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From: Mark Melhoff, *Acting State Controller*, Financial Control Division
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**RE: PUBLIC COMMENT REGARDING 2026 PROPOSED CHANGES TO THE
NEW MEXICO STATE AUDIT RULE**

Thank you for the opportunity to submit comments on the proposed amendments to Rule 2.2.2 NMAC regarding the audit of government agencies and local public bodies in New Mexico.

After reviewing the proposed rule language alongside Governmental Accounting Standards Board (GASB) Statement No. 103, Financial Reporting Model Improvements, I would like to respectfully offer comments regarding the treatment of budgetary comparison statements under the proposed amendments.

GASB 103 Reporting Framework:

GASB Statement No. 103 clarifies how to present budgetary comparison information and explicitly states that budgetary comparison schedules must be included as Required Supplementary Information (RSI) for the general fund and major special revenue funds with legally adopted budgets.

GASB's framework shows that budgetary comparisons serve as contextual information supporting the financial statements rather than being part of the financial statement elements derived from transactions and events. Therefore, RSI presentation encourages consistency in how governments communicate budgetary results within the overall financial reporting model.

Observations Regarding Proposed Rule Language:

As currently drafted, the proposed amendments seem to require that budgetary comparison schedules be:

- presented as supplementary information (SI) rather than RSI; and
- subject to audit procedures resulting in an auditor's opinion (including reference to AU-C 725).

This approach causes conflict with the GASB reporting framework and common national practices. According to GASB guidance, RSI usually undergoes limited procedures based on AU-C 730 rather than a full audit opinion. Requiring audited SI treatment for budgetary comparisons may add unnecessary complexity to the reporting model and potentially result in inconsistent application among independent public accountants performing governmental audits in New Mexico.

From an operational standpoint, the proposed treatment also risks creating redundant reporting frameworks for substantially similar information within the same financial report, which could complicate the presentation of the ACFR and decrease clarity for financial statement users.

Recommendation:

To ensure consistency with national government accounting and financial reporting standards, DFA respectfully recommends that the rule language be revised to directly align with the requirements of GASB Statement No. 103 by clarifying that budgetary comparison schedules are presented as Required Supplementary Information (RSI) and are subject to the procedures applicable to RSI under relevant auditing standards.

Aligning the rule with GASB guidance would help ensure consistency in government financial reporting, minimize interpretation issues for auditors, and preserve comparability with other state and local government financial reports.

Thank you again for the opportunity to comment on the proposed rule. DFA appreciates the Office of the State Auditor's ongoing dedication to improving financial reporting and accountability throughout New Mexico and looks forward to continued collaboration as the rulemaking process progresses.