bodies face significant challenges with producing financial documentation to receive a required financial review, as reflected in the subgroup's frequency of findings.

Top Three Findings Category Frequency

The most frequent findings category is *financial reporting*, which befits organizations with limited accounting and financial expertise. The most frequent reason for the finding was improper reporting, and this often stems from fund balances or cash balances on the general ledger not matching submissions to DFA for financial reporting. LPBs also should be ensuring governance review of adjusting journal entities and ensuring that they are being correctly posted.

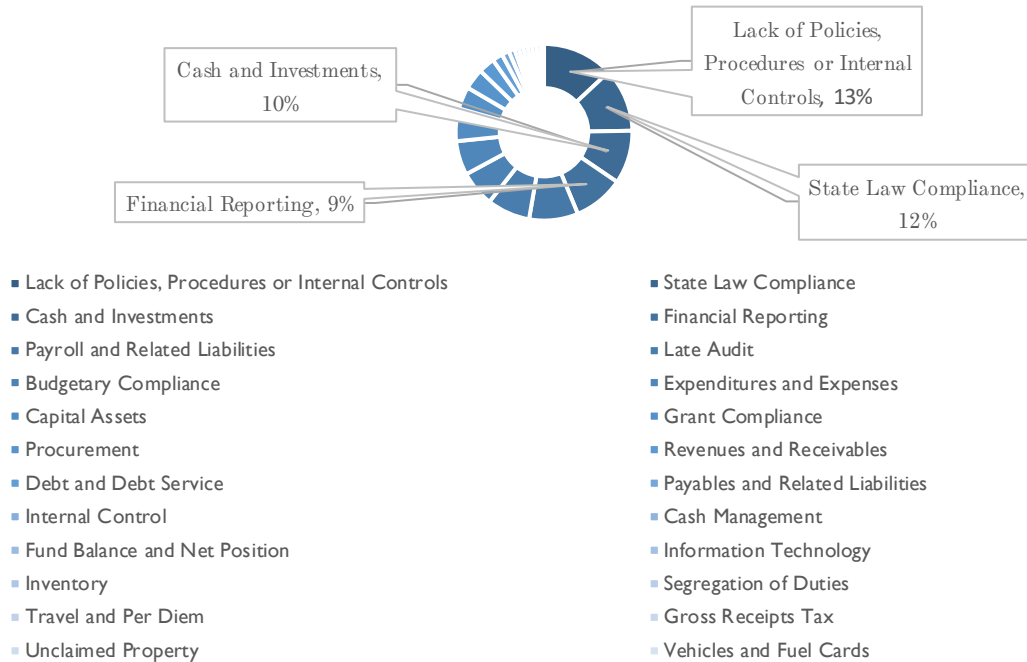
The same issues around inaccurate reporting follow LPBs with regard to *state law compliance*, with entities not correctly reporting chief procurement officer registration, incorrectly calculating gross receipt taxes or not at all, and not providing proper notification of asset disposal.

Lastly, LPBs, also had high incidences of a *lack of policies, procedures or internal controls*. These issues were not concentrated in any one operational area but instead are spread across various areas such as missing policies and procedures for accounting and procurement and holes in the internal control frameworks and, in some instances, issues with fraud and nepotism in contracting.

OSA recommends LPBs improve internal controls and review the processes in place for reporting to external agencies to ensure accuracy, particularly reports to DFA or TRD.

Municipalities

FY22 Municipalities Findings (by category)



Subgroup Summary

Municipalities include many of the towns, villages and cities in our state. The municipalities are among the largest of the government subgroups in both the number of entities within the subgroup and the number of findings. Municipalities also had more diverse opinions with both high and low performing entities, and entities with so little financial activity they qualify for AUPs under the tiered system of reporting. As a large group, this diversity in performance is to be expected, yet municipalities are also one of the subgroups with the most opportunity for improvement in operations.

Top Four Findings Categories

Municipalities had a high incidence of *lack of policies, procedures or internal controls findings*. Often these stem from gaps in the larger internal control framework observed by the auditor. Many entities were performing bank reconciliations late or not at all and did not have accounting policies and procedures. Municipalities were also the most likely entity to not have supporting documentation for different financial activities, which indicates a lack of internal controls. OSA recommends municipalities improve oversight of common accounting activities, including periodically reconciling bank accounts to cash balances.

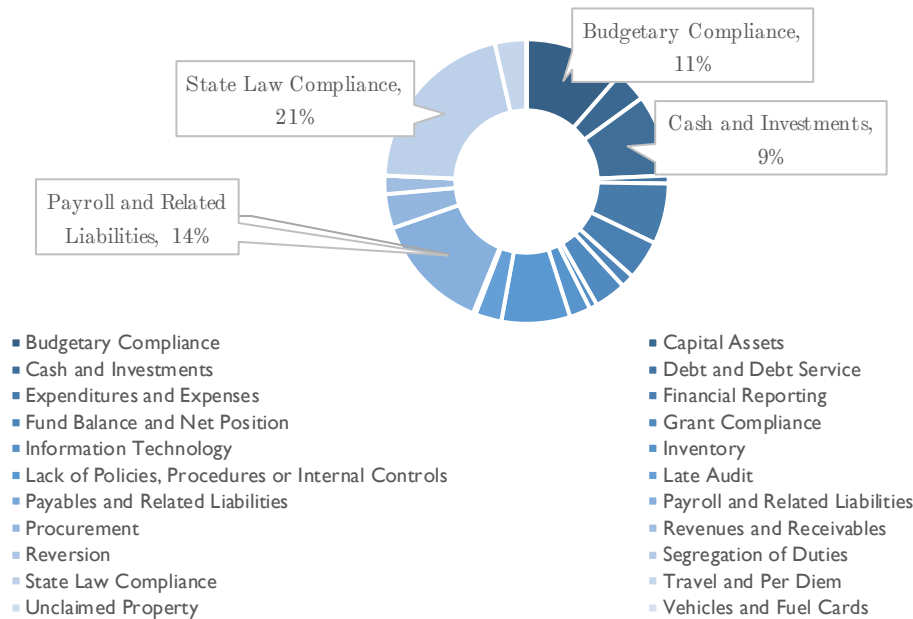
Municipalities also experienced challenges with *state law compliance*. This was often non-compliance with pledged collateral, inaccurate support for various expenditures, inaccurate reports being submitted to DFA, and improper governance to ensure timeliness of audit submission. OSA recommends municipalities review retained supporting documentation for pledged collateral, and for expenditures and accounts payable in general. OSA also recommends review and verification of reports before submittal to DFA.

Municipalities had a high frequency of findings around *cash and investments*. These were non-adherence to the twenty-four hour deposit rule, under-collateralization of bank accounts and missing or lacking bank reconciliations. OSA recommends controls be placed that ensure bank reconciliations are performed accurately and timely.

Municipalities experienced high frequency of *financial reporting* findings. Similar to other entities, the issues were related to internal controls around the opening and closing of the accounting year, the ability to generate an accurate federal awards schedule, and the need for adjustments to the trial balance. OSA recommends municipalities work to strengthen controls around closing and opening and create extra time to prepare and review a federal award schedule.

Public Schools (School Districts)

FY22 School District Findings (by category)



Subgroup Summary

In order to better illustrate some of the differences within the public schools operations and analyze whether or not different types of public schools have different financial issues, the OSA separated school districts from charter schools for the purposes of presenting trends in the frequency of finding categories. The school districts in the data set reflect 88 of the 89 school districts in the state. School districts are long established governments with both similar and regionally different financial challenges.

Top Four Findings Categories

The most frequent audit finding category for school districts was *state law compliance* at over a fifth of all findings. Unlike other entities, this was most often the result of missing supporting documentation for background checks for employees and a lack of proper personnel files (I-9's). OSA recommends school districts review their personnel records prior to audit for accuracy and ensure every employee that needs to have a background check has one on file.

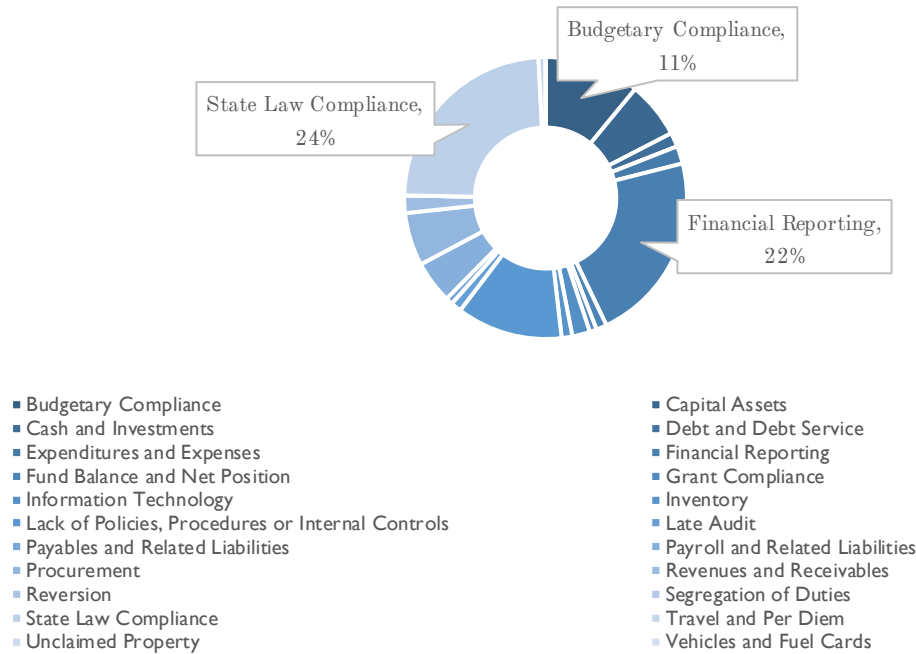
School districts also struggled with *payroll and related liabilities* findings. This was most often improper withholding and sometimes improper pay for employees associated with the rates withheld from employee's checks for required contributions for retiree healthcare authority, educational retirement board, state unemployment tax, or other withholding. OSA recommends entities track legal requirements for withholding from their personnel files and contracts through to the accounting information system.

The third most frequent finding for school districts was *budgetary compliance*. OSA recommends school districts either process budget adjustment requests more timely or stop over-expending budget authority. OSA also recommends PD strengthen its oversight of budgetary adherence by school districts, looking to statutory enforcement as necessary.

Lastly, school districts had findings related to *cash and investments*. The frequency of this finding is almost entirely due to violations of the 24-hour deposit rule. OSA recommends districts either timely deposit cash or receive an allowable exception under state rule from PED.

Public Schools (Charter Schools)

FY22 Charter School Findings (by category)



Subgroup Summary

In order to better analyze charter school activities as a whole, the OSA combined the charter schools that have been presented as component units of PED (and therefore included in state agencies in past reports) with the locally chartered charter schools that are components of the local school districts to examine trends. Charter schools as a whole have some of the most challenging audit opinions, with at least two state chartered charter schools receiving disclaimers of opinion. Traditionally, the PED has been considered the oversight entity for state chartered charter schools as the entities are presented as components of the PED audit. However, though PED does have oversight responsibilities, the PED does not have the authority to close state-chartered charter schools with poor financial performance—only the Public Education Commission retains that authority. OSA recommends PED and PEC strengthen their financial oversight of state-chartered charter schools, and consider remediation or closure for state-chartered charter school management with poor financial performance. Similarly, authorizing school districts should strengthen oversight for locally chartered charter schools.

Top Three Findings Categories

Charter schools had a high frequency of *state law compliance* findings. This was related to a failure to properly withhold, calculate or remit payment for educational retirement board and retiree health care authority contributions for the school as a whole. OSA recommends that internal controls around these payments be instituted.

Charter schools also experienced high instances of *budgetary compliance* findings, for the same reasons as school districts. This highlights a common area of risk across public schools. OSA recommends school districts either process budget adjustment requests more timely or stop over-expending budget authority. OSA also recommends PED strengthen its oversight of budgetary adherence by school districts, looking to statutory enforcement as necessary.

Charter schools had issues with *financial reporting*. Like other governmental entities, this was almost entirely due to issues related to opening and closing the fiscal year. OSA recommends charter schools look at setting aside additional time and reviews for the preparation of the SEFA, trial balances and ensuring fund balances accurately roll forward.

Hospitals

Subgroup Summary

Hospitals and Special Hospital Districts are one of the smaller subgroups with only thirteen entities. These entities have overall positive audit opinions, with all receiving unmodified opinions.

Findings Categories Analysis

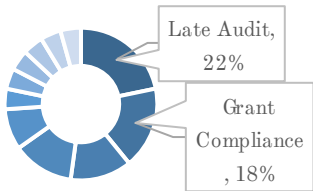
Hospitals and Special hospital districts only experienced a high frequency of one finding category: *state law compliance* exceptions and deficiencies represented over 37 percent of all findings for hospitals. After further review of the reasons for the exceptions/deficiencies, hospitals should review their deposit agreements to ensure they are compliant with pledged collateral requirements in state law. Of secondary concern is to ensure that reporting is accurate to both the IRS and other oversight entities—including the requirements to report fraud, waste and abuse to the OSA under 12-6-6 NMSA 1978.

FY22 Hospitals and Hospital Special Districts

Miner's Colfax Medical Center
Artesia Special Hospital District
South Central Colfax County Special Hospital District
De Baca Family Practice, Inc.
Eunice Special Hospital District
Gila Regional Medical Center
Nor-Lea Hospital District
Roosevelt County Special Hospital District
Clayton Health Systems d/b/a Union County General Hospital
Jal Hospital District
Sierra Vista Hospital
Guadalupe County Hospital
Cibola General Hospital

Other Government

FY22 Other Agencies
Findings (selected categories)



Subgroup Summary

Other governments include workforce boards, councils of government and other agencies. These consisted of 36 other entities that did not easily group into other subgroups. Often these are emergency dispatch authorities, councils of government, flood authorities, and economic development districts, among other governments.

Frequent Findings Categories

Entities in this area had issues with a *late audit* or agreed upon procedures timeliness, and OSA recommends that the Other governments establish internal controls to ensure proper audit preparation and timely submission.

Other governments experienced issues with *grant compliance*—specifically subrecipient monitoring compliance. It is recommended that entities whom are acting as a pass through entity develop more robust procedures around monitoring for subgrantees of state and federal awards.

Conclusion and Recommendations

Overall Financial Health of the State

Overall, the financial well-being of government entities in the State of New Mexico is strong. Ninety-six percent of all entities receiving a full financial audit had an unmodified opinion. Additionally, when adding in those entities without an audit opinion because they receive an AUP financial compliance certification (see page 7), fifty-eight percent of government entities had no findings. Additionally, every government entity subgroup has both high and low performers when measured by both the number of findings and magnitude of the audit opinions. The data do show that the bulk of the state's governmental entities are performing as good stewards of taxpayer funds.

Government Entity Subgroup Summary

However, as outlined in the breakout sections, some government entity subgroups represent an outsized portion of the negative financial outcomes. Specifically the government entity subgroups with the greatest number of findings were state agencies, municipalities and public schools. It is recommended that all of these entities pay particular attention to state law compliance requirements, especially those related state laws related to reporting fraud waste and abuse, capital outlay disposition, late audit reporting, Open Meetings Act, Public Moneys Act compliance and the procurement code and per diem and travel requirements.

Recommendations for State Government Financial Operations Continuous Quality Improvement

In order to improve state financial operations, the OSA GAO recommends the following proactive steps:

- Management should have robust audit preparation steps to ensure the initial trial balances and schedule of expenditure for federal awards (SEFA) are prepared accurately.
- Oversight entities (particularly those that oversee state agencies, municipalities and the public schools such as Department of Finance and Administration (DFA) and the Public Education Department (PED)) should monitor those entities that are struggling to open or close the accounting year or failing to adhere to budgetary authority to ensure that entities have the necessary knowledge, skills, and experience to perform accounting functions, either through trainings or other statutory interventions.
- The state should consider moving to a singular state audit consolidating all state agency audits under one large audit to ensure uniform reporting, improve the timeliness of the annual consolidated financial report and allow greater transparency of statewide government activities.
- State government entities should engage in more frequent risk assessments to determine weaknesses or potential weaknesses in their internal control framework.
- Government entities should evaluate information technology (IT) vulnerabilities and be proactive in combating vendor fraud, business email compromise and other common hacking schemes. Please see the GAO section of the OSA website for more information.
- Government managers must possess a greater understanding and knowledge of state legal compliance, especially with regards to the Audit Act and rule, the procurement code, travel and per diem, Open Meetings Act, the Public Moneys Act, and capital outlay disposition. Guidance for Opioid Settlement funds is available on the OSA website.
- Government managers must engage in ongoing professional development and training for financial staff as the available of qualified accounting staff is shrinking in the state.
- Non-financial government managers must possess an understanding of budgeting, accounting, federal grants compliance requirements, an internal controls and engage in financial monitoring through the use of financial performance dashboards.
- Government entities should improve revenue and expenditure budgetary projections and adhere to proper budgetary authority so as to not run deficits or run negative fund positions that require supplemental or deficiency funding.

Appendix A: Tiered System of Reporting

The Audit Act does not require a full financial audit for most of our state’s small governments but, instead, requires agreed-upon procedures (AUPs) reviews on a tiered basis depending on revenue levels and progress in expending existing capital outlay funding. These tiered reporting requirements provide visibility into whether the public’s money is being properly spent by all government entities, balanced against the entity’s capability to report.

OSA has seen a recent expansion in a support program targeting small local public bodies (often acequias, irrigation districts, land grants, mutual domestics water associations, soil and water conservation districts, etc.). The program provides supports that help entities reach financial compliance necessary to access capital outlay funding. The Small Local Public Body Initiative, also known as the *Strategic Financial Compliance Strategy for Small Local Public Bodies*, has achieved remarkable success following its initial implementation year of fiscal year 2023. The initiative has freed up over \$3 million in capital funding by centralizing the procurement of assistance for these entities within the OSA itself. The initiative has strategically focused on community outreach, education, training, and collaboration with IPAs to facilitate the required reporting processes. Additionally, the program seeks to provide small local public bodies with the tools necessary to have adequate and complete financial information in place when examined by IPAs through the program.

The OSA is currently taking lessons learned from the implementation year and reviewing them to see if the balance between government oversight of funds and the small local public body is being achieved, or whether the Legislature and Governor need to reevaluate the tiered system of reporting to ease administrative burdens on entities. Any entity with greater than \$500,000 in yearly revenue exits the tiered system and enters the full financial audit process.

Tier I	A local public body's annual revenue is less than \$10,000 and it did not expend at least 50% of a capital outlay award.
Tier II	A local public body's annual revenue is less than \$10,000 or more but less than \$50,000.
Tier III	A local public body's annual revenue is less than \$50,000 and it expended at least 50% of a capital outlay award.
Tier IV	A local public body's annual revenue is greater than \$50,000 and less than \$250,000.
Tier V	A local public body's annual revenue is greater than \$50,000 and less than \$250,000 and the entity expended any capital outlay award.
Tier VI	A local public body's annual revenue is greater than \$250,000 and less than \$500,000.

Appendix B: Categories of Findings Definitions

The following are the current definitions for categories of findings within the finding classification system. Determination of where to place a given finding within these categories currently lay with the IPA. During FY22, OSA observed limited instances when different IPAs reported the same issue across two or more categories. The OSA is seeking to revise guidance to IPAs and entities on categories of findings reporting in advance of the FY24 audit season.

DEFINITIONS

Budgetary Compliance: An exception or deficiency wherein the governmental entity did not comply with state or local governmental budget requirements.

Capital Assets: Any violation of statutory requirements relating to the recording, tracking, or disposition of capital assets, or an exception or deficiency in accounting for a governmental entity's capital assets and/or related depreciation, which include land, buildings, infrastructure, equipment (including motor and aircraft fleets), and intellectual property (including software) that have an estimated useful life of one year or more.

Cash and Investments: An exception or deficiency in accounting for the governmental entity's cash, which is money in the form of deposits, including short-term or long-term investments and banking agreements.

Cash Management: An exception or deficiency relating to cash internal controls, petty cash or vouchers and deposits.

Debt and Debt Service: An exception or deficiency relating to debt, generally referring to money owed by one party, the borrower or debtor, to a second party, the lender or creditor. Debt is generally subject to contractual terms regarding the amount and timing of repayments of principal and interest.

Expenditures and Expenses: An exception or deficiency in the overall public spending carried out by the governmental entity, including expenditures in violation of a grant or other agreement, payment for goods or services prior to receipt, expenses not properly authorized, a lack of supporting documentation, and deficiencies related to purchase orders. Includes subcategories of advance payments, lack of documentation, lack of proper authorization, purchase and credit cards and other expenditures and expenses.

Financial Reporting: An exception or deficiency in the governmental entity's processes for producing financial statements that fairly reflect its financial position and activities in accordance with applicable accounting standards.

Fund Balance and Net Position: An exception or deficiency associated with net position and fund balance, which includes improper classification, deficit fund balances and net position, and material restatements.

Grant Compliance: An exception or deficiency wherein the governmental entity failed to comply with state or federal requirements related to a grant agreement.

Gross Receipts Tax: An exception or deficiency related to the calculation, remitting or payment of gross receipts taxes to the Tax and Revenue Department (TRD).

Information Technology: An exception or deficiency in best practices associated with the application of computer and telecommunication equipment to store, retrieve, transmit, and manipulate data.

Internal Controls: An exception or deficiency related to the internal control framework. Includes subcategories of Billing Utilities, Debt and Cash, Revenue and Utility.

Inventory: An exception or deficiency in accounting of inventory of goods and materials that a government agency holds.

Appendix B: Categories of Findings Definitions (Cntd.)

Lack of Policies and Procedures or Internal Controls: An exception or deficiency in the governmental entity's policies and procedures such that the policies and procedures are not sufficient to create a proper internal control environment to ensure accountability and consistency in financial reporting and compliance with applicable laws, regulations, contracts and grant agreements.

Late Audit: An exception or deficiency such that the audit or audit contract was not submitted by the state audit rule deadline.

Payables and Related Liabilities: An exception or deficiency regarding a governmental entity's accounting for its obligations recorded as payables and other liabilities.

Payroll and Related Liabilities: An exception or deficiency associated with amounts owed for payroll-related expenditures that are not yet paid, creating a liability, or any violation of federal, state, or local requirements regarding employment, required forms, or payroll reporting.

Procurement: Any violation of the applicable laws, rules, and regulations governing the procurement of goods and services with public funds.

Revenues and Receivables: An exception or deficiency related to the revenue and/or funds received or to be received by the governmental entity.

Reversion: An exception or deficiency wherein the auditee was either not timely in reverting unspent reverting appropriations at the end of the appropriation period and/or erroneous computation of amounts thereof.

Segregation of Duties: An exception or deficiency when the entity has one person performing more than one financial function which should have been segregated in light of proper internal controls.

State Law Compliance: Any violation of state statutory requirements, including, but not limited to, the Anti-Donation Clause of the New Mexico Constitution, the Governmental Conduct Act, the Open Meetings Act and the Public Money Act. Includes subcategories of Anti-Donation Act, Open Meetings Act, Public Monies Act, Sale of Public Property, and Other State Law Compliance.

Travel and Per Diem: An exception or deficiency from state or local laws, rules and regulations pertaining to governmental travel and per diem. Per diem is the daily allowance for expenses that governmental entities give an individual to cover expenses when traveling for work. Travel expenses are ordinary and necessary expenses incurred in traveling for government business.

Unclaimed Property: An exception or deficiency in which the auditee did not comply with statutory requirements to timely remit unclaimed funds or property to the Taxation and Revenue Department (TRD), or the auditee failed to account for unclaimed funds or property.

Vehicles and Fuel Cards: Any violation of the allowable use of a government vehicle or an exception or deficiency in the use of fuel cards authorized by a governmental entity to purchase fuel for government vehicles.