



OFFICE OF THE STATE AUDITOR 2026 AUDIT RULE TRAINING

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Today's Agenda

1. Welcome & Introduction

2. Audit Rule Summary

- New Updates
- GASB 103
- State Compliance

3. OSA-Connect

- OSA Contracting
- New/Future Enhancements

Q&A

Break (15 mins)

4. Special Audits

- Reporting Fraud, Waste, and Abuse
- Designations for special audits
- Cybersecurity Reminders

5. OSA Reviews

- Report Reviews
- Workpaper Reviews

6. Audit Findings

- Trends
- Audit Rule Requirements

Q&A

7. Hot Topics

- Alternative Practice Structures
- Opioid Spending
- Joint Powers Agreements
- Property Disposition Update





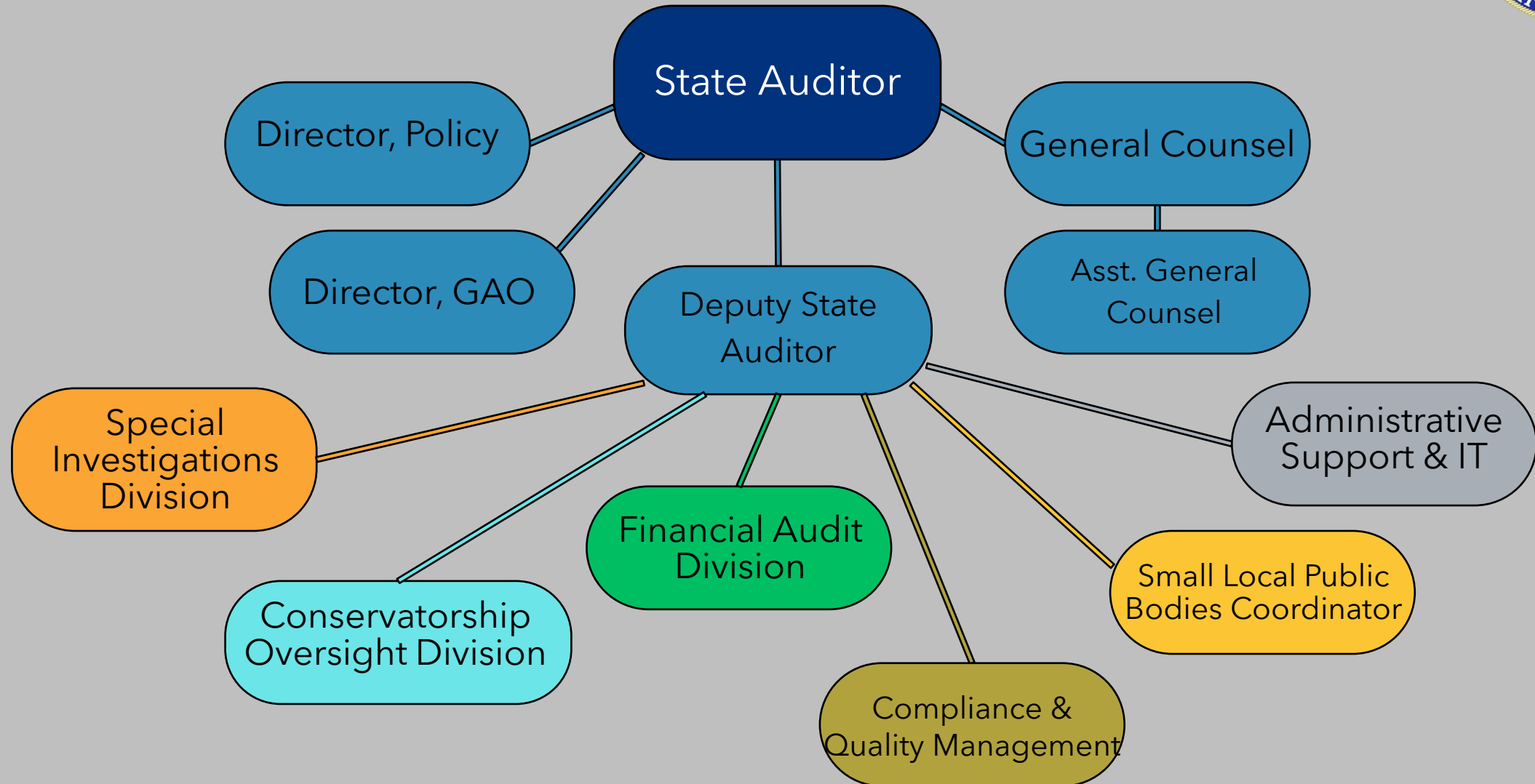
STATE AUDITOR VISION

Promoting accountability, transparency and excellence in government.

- Annual audit accountability;
- Accessible and responsive to agencies and IPAs;
- Dedicated support for small political subdivisions
- Robust investigative efforts
- Useful and accessible information to the public and policy makers (GAO)



OSA Organization



AUDIT RULE



Approved Firms 2.2.2.8(B)

Old Audit Rule:

- **Firms that only perform non-attestation engagements, or otherwise do not meet applicable firm requirements, shall not be included on the list of approved firms**

Change for 2026

- **Firms that only perform non-attestation engagements, or otherwise do meet applicable firm requirements, shall be included on the list of approved firms with appropriate descriptors**



Approved Firms 2.2.2.8(B) (Cont.)

Why this change is important:

- **To accommodate firms approved to perform Medicaid Overpayment Audits pursuant to NMSA 1978 27-7-11; and**
- **To provide transparency for firms with Alternative Practice Structures (APS) when two, closely associated firms, provide audit services and consulting services.**



These firms have similar names but are actually separate legal entities.



GASBS 103 Key Changes

- **GASBS 103 is named “Financial Model Reporting Improvements.”**
- **The objective of this GASB statement is to improve key components of the financial reporting model.**
- **This is the biggest change to the financial reporting model since GASB 34 was issued in 1999.**

- **Management Discussion & Analysis**
- **Unusual or Infrequent Items**
- **Major Component Units**
- **Budgetary Comparison Statements**
- **Proprietary Fund Presentation**



TODAY, OSA WILL BE FOCUSING ON TWO OF THESE CHANGES:

- **Changes to Budgetary Comparison Statements:**

- **2.2.2.10 (A) (2)(b-d)**

- **2.2.2.10 (Q)(2-3)**

- **2.2.2.12(E)**

- **Changes to Proprietary Fund Presentation**

- **No specific changes to the audit rule, however, does impact propriety fund presentation**



GASB's Reasons for Changes to Budgetary Comparison Statements:

- **GASB 34, as amended, permitted Governments to present budgetary comparison statements either as part of the basic financial statements or as Required Supplementary Information (RSI).**
- **Outside of New Mexico, governments and their auditor's experienced challenges when trying to map budgets based on an organizational or program structure back to the GAAP fund structure needed for basic financial statements. This started the preference for RSI.**
- **Now, most other state and local governments present budgetary comparisons as RSI.**
- **GASB wants to promote consistency and is also requiring governments to include more info.**



However, GASB understands state and local laws may still require audited budgetary comparisons and provides an avenue for these circumstances.



BUGETARY COMPARISON STATEMENTS FOR THE GENERAL FUND & MAJOR SPECIAL REVENUE FUNDS

GASBS 103, as Written

- **Budgetary Comparisons are not included as part of the basic financial statements**
- **Budgetary Comparisons are included as Required Supplementary Information (RSI)**
- **RSI is unaudited**
- **Auditor's report states "...We do not express an opinion or provide any assurance on the information..."**
- **Explanations of key variances also included in RSI**

State Auditor Special Requirements for GASBS 103

- **Budgetary Comparisons are not included as part of the basic financial statements**
- **Budgetary Comparisons are included Supplementary Information (SI)**
- **The Budgetary Comparison Statements are audited and an auditor's in-relation to opinion is rendered**
- **Explanations of key variances will be included as RSI**



SIMPLY STATED:

- **Agencies will still be required to prepare budgetary comparison statements for the general fund and major special revenue funds;**
- **Institutes of Higher Education and School Districts will still be required to prepare budgetary comparison statements; and**
- **Auditors will still opine on these budgetary comparison statements.**



Why this Matters for New Mexico

Overarching Accounting Principles

- **Cost-Benefit**
 - Information should be provided only when the benefit to users exceeds the cost of producing it.
 - Appropriators are a primary user of governmental financial information, and they need reliable, audited budget statements to fulfill their oversight role.
 - An in-relation-to opinion elevates budget information to a level that supports real decision-making.
- **Materiality**
 - The budget is the legal expression of public policy.
 - Budget variances, amendments, and significant changes are inherently material because they directly affect:
 - compliance with appropriations
 - stewardship of public funds
 - next-year funding decisions
 - legislative oversight



WHY THIS MATTER FOR NEW MEXICO (CONT.):

- **OSA recognizes New Mexico lawmakers and policy makers rely on the budgetary comparison statements, often much more than the government-wide financial statements or even the fund financial statements.**
- **Most budgets are approved on a modified accrual basis and can readily be reconciled to the fund financial statements. Preparing these statements does not currently cause problems.**
- **Lawmakers and policy makers monitor legal budgets and how legislation is ultimately reflected in the Budgetary Comparison Statements.**
- **Lawmakers have confidence in the independent auditor's opinion.**



Budgetary Comparison Format Change:

	Budgeted Amounts		Variance Between Original & Final Budget (NEW COLUMN)	Actual Amounts (Budgetary & GAAP Basis)	Variance Between Final Budget & Actual Amounts
	Original	Final			
Budgeted Revenues					
Budgeted Expenditures					
Budgeted Other Financing Sources (Uses)					
Budgetary Fund Balance (Beginning)					
Budgetary Fund Balance (Ending)					
Reconciliation to GAAP Basis				Tie to Financial Statements	



New Requirement — Notes Explaining Significant Variations:

- **GASBS 103 requires notes to the budgetary comparisons to explain significant variances between:**
 - **Original and Final Budget Amounts; and**
 - **Final Budget Amounts and Actual Results.**
- **The notes should explain why there were variances and also include the amounts attributed to different variances. Refer to GASBS 103 Exhibit 17 for sample notes.**
- **Explanations must be reported in Required Supplementary Information.**



Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position

What Users See Now:

- **Operating revenues include fees charged, such as utility user fees, or tuition.**
- **Operating revenues also include certain federal and state grants/contracts.**
- **Gains/losses on the sale of capital assets are included in operating revenues or expenses.**
- **Non-operating revenue/expenses include state appropriations, interest earned/paid, and certain federal grants.**

What GASBS 103 Has Changed

- **Operating revenue/expense are now defined as revenues and expenses other than non-operating revenue and expenses. Non-operating revenue is specific and includes:**
 - **Subsidies received and/or provided**
 - **Contributions to permanent and term endowments**
 - **Revenue and expenses related to financing**
 - **Resources from the disposal of capital assets and inventory**
 - **Investment income and expenses information**



What are Subsidies?

Resources received from another party or fund:

- **Goods or services were not provided, and**
- **Directly or indirectly keep future fees and charges lower than they would be otherwise**

Resources provided to another party or fund:

- **Goods or services are not received**
- **Recoverable through the proprietary fund's current or future pricing**

All other transfers.



GASB's Reasons for Changes to Proprietary Fund Statements:

- **GASB 34, as amended, historically held that certain activities could be self-supporting. The proprietary fund model was required for these types of activities due to its similarity with business. Utilities, hospitals and institutes of higher education are all examples of entities required to present financial statements using proprietary funds.**
- **GASB recognizes that although in concept these types of activities could be self supporting, in reality they are not, and the necessary fees to just break even cannot be passed on to users. This change will break out subsidies, that are needed to support on-going operations.**
- **Additionally, due to these constraints different governments are presenting information differently on financial statements, leading to inconsistency. This change is intended to make all financial statements more comparable.**



This may be an opportunity to review how proprietary fund budgets are prepared to facilitate financial statement presentation.



OTHER RECENT UPDATES



Reconciling the SEFA

- **The Audit Rule was updated to clarify requirements regarding reconciliation of the SEFA**
 - **2.2.2.10 K (5) NMAC:** In situations where **expenditures** reported in the schedule of expenditures of federal awards (SEFA) do not tie to federal **revenues** reported in the basic financial statements (due to outstanding loan balances, timing of grant awards, expenditures incurred in a prior period, etc.), a reconciliation shall be included in the notes to the SEFA.



Reconciling the SEFA (cont.)

Example:

The SEFA reports total direct and indirect federal expenditures:
\$1,000,000

Fund Revenues:

Grants: \$40,000

Federal revenue: \$890,000

Contract revenues: \$320,000

In this scenario, there is no way to know how much and where the federal revenue that is associated with the SEFA is reported.



Reconciling the SEFA (cont.)

The SEFA reports total direct and indirect federal expenditures:
\$1,000,000

Fund Revenues: Grant: \$ 40,000

Federal revenue: \$ 890,000

Contract revenues: \$ 320,000

Reconciliation:

Federal revenue \$890,000

Reported in contract revenue \$100,000

Reported in Grant revenues \$10,000

Total \$1,000,000



State Compliance

- 2.2.2.10(J) requires IPAs to identify significant state statutes, rules, and regulations applicable to the agency under audit and perform tests of compliance. Significant area can include, but are not limited to:
 - Procurement Code
 - Per Diem and Mileage Act
 - Public School Finance Act
 - Public Finances and Public Money, including pledged collateral requirement for financial institution deposits
 - PERA, ERA, RHCA: Eligibility; are rates and covered wages correct?
 - State budget compliance
 - Accounting and control of fixed assets
 - Governmental Conduct Act
 - School Personnel Act
 - New Mexico Opioid Allocation Agreement (NMOAA)



Intro to Quality Management:

“An effective system of quality management provides an audit organization with reasonable assurance that it and its personnel fulfill their responsibilities in accordance with professional standards and perform and report on engagements in accordance with such standards and requirements.”

- GAGAS 2024 Introduction



Intro to Quality Management (Cont.):

Quality Management (QM):

- QM is a new AICPA and GAGAS standard that promulgates new requirements for IPA's conducting audits and completing compilations for LPB's falling under the Tier 6 compilation requirements;
This includes the OSA as the NM's government audit organization
- The new standards supersede "a firm's system of quality control" or QC
- This is a significant change for IPA firms — moving from a policy-based approach to on-going re-evaluation and monitoring;
- IPA firm leadership is responsible to proactively manage quality; New standards provide flexibility to accommodate different types of firms.

Possible changes for agencies could be...



Intro to Quality Management (Cont.):

- No change at all — some firms will adopt QM and it will be completely “behind the scenes” and not impact audit clients;
- Some firms may adopt policies to provide assurance about client leadership integrity:
 - Potential for increased interviews with key agency executives
 - Background checks (for key management) can be required
- Firms may adopt policies regarding requiring extra time for in-house reviews prior to submitting the draft reports to the OSA:
 - Firms may have earlier deadlines to complete audit work
 - Earlier deadlines for PBC items may be necessary
- If the firm’s QM reviewer has remaining questions at the time of the draft report due date — they will not approve the report to be submitted to the OSA:
 - This could result in a late audit finding



Ready for Audit Reminders:

State law requires the state controller to notify the State Auditor when agencies under FCD oversight are ready for audit.

- **Be sure to notify the state controller if your agency is not ready for audit by September 1;**
- **Discuss circumstances with the agency's IPA; and**
- **Propose updated timeline.**

State law requires DFA-LGD to notify the OSA if a local government does not comply with NMSA 1978 6-6-3. If OSA does receive such a notification:

- **It will be forwarded to the local government's IPA;**
- **This indicates increased risk that the local government is not ready for audit; and**
- **Will result in a finding for non-compliance pursuant to NMSA 1978 12-6-5.**



OSA-CONNECT & AUDIT CONTRACTING



High Level Overview

- 1. Submission of firm profiles**
- 2. Develop the list of approved audit firms**
- 3. State Auditor's Office will select which audits we will perform**
- 4. Finalize Audit Rule, Audit Rule trainings & update financial compliance audit contracts**
- 5. Send notification letters to Agencies/IPAs**
- 6. Agencies must submit draft contract by due date listed in Audit Rule**
- 7. IPAs conduct financial audits**
- 8. Progress payments**
- 9. Delivery and review of audit reports**
- 10. Report release and final payments**



- **Agency selects IPA**
- **Agency submits draft contract to OSA through OSA-Connect**
- **OSA reviews draft contract**
- **Once approved, OSA-Connect sends a letter of approval to Agency**
 - **If OSA rejects contract, Agency can correct technical errors and resubmit, or request reconsideration**
- **Agency enters appropriate information to electronically route for contract signatures- including third party approvals such as DFA/HED**
- **Once all signatures have been electronically obtained contract status changes to executed in OSA-Connect**



Selecting an Auditor

- **Agency must receive written notification from the State Auditor before beginning the selection process (sent in March)**
- **Be sure to follow your agency's procurement procedures**
- **You can request an exception for *early RFP* before you start the RFP process**
- **The 2026 Audit Rule and the List of Approved Firms is on the OSA website at www.osa.nm.gov**



Selecting an Auditor (Cont.)

Different auditors may be approved for different types of types of engagements:

- **Financial & Compliance Audits**
- **Performance Audits**
- **SOC Audits**
- **Agreed-Upon Procedures (AUPs)**



Reminders

- **Don't forget to update the contact persons for your agency.**
- **Make sure to review ALL information for your agency, even if it is pre-filled in OSA-Connect.**
- **Tier System - don't forget to go to Agency Profile and confirm the tier for your agency for this fiscal year.**
- **Be sure to check the videos/tutorials and FAQ's for contracting on the OSA website:**
 - <https://www.osa.nm.gov/faqs/instructional-videos/>



Please Read Your Contract!

- **Late notification required as soon as IPA becomes aware that the audit may be late.**
- **Included non-audit services**
- **Subcontracting – requires State Auditor approval**
- **Conflict of interest – Contractor and Agency both certify that you are complying with Governmental Conduct Act.**
- **Pay Equity Reporting – are you (IPA) required to do it and are you?**
 - **Applies to companies with 10 or more New Mexico employees OR 8 or more employees in the same job classification .**



Auditor Rotation Rule 2.2.2.8(A)(3)

- **8 Consecutive Years with an Independent Public Accountant (IPA)**
- **2 year break**
- **Some exceptions are made when an agency is trying to achieve compliance.**
- **Must issue a new procurement every four years (at a minimum)**



OSA cannot provide procurement code compliance advice, refer questions to your agency's Chief Procurement Officer.



Progress Payment\$ 2.2.2.8(M)(3)

- **Agencies can pay up to 75% of the contract amount without State Auditor approval**
 - **The agency must monitor audit progress and make progress payments only up to the percentage that the audit is completed**
- **Once the draft report has been submitted agencies can pay up to 85% of the contract amount without State Auditor approval**
- **Progress payments between 75% (no draft) 85% (draft submitted), and 95% of the contract amount require State Auditor approval**
 - **Progress payment form is located at <https://www.osa.nm.gov/auditing/for-audit-firms/progress-bill/>**



Progress Payment\$ (Cont.) 2.2.2.8(M)(3)

- **Final payment to the IPA by the agency prior to review and release of the audit report by the State Auditor is considered a violation of Section 12-6-14, NMSA 1978 and this rule and should be reported as an audit finding.**
- **If this statute is violated, the IPA may be removed from the list of approved auditors.**

Note: If the Office has sent the release letter for your audit report, the authorization to make final payment is listed in the letter.



OSA Connect: Making Reporting Easier for Everyone

RECENT CHANGES

- Application Rewrite and Bug Fixes
 - Complete application overhaul
- Improved Firm-Side User Experience
 - New Contracts Tab
 - Enhanced Draft Report Page
 - Improved Tables and Navigation
- Enhanced Audit Report Search Filters
 - Advanced filtering of published reports
- E-signature added to streamline approvals



OSA Connect: Make Reporting Easier

Upcoming Features and Enhancements

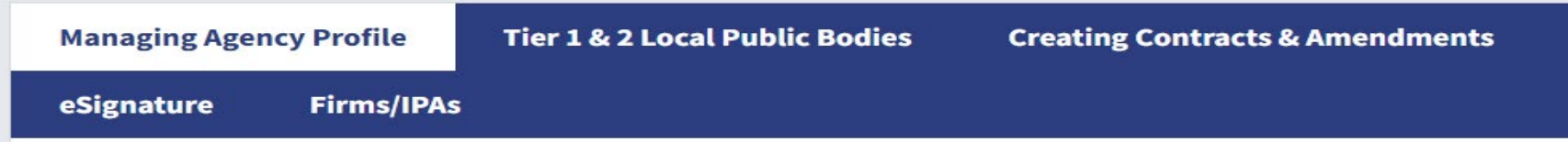
- AI Chatbot assistance for quick answers and guidance
- Transparency for tier certifications
 - Tier certifications will be visible on the public Audit Report Search page.
- Automated Reminders (E-signature, late contracts, etc.)
- Improved Contract Status Tracking
- Our goal: A system that saves time, reduces frustration, and supports accurate, timely reporting.



Welcome to the OSA Connect How-To Hub!

This page is your go-to resource for learning how to use OSA Connect effectively. Use the tabs above to explore topics tailored to your role or task—whether you're managing your agency profile, working with Tier 1 & 2 Local Public Bodies, creating contracts, using eSignature, or a Firms/IPA user. Each tab contains step-by-step videos and helpful guides to walk you through the process. Just click on a tab to get started!

Have questions? Scroll to the bottom of the page to check out our **Frequently Asked Questions (FAQ)** section for quick answers and additional support.



How to Manage Your Agency Profile



Watch this video to learn how to add a new contact, update an existing contact, and update your agency's contact information in OSA-Connect.

Where to find OSA-Connect How To's:
<https://www.osa.nm.gov/faq/s/instructional-videos/>

Q&A





BREAK
15 minutes



FRAUD, WASTE, AND ABUSE

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The Audit Rule (2.2.2.10N(2) NMAC)

Requires an agency or IPA to immediately notify the state auditor upon discovery of any **apparent** violation of a criminal statute in connection with financial affairs, pursuant to the New Mexico Audit Act, NMSA 1978, § 12-6-6 (criminal violations).



Reporting Allegations of Governmental Fraud, Waste, and Abuse to the Office of the State Auditor

Notifications need to be in writing and can be submitted on-line through the OSA's fraud reporting portal at **www.osa.nm.gov**, sent by email to **reportfraud@osa.nm.gov**, or by US mail.

Report Fraud 

Notification needs to be a detailed description of the event or events found by the reporting agency ***after appropriate investigation or review***, to be apparent criminal violations related to the reporting agency's financial affairs. Notifications shall include (at a minimum):

- an estimate of the dollar amount involved, ***if known or estimable***,
- a description of the alleged violation, including names of persons involved,
- any action taken or planned, and
- If an agency or IPA has already made a report to law enforcement.



Reporting Allegations of Governmental Fraud, Waste, and Abuse to the Office of the State Auditor

- Members of the public and government employee whistleblowers can submit their complaints anonymously if they choose.
- Government agency notifications submitted in accordance with the New Mexico Audit Act may not be submitted anonymously.

Complaints and Notifications can also be submitted in writing to the office at:

New Mexico Office of the State Auditor
2540 Camino Edward Ortiz, Suite A
Santa Fe, NM 87505
Attn: Special Investigations

Or by email to: reportfraud@osa.nm.gov



SPECIAL AUDIT AND EXAMINATION DESIGNATIONS AND CONTRACTING REQUIREMENTS

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Special Audit Designation & Oversight Authority

- **State Auditor Authority** - OSA may designate special audits in addition to the annual audit (Audit Act, §12-6-3 NMSA 1978)
- **Broad Engagement Types** - Includes AUPs, consulting, forensic services, and fraud, waste, or abuse work
- **OSA Control** - OSA defines scope, procedures, standards, and expected findings
- **Coordination With Other Audits** - Builds on prior single audit work (Uniform Guidance §200.503)
- **Formal Notification & Oversight** - Designation letter issued; OSA oversight continues through reporting



Contracting, Procurement & Reporting Requirements

- **Agency Bears Costs** - Agency pays all reasonable engagement costs (Audit Act, §12-6-4 NMSA 1978)
- **Who Performs** - Engagement conducted by OSA or an OSA-approved IPA or professional team
- **Mandatory Contracting** - OSA-approved scope required; procurement laws must be followed
- **Failure to Contract Timely** - OSA may select the IPA or perform the engagement
- **Reporting & Payment Controls** - Findings reported; report release and payments require OSA approval



Agency-Initiated Special Audits

- **When This Applies** – Agency initiates a special audit without State Auditor designation
- **Exception** – Agencies authorized by statute to conduct performance or forensic audits
- **Covered Engagements** – Audits, AUPs, consulting, forensic, and contract close-out work
- **Fraud-Focused** – Engagements must relate to financial fraud, waste, or abuse
- **Key Principle** – Independent contracting does not remove OSA oversight

Applicability and Scope



Agency-Initiated Special Audits

- **Contracting Triggers Oversight** – Any such contract requires notification to OSA
- **Mandatory Submission** – Copy of report and/or findings provided to OSA
- **Reporting Standards** – Findings reported under 2.2.2.15 NMAC
- **Immediate Criminal Reporting** – Criminal violations reported immediately (12-6-6 NMSA 1978)
- **Compliance Risk** – Failure to report may result in audit or regulatory consequences

Notification and Reporting



Special Audit Findings in the Financial Audit Report

Per 2.2.2.10 (L) (2) (a) “...IPA’s shall report on the status of...all findings from special audits performed under the oversight of the state auditor...”

What this means:

- All * findings from the special audit must be listed on the summary schedule of prior year findings;
- The summary schedule must indicate whether the finding was resolved, repeated, or repeated and modified;
- If the finding is not resolved the finding should be presented in the schedule of findings and questioned costs (or responses) *appropriately* and the condition should be updated per 2.2.2.10.(L)(1)(d)(i) NMAC.

Suggestion: If the auditor is aware of a special audit that was not released by June 30th, but will be released by the audit report date, consider a subsequent events note disclosure.





Cybersecurity Incidents Are on the Rise

- Since 2023, OSA has received 27 reports of cyber incidents affecting public entities. Many more incidents likely go unreported.
- These include **phishing and spoofing emails and ransomware attacks**.
 - **Spoofing**: Someone disguises an email address, sender name, phone number, or website URL to convince you that you are interacting with a trusted source. Can lead to downloading malicious software or disclosing sensitive financial and/or personal information.
 - **Phishing**: Scams designed to trick you into giving sensitive information to criminals. For instance, clicking a link in a phishing email that convincingly prompts you to enter sensitive information, such as passwords, credit card numbers, PINs, or banking numbers.
- Spoofing and phishing are the main drivers behind Business Email Compromise (BEC), one of the most financially damaging online crimes because it exploits reliance on email to conduct day-to-day business operations.
- Public entities are no exception. **Read OSA's Risk Advisory on Business Email Compromise at osa.nm.gov.**



How to Protect Yourself and Your Agency from Business Email Compromise

- Be careful with what information you share online or on social media.
- Don't click on anything in an unsolicited email or text message asking you to update or verify account information. Look up the company's phone number on your own (don't use the one a potential scammer is providing) and call the company to ask if the request is legitimate.
- Carefully examine the email address, URL, and spelling used in any correspondence. Scammers use slight differences to trick your eye and gain your trust.
- Be careful what you download. Never open an email attachment from someone you don't know and be wary of forwarded email attachments.
- Set up two-factor (or multi-factor) authentication on any account that allows it and never disable it.
- Verify payment and purchase requests in person if possible or by calling the person to make sure it is legitimate. You should verify any change in account number or payment procedures with the person making the request.
- Be especially wary if the requestor is pressing you to act quickly.



Ransomware and Malware

Ransomware

- Malicious software (“malware”) that prevents you from accessing your computer files, system, or network and demands ransom for their return.
- Often use spoofing techniques.
- You can unknowingly download ransomware by opening an email attachment, clicking an ad, or following a link.

Tips

- Keep operating systems, software, and applications current and up to date.
- Make sure anti-virus and anti-malware solutions are set to automatically update and run regular scans.
- Back up data regularly and double-check that those backups were completed.
- Secure your backups. Make sure they are not connected to the computers and networks they are backing up.
- Create a continuity plan in case your business or organization is the victim of a ransomware attack.



OSA REVIEWS



Report Reviews

- **WHAT:** OSA reviews all audit and AUP reports for adherence to professional standards and compliance with the state audit rule prior to their release.
- **WHY:** 12-6-14 (B) NMSA 1978 states “...The state auditor or personnel of the state auditor’s office designated by the state auditor shall examine all reports of audits of agencies made pursuant to contract...”
- **HOW:** Most reports are reviewed through our standardized Report Review Guide which is updated each year. All Reports have a 1st review and a 2nd review prior to sending the “OSA Review Notes” communication. Final reports submitted are reviewed to determine if all OSA Review Note Communication items have been addressed.
- **WHEN:** OSA receives draft reports almost every day and they are usually assigned to a first reviewer promptly. OSA’s goal (and performance measure) is to release over 50% of reports within 30 business days of receiving the draft.



Report Review Process (Cont.)

Report Review IS:

- **OSA staff completing over 700 first reviews with different OSA staff performing over 700 second reviews.**
- **Professional guidelines established to ensure all important report areas are considered;**
- **Tremendous use of professional judgement to ensure findings make sense;**
- **Collaboration regarding difficult technical issues and uncommon audit rule interpretations;**
- **Calls to IPA's for further clarification when necessary;**
- **Sending out an OSA Review Notes Communication for the IPA and the agency.**



Report Review Process (Cont.)

Report review is NOT:

- **A bureaucratic rubber stamp;**
- **A replacement for an IPA firm's system of quality management;**
- **A substitute for an agency assuming responsibility for their financial statements; or**
- **Expected to catch every error every time.**



Report Review Process (Cont.)

OSA wants to release the best reports we can. Everyone is trying to ensure all comments are constructive. We consider all of you our partners in producing an excellent product.

Just because an issue was not identified in a prior year doesn't mean it is not a valid comment now. Please put consistency into perspective.

OSA usually reviews on a first in first out basis. There are exceptions. Be sure to let us know in advance if your agency has a legitimate reason for prioritization such as:

ACFR Submissions Bond Issuance requirements GFOA Award



Important note to all schools and institutes of higher education: Be sure to let OSA know when your agency will be closed for holiday breaks. The earlier we know the better we can try to accommodate any special reasons for prioritization.

Note: Agencies may waive the five-day waiting period



Common Comments from OSA Review Notes

- **IPA Review Guide incomplete or has inaccurate information on page 1.**
- **Lack of disclosure of DFA-LGD required cash reserves (Counties – 3/12 of budgeted General Fund expenditures and 1/12 of budgeted Road Fund Expenditures. Municipalities – 1/12 of budgeted General Fund Expenditures).**
- **Using outdated terminology (i.e., agency funds, statement of net assets, cfda, comprehensive annual financial reporting, capital lease/operating lease (related to GASB 87 leases).**
- **For school districts, beginning cash not tying to the ending cash in the PY report in the cash reconciliation.**
- **Over expenditures of budget includes finding but it is not disclosed in the note disclosures as required by 2.2.2.10 (R)(1)(a) NMAC.**
- **Notes to SEFA: De Minimis rate not being updated from 10% to 15%.**



Final Report Tips

Key Reminders for final reports:

- ✓ Please ensure the final report is in a searchable PDF format.
- ✓ Please address all comments in OSA Review Notes.
- ✓ Also please disclose any changes on the final report other than changes addressing comments on the OSA Review Notes.
- ✓ The final report is not considered “received” until our office has received the report AND all the required electronic schedules.



Workpaper Reviews

- Substantially different from a peer review!
- Cyclic and judgmental
- Addresses high-risk areas, including implementation of new standards
- State compliance testing
- Audit entries – must obtain management sign-off; if not posted in the next year, there should be an audit finding
- Prompt response to WP requests and follow up questions are appreciated
- Multiple methods for submitting workpapers



AUDIT FINDINGS

Statewide Overview & Audit Rule Requirements



Communicating Findings

Audit Rule (2.2.2.10 L) defines audit finding requirements. Auditor must:

- Report on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements.
- Follow GAGAS requirements for findings (Sections 6.17-6.30)
- Describe the *criteria, condition, cause, and effect* for each finding.
- Follow standard format of YEAR and NUMBER SEQUENCE, e.g. 2026-001.
- Label each finding with one of the following descriptions:
 - Material weakness
 - Significant deficiency
 - Material non-compliance
 - Other non-compliance
 - Other matter

Audit Act requires “each report set out in detail, in a separate section, any violation of law or good accounting practices found by the audit or examination.”



Elements of an Audit Finding

- Audit findings develop through a process of comparing what should be with what is.
- GAGAS and the Audit Rule require auditors to identify specific elements in each finding.

Finding Element	Description
Condition	What occurred, or what is the problem?
Criteria	What should have occurred instead? How do the auditors know it's a problem?
Cause	Why did it happen?
Effect	What is the impact and/or consequence?
Recommendation	What's needed to fix the problem?
Management Response	Planned resolution, responsible employee position(s), and deadline for implementation.

Audit Finding Classifications



Material Weakness	The most serious finding classification. A deficiency in internal controls that means a material mistake in the financial statements likely won't be caught or fixed.
Material Noncompliance	A major failure to follow laws, regulations, contracts, or grant rules that is significant enough to matter on its own or when combined with other issues.
Significant Deficiency	An internal control problem that isn't as severe as a material weakness but is still important and needs attention from management.
Other Noncompliance	Breaking a law, rule, contract, or grant requirement that could affect the financial statements or a specific program but isn't considered major.
Other Matter	Any violation of law or good accounting practice found during the audit that is minor and doesn't rise to the level of a significant deficiency.

Communicating Findings (cont.)

Uniform Guidance & Single Audit Findings

- Agency is responsible for follow-up and corrective action on all findings.
- Agency prepares a summary schedule of prior findings and a corrective action plan for current year findings.
 - Must include any findings related to the financial statements (GAGAS)



Audit Rule Reminders: Audit Findings

Prior Year Audit Finding Requirements

- **Report Status of All Prior-Year Findings:** In current-year audit reports, IPAs must report the status of *all* prior-year findings and *all* findings from any special audit findings performed under the oversight of OSA.
 - Note whether findings were resolved, repeated, or repeated & modified.
- **Uniform Guidance:**
 - Auditors “assess reasonableness” of the agency’s summary schedule of prior year findings and issues a current year finding if they determine the schedule materially misrepresents the status of any prior year findings.



Current Year Audit Finding Requirements

- Must be submitted to agency's management as soon as the IPA becomes aware of the findings.
 - Agency needs time to respond to the findings prior to the exit conference.
- **Agencies are responsible for "planned corrective actions"** as required by GAGAS 6.57 and 6.58.
- The agency shall respond, in writing, to the IPA's audit findings within 10 business days.
- If the IPA disagrees with the management's comments in response to a finding, they may explain in the report their reasons for disagreement, after the agency's response.
 - If comments are not provided within a reasonable period, auditors may issue the report without them (and indicate the agency did not provide comments).



Audit Rule Reminders: Audit Findings

Other Key Requirements

- **Late audit contracts** (if appropriate in auditor's professional judgement)
- **Lack of CPO:** Agency subject to procurement code did not have a certified chief procurement officer.
- **Unauthorized Disclosure:** Release of any portion of the audit report by the IPA or agency prior to official release by OSA results in a finding (with certain specific exceptions).
- **Late Audit Submission:**
 - Notify OSA if the report will be late.



Audit Finding Trends FY 2022-FY 2025

Most Common Finding Categories by Fiscal Year

FY 2022	FY 2023	FY 2024	FY 2025
State Law Compliance	State Law Compliance	Financial Reporting	Financial Reporting
Lack of Policies & Procedures for Internal Controls	Lack of Policies & Procedures for Internal Controls	Budgetary Compliance	State Law Compliance
Financial Reporting	Cash & Investments	Payroll & Related Liabilities	Lack of Policies & Procedures for Internal Controls
Payroll & Related Liabilities	Budgetary Compliance	State Law Compliance	Budgetary Compliance
Budgetary Compliance	Financial Reporting	Grant Compliance	Payroll & Related Liabilities



Common Recurring Deficiencies Revealed in Audit Findings

Financial Reporting

- Fund balance and cash reconciliation errors
- Revenue, expense, and accrual misstatements

State Law Compliance

- Untimely deposit of public funds (violation of 24-hour requirement)
- Procurement code violations
- Noncompliance with banking and collateral requirements for public funds

Budgetary Compliance

- Expenditures exceeding budget authority
- Inaccurate budget reporting

Lack of Policies & Procedures for Internal Controls

- Weaknesses in the internal control framework: missing written polices/procedures, informal processes, lack of documented approvals/reviews

Payroll & Related Liabilities

- Leave and compensated absences errors
- Issues with payroll processing and inaccurate/missing personnel files/documentation



Common Comments From OSA Review Notes Regarding Findings

- The condition of a repeat finding is missing management's progress or lack of progress for repeated findings
- Findings do not include a timeline for corrective action to be implemented
- Findings include the name of the person responsible for corrective action instead of the position responsible
- Findings are classified as "non-compliance" instead of "material non-compliance" or "other Non-compliance"
- Important to distinguish because this ties directly into the Annual Findings Report



Example of an Audit Finding

2024-004 (2023-001) Cash Management (Significant Deficiency)

What happened?

CONDITION: The City was unable to present or reproduce cash reconciliations between the bank statement and the general ledger for the pooled cash account in a timely manner.

The City has made progress. The City has the bank reconciliations up to date and continues to get them completed each month in a timely manner.

What *should* have happened?

CRITERIA: Section 6-10-2 NMSA 1978 requires that cash records shall be balanced daily to show the balance of public money on hand at the close of each day's business.

What is the impact(s)?

EFFECT: The City is out of compliance with the state statute and may not have an accurate balance of available cash.

Why did it happen?

CAUSE: Changes in personnel and insufficient cross-training prevented the reconciliations from being performed in a timely manner.

What's needed to fix it?

AUDITOR'S RECOMMENDATION: We recommend the City ensure bank reconciliations are done on a timely manner and that bank reconciliations are accurate and agree to the general ledger.

Management's Response

MANAGEMENT RESPONSE: Management agrees with the findings and has implemented additional reconciliation procedures to include agreeing the pooled cash fund to the total cash balance and making the necessary corrections.

RESPONSIBLE PARTY: Finance Director and City Manager

TIMELINE FOR CORRECTIVE ACTION: December 31, 2025

Example of an Audit Finding

What happened?



2025-001 PROCUREMENT-OTHER NONCOMPLIANCE

CONDITION: During our testing of procurement compliance, we noted the following:

- During FY25 the Village spent approximately \$134,000 with one vendor for the maintenance and trimming of trees. Each individual invoice was under \$5,000. The Village did not go out to bid for these services which is a violation of New Mexico state law.
- During FY25, the Village expended approximately \$383,000 with a single vendor for the purchase of desktop computers, laptops, printers, miscellaneous computer peripherals, and related services. In addition, the Village expended \$110,678 with the same vendor for software.

The Village did not conduct a competitive procurement for these purchases. Instead, the Village relied on a New Mexico county's price agreement with the vendor. This price agreement was executed solely between the County and the vendor and did not include the Village as a participating entity, nor did it contain language authorizing use of the agreement by other governmental units.

What *should have* happened?



CRITERIA: Per NMSA § 13-1-125.D procurement requirements shall not be artificially divided purchases to constitute small purchases. Purchases related to the same project and should have been included in the same procurement. NMSA § 13-1-135 provides the guidance of when a cooperative procurement agreement can be used between two local government agencies.

Why does it matter?



What is the impact?

EFFECT: The Village approved and paid invoices without going through the proper procurement procedures. This leads the Village to risk of overpaying for services and goods when equivalent or better services may be available.

Why did it happen?



CAUSE: The Village obtained quotes as needed and awarded work if the quote was under the \$5000 threshold. However, the Village did not track if the vendor exceeded the aggregate amount of \$60,000. The Village did not enter into a cooperative procurement agreement with the County. As a result, the Village's use of the County's price agreement did not meet the requirements of the New Mexico Procurement Code. Since the required agreements were not in place and no competitive procurement was conducted, the Village should have issued a competitive solicitation for these purchases in accordance with applicable procurement thresholds

Example of an Audit Finding - State Law Compliance

What's needed to fix it?



2025-001 PROCUREMENT-OTHER NONCOMPLIANCE (Continued)

RECOMMENDATION: We recommend that the Village establish policies and procedures to ensure that aggregate payments made to vendors do not exceed the \$60,000 threshold and ensure compliance with the New Mexico Procurement Code.

When relying on another government's price agreement, we recommend that the Village execute a formal cooperative procurement agreement, obtain governing body approval, and ensure the agreement explicitly authorizes the Village's participation.

Who's going to fix it and when?



MANAGEMENT RESPONSE: The Village acknowledges the audit finding 2025-001. To address the identified gap, we will implement targeted training for all relevant staff to ensure full understanding and compliance. The Village's procurement structure is such that each department director is responsible for purchasing done by staff under their authority, with the finance department functioning in an advisory capacity. Therefore, the training will be conducted monthly during a regular Executive Leadership Team meeting, which includes all department directors. The department directors will in turn train their staff that have been tasked with creating PO requisitions. As the finance department functions in an advisory role and carries no oversight authority over purchasing, it will be incumbent upon the department directors to ensure that this training is conducted, documented, and monitored for compliance within their respective departments.

The information presented in these trainings will be directly related to the New Mexico State Procurement Statutes contained within NMSA Section 13. This monthly training will begin in January 2026 and be presented by assigned finance staff.

This training will strengthen staff knowledge, reduce the risk of recurrence, and ensure consistent adherence to established procurement requirements.

TIMELINE OF CORRECTIVE ACTION PLAN: January 2026
RESPONSIBLE OFFICIAL: Village Administrator

Q&A



HOT TOPICS



Alternative Practice Structure (APS) Background Info:

Alternative Practice Structure is defined by the AICPA:

An APS is a form of organization in which a firm that provides attest services is closely aligned with another entity that performs other professional services. The other entity typically sells a portion of its nonattest business to an outside investor.

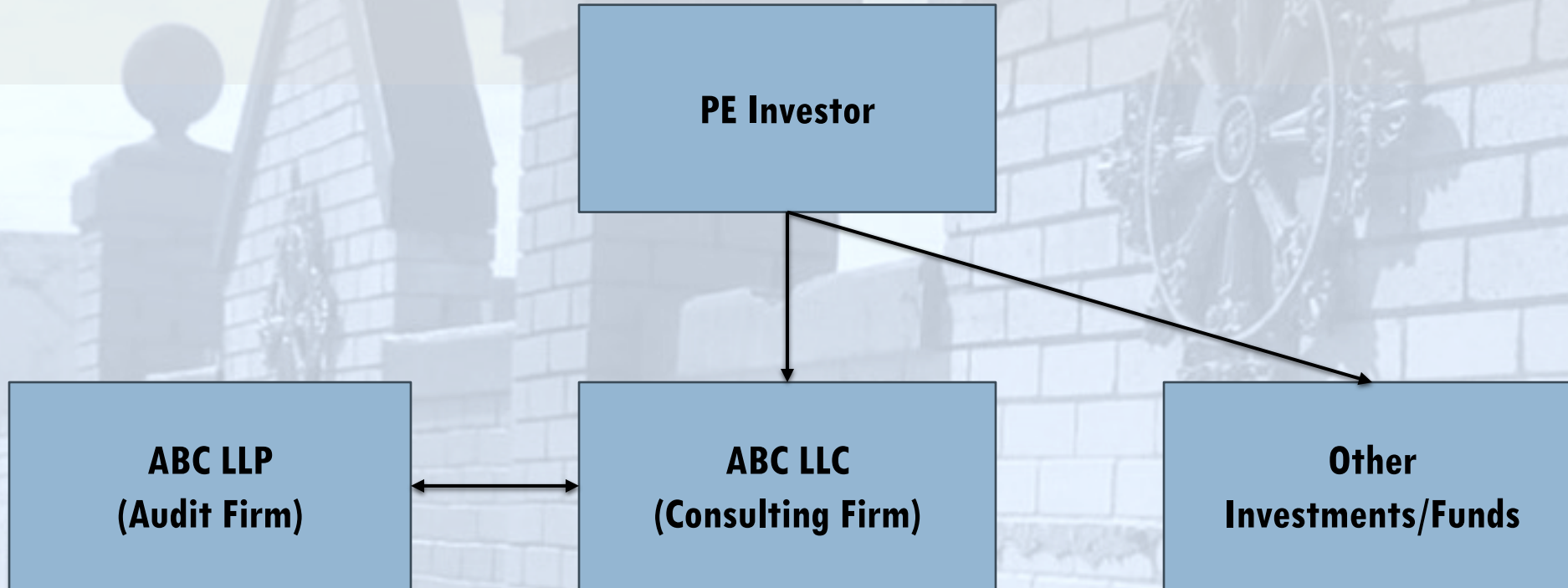
Historically APS firms have been designed to comply with all AICPA Ethical Standards, including the “Independence Rule”.

APS firms are not new...

The APS model is evolving with the rise of private equity (PE) investors.



APS Background Info (Cont.):



Traditional Firm VS. APS/PE Firm Quick Comparison

Traditional Firm:

- **The firm performs different types of attest and advisory services like audits, tax prep and consulting**
- **The firm is under the jurisdiction of a state accountancy board – in NM, Firm Mobility applies**
- **Under current NM law, if a partner or member of a firm is a business, that business must also be a firm under the jurisdiction of the state board**
- **NM law requires all firms and licensees to follow AICPA Code of Conduct**

APS/PE Firm

- **One closely aligned firm provides attest services and the other closely aligned firm will provide consulting services.**
- **The attest firm is under the jurisdiction of a state accountancy board. The consulting firm is not.**
- **NM laws are being evaluated and may be updated based on changes to the AICPA Code of Conduct**
- **New considerations to ensure auditor independence**



What Else Should I Know About APS/PE ?

The two main areas where APS/PE could have an impact on an agency include:

- **Consulting Services** — like hiring a firm to assist with a non-audit service such as audit preparation
- **Independence** — certain agencies, especially investing agencies, may have conflict of interest laws which prohibit hiring IPAs with APS/PE when the PE also invests in funds where NM also invests.

OSA recommends that agencies discuss concerns with their IPA to prevent misunderstandings. Here are some possible questions to ask:

- Who is going to be performing and supervising non-audit work? Is this the audit firm or the consulting firm?
- Is the consulting firm on the OSA-Approved Firm List as a Consulting Firm?
- Where is the non-audit work going to be performed? Will it be in NM, another state, or possibly off-shore?



Also — be sure to gain a thorough understanding of any conflict-of-interest laws that affect your agency so you can discuss any concerns with your IPA.

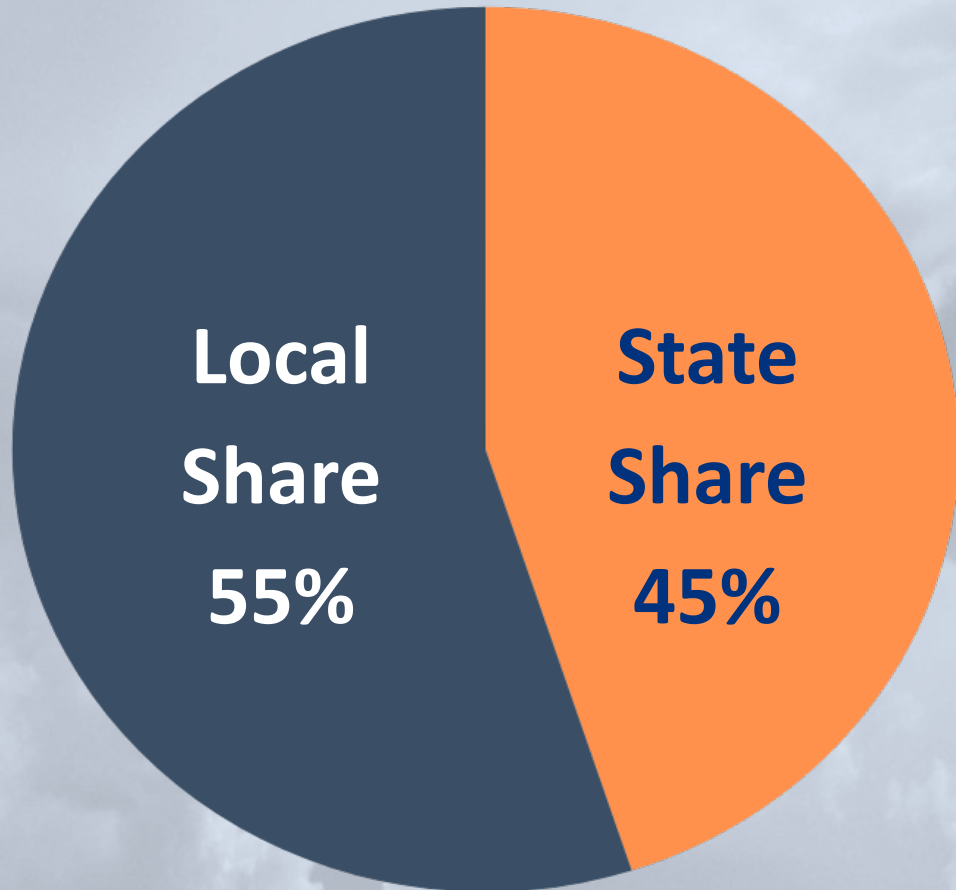


Opioid Settlement Funds

- **Public Health Crisis.** New Mexico has one of the highest rates of opioid overdose deaths in the country.
- **Litigation.** Beginning in 2021, the New Mexico Attorney General entered both national and independent lawsuits with opioid distributors, manufacturers, and pharmacies.
- **Settlements.** Provided more than **\$880 million** in a mix of one-time and annual payments.
- **Revenues Split** Between:
 - State (\$310.8 million)
 - Local Governments (\$324.7 million)
 - Outside Counsel Fees (\$249 million)
- **Reporting.** The settlements and subsequent legislation included no requirements for public reporting on opioid expenditures at the state or local level.
- **Role of the State Auditor.** New Mexico's Opioid Allocation Agreement (NMOAA) establishes an important role for the State Auditor in validating opioid expenditures are used properly.



Opioid Settlement Funds



Local share (55%)

- ~\$324 million
- Automatically distributed by formula
- Controlled by cities and counties

State share (45%)

- ~\$310 million
- Deposited into the Opioid Settlement Restricted Fund
- Invested and slowly distributed to the Opioid Crisis Recovery Fund
- Spent only through legislative appropriation



Opioid Settlement Funds



- NM Opioid Allocation Agreement requires local governments' opioid settlement funds to be audited as part of their annual financial statement audit.
- OSA's Audit Rule requires all Independent Public Accounting firms to test compliance with the NM Opioid Allocation Agreement (2.2.2.10(J) NMAC).
 - Noncompliance must be reported as an audit finding (2.2.2.10(L) NMAC).
- Misuse requires immediate correction and may bar future distributions until the misused funds are redirected and confirmed by the State Auditor.
- Read OSA's Audit Advisory on New Mexico's Opioid Settlement Funds on our website.

OSA recommends government entities participating in opioid settlements review their policies and procedures to ensure adequate and appropriate levels of control over opioid-settlement funds.

Joint Powers Agreements (JPAs)

JPAs are written contracts allowing two or more public agencies—including federal, state, and local governments—to jointly exercise common powers.

The Audit Rule includes requirements applicable to JPAs:

- *Any* JPA must be listed in a Supplementary Information schedule in the audit report.
- The schedule must include the following information for each JPA:
 - Participants
 - Party responsible for operations
 - Description
 - Beginning and ending dates of the JPA
 - Total estimated amount of project and the portion applicable to the audited agency
 - Amount the agency contributed in the current fiscal year
 - Audit responsibility
 - Fiscal agent (if applicable)
 - Name of the government agency where revenues and expenditures are reported



Property Disposition Quick Update:

- Effective 7/1/2025 NMSA 1978 13-6-1 was updated to increase the threshold of disposing of obsolete, worn-out, or unusable tangible personal property to “...of a **current resale value of \$30k or less; ..**”. Notifications still must be provided to the OSA 30 days in advance.
- Property disposition notifications only apply to **“Tangible Personal Property”**. There is no requirement to notify the OSA when disposing of **Real Property or Intangible Assets**.
- Other laws do apply to real property dispositions and are detailed in NMSA 1978 Article 6. OSA recommends consulting legal counsel before disposing of any real property.



Questions?

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