

**TITLE 2 PUBLIC FINANCE**  
**CHAPTER 2 AUDITS OF GOVERNMENTAL ENTITIES**  
**PART 2 REQUIREMENTS FOR CONTRACTING AND CONDUCTING AUDITS OF AGENCIES**

**2.2.2.1 ISSUING AGENCY:** Office of the State Auditor, 2113 Warner Circle, Santa Fe, NM 87505-5499  
[2.2.2.1 NMAC – Rp 2.2.2.1 NMAC, 3-29-02]

**2.2.2.2 SCOPE:** All agencies covered under the Audit Act and any independent public accountants interested in conducting financial and compliance audits of agencies of the State of New Mexico.  
[2.2.2.2 NMAC – Rp 2.2.2.2 NMAC, 3-29-02]

**2.2.2.3 STATUTORY AUTHORITY:** The Audit Act Section 12-6-12, requires the State Auditor to promulgate reasonable regulations necessary to carry out the duties of his office, including regulations required for conducting audits in accordance accepted auditing standards generally accepted in the United States of America. The regulations become effective upon filing in accordance with the State Rules Act (Chapter 14, Article 4 NMSA 1978). The Audit Act (12-6-1 through 12-6-14, NMSA 1978) provides the State Auditor authority to conduct financial and compliance audits in accordance with governmental auditing, accounting and financial reporting standards, local, state and federal laws, rules, and regulations. The Audit Act also gives the State Auditor the authority to perform special audits of the financial affairs and transactions of an agency, in whole or in part, in situations deemed necessary.  
[2.2.2.3 NMAC – Rp 2.2.2.3 NMAC, 3-29-02]

**2.2.2.4 DURATION:** Permanent  
[2.2.2.4 NMAC – Rp 2.2.2.4 NMAC, 3-29-02]

**2.2.2.5 EFFECTIVE DATE:** March 29, 2002, unless a later date is cited at the end of a Section.  
[2.2.2.5 NMAC – Rp 2.2.2.5 NMAC, 3-29-02]

**2.2.2.6 OBJECTIVE:** The objective is to establish procedures and requirements for the contracting and conducting of state governmental audits.  
[2.2.2.6 NMAC – Rp 2.2.2.6 NMAC, 3-29-02]

**2.2.2.7 DEFINITIONS:**

A. "Agency" means any department, institution, board, bureau, court, commission, district or committee of the government of the state, including district courts, magistrate courts, district attorneys and charitable institutions for which appropriations are made by the legislature; every political subdivision of the state, created under either general or special act, which receives or expends public money from whatever source derived, including but not limited to counties, county institutions, boards, bureaus or commissions; municipalities; drainage, conservancy, irrigation or other special districts; school districts; and every office or officer of any of the above.

B. "Auditor" means State Auditor or Independent Public Accountant

C. "AICPA" means American Institute of Certified Public Accountants

D. "CHE" means Commission on Higher Education

E. "CFR" means Code of Federal Regulations

F. "CPE" means Continuing Professional Education

G. "COSO" means Committee on Sponsoring Organizations of Treadway Commission

H. "DFA" means Department of Finance and Administration

I. "FASS" means Financial Assessment Subsystem

J. "FDIC" means Federal Deposit Insurance Corporation

K. "FDS" means Financial Data Schedule

L. "GAAP" means Accounting Principles Generally Accepted in the United States

M. "GAGAS" means Generally Accepted Governmental Auditing Standards

N. "GASB" means Governmental Accounting Standards Board

O. "GAAS" means Auditing Standards Generally Accepted in the United States

P. "GSD" means General Services Department

- Q. "HUD" means U.S. Department of Housing and Urban Development
  - R. "IPA" means Independent Public Accountant
  - S. "IRC" means Internal Revenue Code
  - T. "NCUSIF" means National Credit Union Shares Insurance Fund
  - U. "NMAC" means New Mexico Administrative Code
  - V. "NMSA" means New Mexico Statutes Annotated
  - W. "OMB" means Office of Management and Budget
  - X. "PHA" means Public Housing Authority
  - Y. "PHAS" means Public Housing Management Assessment System
  - Z. "REAC" means Real Estate Assessment Center
  - AA. "REC" means Regional Education Cooperative
  - BB. "RCC" means Regional Center Cooperative
  - CC. "RSI" means Required Supplemental Information
  - DD. "State Auditor" means elected official, personnel of his office designated by him or independent auditors designated by him
  - EE. "SAS" means Statement on Auditing Standards
  - FF. "SBE" means State Board of Education
  - GG. "UFRS" means Uniform Financial Reporting Standards
  - HH. "U.S. GAO" means U. S. General Accounting Office
- [2.2.2.7 NMAC – Rp 2.2.2.7 NMAC, 3-29-02]

**2.2.2.8 THE AUDIT CONTRACT:**

A. Section 12-6-14 NMSA 1978 (Contract Audits) permits the State Auditor to delegate the conduct of audits to an independent public accounting firm (IPA) for the audit of a prescribed period. The Public Accountancy Act (61-28A-1 to 61-28A-28 NMSA 1978) states only certified public accountants (CPAs) holding a current permit to practice issued by the New Mexico State Board of Public Accountancy (Board) and whose firm is registered with the Board shall audit financial statements. IPAs shall submit a firm profile to the State Auditor. Firms are required to notify the State Auditor of changes to the firm profile as information becomes available. The State Auditor shall approve contracts only with IPAs who have **submitted a complete and correct** firm profile and who have complied with all the requirements of this Rule including:

- (1) Section 2.2.2.14, Continuing Education and Quality Control Requirements;
- (2) Section 2.2.2.8 I, Independence Requirements; and
- (3) For an IPA who has previously audited agencies under this Rule, they must have complied in the

past with:

- (a) Section 2.2.2.9, Report Due Dates; and
- (b) Section 2.2.2.13, Review of Audit Reports and Working Papers of this Rule.

B. The State Auditor shall notify each agency, in writing, whether the audit is to be conducted by the State Auditor or an IPA.

C. If the audit is to be conducted by an IPA, the agency shall comply with the following procedures to obtain audit services:

(1) The agency shall identify all elements or services to be solicited upon receipt of notification, and request quotations or proposals for each identifiable element:

- (a) Financial Statement Audit;
- (b) Federal Single Audit;
- (c) Financial Statement Preparation;
- (d) GASB 34 and 35 Implementation; and
- (e) Other (i.e. housing authority, charter school, other component units).

(2) Audit services costing **no more than \$20,000 (exclusive of gross receipts tax)** should be considered small purchases. The agency is encouraged to obtain no fewer than three written or oral quotations to be recorded and placed in the procurement file. A multi-year proposal (not to exceed three years) exceeding \$20,000 for all three years is not considered a small purchase.

(3) For audit services costing **over \$20,000 (exclusive of gross receipts tax)**, the agency shall seek competitive sealed proposals and contract for audit services in accordance with the Procurement Code (13-1-1 to 13-1-199 NMSA 1978); New Mexico General Services Department (GSD) Rule 1.1.4 NMAC, **Procurement Code Regulations**, if applicable; and New Mexico Department of Finance and Administration (DFA) Rule 2.40.2 NMAC,

**Governing the Approval of Contracts for the Purchase of Professional Services.** In addition, if the agency intends to allocate a portion of the audit cost to federal funds as direct or indirect charges, the agency should comply with procurement requirements stated in the Federal Office of Management and Budget's, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, (OMB A-102 Common Rule). Institutions of higher education and state and local hospitals should comply with procurement standards stated in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*.

(4) In accordance with Section 13-1-150 NMSA 1978 (Multi-term Contracts), the agency may, and is strongly encouraged to, request a multi-year proposal to provide services, not to exceed a term of **three** years including all extensions and renewals. The term of the contract shall be one-year with the option to extend for two successive one-year terms at the **same price, terms and conditions as stated on the original proposal**. Exercising such option to extend must be by mutual agreement of the parties to the contract and with the approval of the State Auditor. In the event that either of the parties to the contract elects not to extend or the State Auditor disapproves the recommendation for renewal, the agency shall use the procedure to solicit services pursuant to paragraph 2 and paragraph 3 of Subsection 2.2.2.8.C of this Rule.

(5) The agency shall evaluate all competitive sealed proposals or quotations received pursuant to paragraph 2 and paragraph 3 of Subsection 2.2.2.8.C of this Rule using a two-step evaluation process, preferably executed by a selection committee. Members of component units such as charter schools, housing authorities, etc., should be included in the IPA selection process. Each IPA shall initially be evaluated on the basis of experience and qualifications. After the initial top three selections, the IPAs shall be evaluated on the basis of cost. The agency shall use the evaluation form attached to this Rule as Appendix A.

(6) After completing its evaluation for each IPA, the agency shall submit to the State Auditor, **on or before May 31**:

(a) A cover letter indicating the name of firm being recommended, mentioning whether the proposal is for an "annual" or "multi-year";

(b) The fully completed and signed evaluation form for the IPA being recommended. If you are in year 2 or 3 of a multi-year proposal, submit a copy of part II of the evaluation form from the previous year; and

(c) A listing of professional services contracts the agency has with any IPA on State Auditor's approved list.

(7) If the agency refuses to make a recommendation by the deadline, the State Auditor may conduct the audit.

(8) **The State Auditor may also file any necessary civil action in the Santa Fe District Court to ensure compliance with this requirement. If court action is required, the agency will be responsible for attorney fees and associated costs and expenses to resolve this matter.**

(9) The agency shall retain all procurement documentation, including completed evaluation forms, for three years.

(10) In the event the agency's recommendation is not approved by the State Auditor, the State Auditor will promptly communicate the decision, including the reason(s) for disapproval, to the agency, at which time the agency will promptly submit its next recommendation. This process will continue until an acceptable choice is approved. During this process, whenever a recommendation is not approved, the agency may petition the State Auditor, within 15 days or prior to June 1, (whichever comes first) for reconsideration, whereas the petitioner presents evidence in support of its recommendation. The State Auditor will set the time and place for an informal administrative hearing in a timely manner with consideration given the petitioner's circumstances.

D. The State Auditor will use **discretion** and may not approve:

(1) Audit contract recommendations that do not serve the best interest of the public or the agency because of one or more of the following:

(a) Lack of experience of the IPA;

(b) IPA has conducted the audit of the same agency for six consecutive years. The IPA shall not conduct the agency audit for a two-year period after conducting the agency audit for a period of six consecutive years;

(c) Lack of competence or staff availability employed by the IPA;

(d) Circumstances that may cause untimely delivery of the audit report;

(e) Unreasonably high or low cost to the agency;

(f) Terms contained in the proposed contract, which the State Auditor considers to be unfavorable, unfair, unreasonable, or unnecessary;

(g) Lack of compliance with the Procurement Code or this Rule; or

(h) Any other reasons determined by the State Auditor to be in the best interest of the State of New Mexico.

(2) Audit contract recommendations of any IPA which has:

- (a) Breached a prior-year contract;
- (b) Failed to deliver an audit report on time;
- (c) Failed to comply with state laws or regulations of the State Auditor;
- (d) Performed nonaudit related services for an agency without prior approval of the State Auditor;

Auditor;

(e) **Performed nonaudit services under a separate contract for services that may be disallowed by GAGAS independence standards (see Section 2.2.2.8.I of this Rule);**

(f) **Failed to respond, in an acceptable manner, to the audit report or working paper review;**

(g) **Indicated a lack of independence in fact or appearance;**

(h) Failed to cooperate in providing prior-year working papers to successor IPAs;

(i) Has not adhered to external quality control review standards as defined by GAGAS and Section 2.2.2.13.B of this Rule; or

(j) Otherwise, in the opinion of the State Auditor, shown itself to be unfit to be awarded a contract.

(3) Any audit which the State Auditor decides to perform himself or with contracted IPAs [consistent with the October 6, 1993 stipulated order *Vigil v. King* No. SF 92-1487(C)], and pursuant to Section 12-6-3 NMSA 1978 (Annual and Special Audits) even if previously designated an agency for audit by an IPA.

E. The State Auditor shall provide audit contract forms which must be used by the agency. **Only** forms provided by the State Auditor will be accepted and shall:

(1) Be completed and returned in the number of required copies and **within fifteen (15) calendar days** as stated in the approval letter of IPA selection;

(2) Bear original signatures;

(3) Have the IPA's combined reporting system number verified by the Taxation and Revenue Department (TRD) for all state agencies whose contracts are approved through DFA's Contracts Office, prior to submission to the State Auditor; and

(4) Include the amount for each portion of the audit which covers the elements or services as well as the portion of the audit which covers federal funds.

F. The IPA shall maintain professional liability insurance covering any error or omission committed during the term of the contract. The IPA shall provide proof of such insurance to the State Auditor with the firm profile. The amount maintained should be commensurate with risk assumed. The IPA must provide to the State Auditor, prior to expiration, updated insurance information.

G. A breach of any terms of the contract shall be grounds for immediate termination of the contract. **The injured party may seek damages for such breach from the offending party.** IPAs knowingly making false statements, assurances, or disclosures will be automatically disqualified from conducting audits of agencies in New Mexico.

H. The IPA shall notify the agency and the State Auditor, **in writing**, of any changes in staff assigned to perform the audit. The IPA must update the firm profile to reflect the staffing changes. The IPA shall not subcontract any portion of the services to be performed under the audit contract without the **prior written approval** of the State Auditor. The IPA may subcontract only with IPAs who have submitted a completed and approved firm profile to the State Auditor as required in Subsection 2.2.2.8.A of this Rule. The audit contract shall specify subcontractor responsibility, who will sign the report(s), and how the subcontractor will be paid.

I. The second general standard (***Government Auditing Standards*** issued by the Comptroller General of the United States, 1994 Revision) as amended January 25, 2002 is: "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be **free both in fact and appearance from personal, external, and organizational impairments to independence.**" The amendment describes two overarching principles an audit organization must consider before agreeing to perform nonaudit services in order to avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditor is not independent in conducting audits. Audit organizations should not

provide nonaudit services that involve performing management functions or making management decisions and they should not audit their own work or provide nonaudit services in situations where the nonaudit services are significant/material to the subject matter of audits.

(1) The GAGAS Amendment No. 3, **Independence**, applies to all New Mexico audits covered by the Audit Act effective for fiscal years ended June 30, 2002, and thereafter.

(2) This standard places responsibility on each auditor and the audit organization to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. The following is substantially an excerpt from the AICPA fact sheet summarizing the key provision of the new GAGAS standards.

(a) The State Auditor will not approve any contract for nonaudit services to be provided by the same IPA who performs the agency's annual audit for the following services: maintaining or preparing the audited agency's basic accounting records; taking responsibility for basic financial or other records that the audit organization will audit; posting transactions (whether coded or not coded) to the agency's financial records or to other records that subsequently provide data to the agency's financial records; recommending a single individual for a specific position; conducting an executive search or a recruiting program for the audited agency; and operating or supervising the operation of the agency's information technology system.

(b) The State Auditor may approve a contract for the following nonaudit services to be provided by the same IPA who performs the agency's annual audit in circumstances where the two overarching principles (above) are not violated and the seven required safeguards are met. Safeguard (1) requires the IPA to preclude personnel who provided the nonaudit services from planning, conducting, or reviewing audit work related to the nonaudit service. Safeguard (2) precludes the IPA from reducing the scope and extent of the audit work beyond the level that would be appropriate if the nonaudit work was performed by another unrelated party. Safeguard (3) requires the IPA to document its consideration of the nonaudit service, and document its rationale that providing the nonaudit service does not violate the two overarching principles. Safeguard (4) requires the IPA to establish and document an understanding with the audited agency regarding the objectives, scope of work, and product or deliverables of the nonaudit service, before performing the nonaudit services. The IPA should also document an understanding with management that management is responsible for the substantive outcomes of the work. Safeguard (5) requires the IPA's quality control system for compliance with independence requirements to include policies and procedures to assure consideration of the effect on the ongoing, planned, and future audits when deciding whether to provide nonaudit services and a requirement to have the understanding with management of the audited agency documented. The understanding should be communicated to management in writing. Documentation must specify management's responsibility for the nonaudit service, management's qualifications to conduct the required oversight, and that management's responsibilities were performed. Safeguard (6) requires that in cases where nonaudit services by their nature impair the audit organization's ability to meet either or both of the overarching principles for certain types of audit work, the audit organization should communicate to management of the audited agency, before performing the nonaudit service, that the audit organization would not be able to perform subsequent audit work related to the subject matter of the nonaudit service. Safeguard (7) requires that for audits selected in the peer review, all related nonaudit services should be identified to the audit organization's peer reviewer and the audit documentation made available for peer review.

(i) Basic accounting services that **may** be allowed: (a) Preparing draft financial statements based on management's chart of accounts and trial balance and any adjusting, correcting, and closing entries that have been approved by management; preparing draft notes to the financial statements based on information determined and approved by management; (b) Preparing a trial balance based on management's chart of accounts; (c) Maintaining depreciation schedules for which management has determined the method of depreciation, rate of depreciation, and salvage value of the asset; (d) Proposing adjusting and correcting entries that are identified during the audit so long as management makes the decision on accepting the entries.

(ii) Payroll services that **may** be allowed are: (a) computing pay amounts for the agency's employees based on agency maintained and approved time records, salaries or pay rates, and deductions from pay; (b) generating unsigned payroll checks; (c) transmitting client approved payroll to a financial institution provided management has approved the transmission and limited the financial institution to make payments only to previously approved individuals.

(iii) Preparing routine tax filings in accordance with federal tax laws and rules and regulations **may** be allowed.

(iv) Human resource services that **may** be allowed to assist management in its evaluation of potential candidates are limited to activities such as: (a) serving on an evaluation panel to review applications;

and (b) interviewing candidates to provide input to management in arriving at a listing of best qualified applicants to be provided to management.

(v) Providing information technology services **may** be allowed if limited to services such as advising on system design, system installation, and system security if management acknowledges responsibility for the design, installation, and internal control over the agency's system and does not rely on the auditor's work as the primary basis for determining: (a) whether to implement a new system; (b) the adequacy of the new system design; (c) the adequacy of major design changes to an existing system; or (d) the adequacy of the system to comply with regulatory or other requirements.

(vi) Providing appraisal or valuation services **may** be allowed if limited to services such as: (a) reviewing the work of the agency or a specialist employed by the agency where the agency or specialist provides the primary support for the balances recorded in financial statements or other information that will be audited; (b) valuing an agency's pension, other post-employment benefit, or similar liabilities provided management has determined and taken responsibility for all significant assumptions and data.

(vii) Contracts for gathering and reporting unverified external or third-party data to aid legislative and administrative decision-making **may** be allowed.

(viii) Services advising an agency regarding its performance of internal control self-assessments **may** be allowed.

(ix) Services assisting a legislative body by developing questions for use at a hearing **may** be allowed.

(3) The IPA shall provide a list of all contracts entered into with any governmental agency submitted with the profile to the State Auditor. The list should state all financial audit, special audit, or nonaudit services provided or to be provided beginning on January 1, 2000, and thereafter.

(4) The agency and IPA shall not enter into any financial, special audit or any other nonaudit service contract without the prior written approval of the State Auditor. All financial, special audit or any other nonaudit service contracts are subject to approval by the State Auditor. The agency and IPA must provide the State Auditor with a copy of any report generated.

J. The State Auditor will approve progress and final payments as follows:

(1) Section 12-6-14 NMSA 1978 (Contract Audits) provides that State Auditor may approve progress payments on the basis of evidence of the percentage of audit work completed as of the date of the request for partial payment.

(2) Progress payments up to 79% **do not** require State Auditor approval, providing the agency certifies receipt of services. If requested by the State Auditor, the agency shall provide a copy of the approved progress billing(s). Progress payments from 80% to 90% **do** require State Auditor approval after being approved by the agency.

(3) The State Auditor may allow only the first 50% of progress payments to be made without State Auditor approval for an IPA whose previous audits were submitted after the due date specified in Section 2.2.2.9 of this Rule.

(4) Section 12-6-14 NMSA 1978 (Contract Audits), provides that final payment under an audit contract may be made by the agency to the IPA only after the State Auditor has stated, in writing, that the audit has been conducted in a competent manner in accordance with contract provisions and this Rule. The State Auditor's determination with respect to final payment shall be stated in the letter accompanying the release of the report to the agency, subject to a comprehensive review by the State Auditor.

(5) Section 12-6-14 1978 (Contract Audits) also provides that "no payment of public funds may be made to an independent auditor unless a contract is entered into and approved."

K. Financial Statements:

(1) The financial statements presented in audit reports shall be prepared from the agency's books of record and contain amounts rounded to the nearest dollar.

(2) **The financial statements are the responsibility of the agency. The agency shall maintain adequate accounting records**, prepare financial statements in accordance with accounting principles generally accepted in the United States, and provide complete, accurate, and timely information to the IPA as requested to meet the deadline imposed in Subsection 2.2.2.9.A of this Rule.

(3) If there are differences between the financial statements and the books, the IPA should provide the adjusting entries to the agency to reconcile the report to the books.

(4) If the IPA prepared the financial statements, in conformance with Section 2.2.2.8.I of this Rule, this fact must be disclosed in the notes to the financial statements; however, **the agency is responsible for the**

**contents of the financial statements.** All efforts will be made by the agency to assist the IPA with the preparation of the financial statements and notes thereon, to complete the audit report timely and in compliance with Subsection 2.2.2.9.A of this Rule.

L. Working Papers:

(1) The working papers are to be retained for a minimum of three years from the date shown on the opinion letter of the audit report, or longer if requested by the federal oversight or cognizant agency or the State Auditor. The State Auditor shall have access to the working papers at the discretion of the State Auditor.

(2) When requested by the State Auditor, all working papers or clear legible copies shall be delivered to the State Auditor.

(3) The working papers of a predecessor IPA are to be made available to a successor IPA in accordance with SAS No. 84. Any costs incurred will be borne by the requestor. If the successor IPA finds that the predecessor IPA's working papers do not comply with applicable auditing standards and this Rule or do not support financial data presented in the audit report, the successor IPA shall notify the State Auditor, in writing, specifying all deficiencies. If the State Auditor determines that the nature of deficiencies noted are of such significance to deem that the audit was not performed in accordance with auditing or accounting standards generally accepted in the United States of America and related laws, rules and regulations and this Rule, any of the following actions may be taken:

(a) The State Auditor may require the predecessor IPA to correct its working papers and reissue the audit report to the agency, federal oversight or cognizant agency and any others receiving copies;

(b) The State Auditor may deny the issuance of future audit contracts; and

(c) The State Auditor may refer the predecessor IPA to the New Mexico State Board of Public Accountancy for possible licensure action.

M. **Government Auditing Standards, Amendment No. 2, Auditor Communication**, broadens who the IPA must communicate with and requires the auditor to communicate specific information regarding the nature and extent of testing and reporting on compliance with laws and regulations and internal control over financial reporting during the planning stages of a financial statement audit to reduce the risk that the needs or expectations of the parties involved may be misinterpreted (GAGAS 4.6.3 through 4.6.9).

(1) IPAs shall prepare a written and dated engagement letter during the planning stage of a financial audit, addressed to the appropriate official of the agency.

(2) Within 10 days of the entrance conference, the IPA shall submit to the State Auditor a copy of the signed and dated engagement letter and a list of client prepared documents with expected delivery dates, which will facilitate meeting the audit due date in Section 2.2.2.9.A of this Rule.

N. Amendment of any of the contract provisions will be made upon forms used in the normal course of business by the agency. **Delivery dates are not subject to amendment.** Work performed beyond the originally proposed work, such as preparation of financial statements, supporting schedules or special procedures, shall be negotiated and compensated only upon amendment of the original contract. **All amendments must be approved by the State Auditor.**

O. The State Auditor may terminate an audit to be performed by an IPA after determining that the audit has been unduly delayed or for any other reason and perform the audit entirely or partially with IPAs contracted by him [consistent with the October 6, 1993, stipulated order *Vigil v. King* No. SF 92-1487(C)]. The notice of termination of the contract will be in writing.  
[2.2.2.8 NMAC – Rp 2.2.2.8 NMAC, 3-29-02]

**2.2.2.9 REPORT DUE DATES:**

A. Annual audit reports are to be received by the State Auditor on or before the date specified in the audit contract. If a due date falls on a weekend or holiday, the audit report is due the following workday. If the report is mailed to the State Auditor, it should be post marked no later than the due date to be considered filed timely. The State Auditor will grant no extensions of time to deliver the audit reports. **If an agency's financial records are incomplete or require significant adjustment at the time the audit report is due, the IPA shall issue the audit report with the appropriate opinion rendered, no later than the due date specified by this Rule.** The IPA is not to allow the agency additional time to complete its accounting functions when such an allowance will cause the audit to be late. The IPA or agency may consult the State Auditor regarding the opinion to be rendered, but such a discussion should occur no later than the date the audit report is due. It is not the responsibility of the IPA to go beyond the scope of auditing standards generally accepted in the United States of America, or the audit report due date, to assure an unqualified opinion.

(1) The audit report due dates are as follows:

- (a) Regional Center Cooperatives, Regional Education Cooperatives, Cooperative Educational Services and Independent Housing Authorities **September 30**
- (b) Hospitals **October 15**
- (c) School Districts, Counties, and Higher Education **November 15**
- (d) Municipalities, Special Districts, and Local WorkForce Investment Boards **December 1**
- (e) State Agencies and Councils of Governments **December 15**
- (f) Agencies with a fiscal year-end other than June 30th must submit the audit report **5 months**

**After the Fiscal Year-End**

(g) Separate audit reports (if applicable) for Component Units (i.e. housing authorities, charter schools, hospitals, foundations etc) that are a department or component unit of another governmental agency are due the **same date the primary government's audit report is due.**

(2) Audit reports for agencies submitting auditor recommendations after the due dates specified above, will be due 30 days after the auditor recommendation has been approved by the State Auditor.

(3) If an audit report is not received on or before the due date by the State Auditor, the report is late and not in compliance with the requirements of Section 2.2.2.9.A of this Rule. A current-year audit finding regarding this instance of noncompliance must be included in the audit report.

B. As in any contract, both parties can and are encouraged to negotiate a delivery date prior to the regulated due date specified in Section 2.2.2.9.A of this Rule. No delivery date, however, may exceed the regulated due date specified in Section 2.2.2.9.A of this Rule.

C. The IPA shall deliver to the State Auditor either a "draft" or e-mail a copy of the finalized audit report or the required number of copies indicated in the audit contract on or before the delivery due date; however if a "draft" or e-mail copy is submitted, once the State Auditor has accepted it, the required number of copies must be received before the release of the audit report. The IPA shall deliver to the agency, the number of copies of the audit report indicated in the audit contract **only** after the State Auditor has officially released the audit report. Every member of the agency's governing authority shall receive a copy of the audit report.

D. The agency and IPA may agree to a contract provision that unjustified failure to meet delivery requirements by either party to the contract may result in liability for a specified amount of liquidated damages from the offending party.

E. IPAs are encouraged to deliver completed audit reports before the due date to facilitate the review process performed by the State Auditor.

[2.2.2.9 NMAC – Rp 2.2.2.9 NMAC, 3-29-02]

**2.2.2.10 GENERAL CRITERIA:**

A. Audit Scope:

(1) The audit shall cover the whole reporting agency, the primary government and any component units of the governmental agency.

(a) All entities for which the primary government is financially accountable (GASB 14 paragraph 10) must be included within the financial statements of the primary government. The primary government and/or its auditors must determine whether an operation is a component unit of the primary government, as defined by GASB Statement No. 14. The flowchart at GASB 14 paragraph 132 is helpful. All agencies for which the primary government is financially accountable must be included in the financial reports of the primary government by discrete presentation unless otherwise approved by the State Auditor. Exceptions may occur when an agency requires presentation other than discrete. An exemption must be requested, in writing, from the State Auditor in order to present an agency as other than a discrete component unit. The request for exemption must include evidence supporting the request. The approval of the State Auditor for the exemption is required prior to issuing the report. Discrete presentation entails reporting component unit financial data in a column(s) separate from the financial data of the primary government (GASB 14 paragraph 44-50).

(b) **The State Auditor requires the component units to be audited by the same auditor who audits the primary government.** Requests for exemption from this requirement must be submitted to the State Auditor in writing.

(c) The level of planning materiality required by the State Auditor is at the individual fund level within the component unit.

(d) Disclosure requirements for individual component units should be met by including combining statements after the notes to the financial statements that include all component unit funds, not just the



major ones. Presentation of the underlying fund types of the individual component units is required when separately issued financial statements of the component units are not available. The combining statements should be at the level of detail that discloses information required by GASB 14 paragraph 51. When GASB 34 is implemented, fiduciary type component unit funds will appear in the Statement of Fiduciary Net Assets with the fiduciary-type funds of the primary government, per GASB 34 paragraph 63.

(e) When separately issued financial statements of the component units are not available, individual budget comparison statements should follow the combining statements when a legally adopted budget exists for a fund.

(2) Audits of state and local governmental agencies shall be comprised of a financial and compliance audit of the following:

(a) For agencies that have not implemented GASB Statement No. 34, the general purpose financial statements, the combining financial statements (including budgetary comparisons, where appropriate) by fund type, and the individual fund and account group financial statements. The level of planning materiality required by the State Auditor is at the individual fund level. The State Auditor requires that the budget comparison statements be audited and be included as part of the basic financial statements.

(b) For agencies that have implemented GASB Statement 34, the basic financial statements, shall consist of the government-wide financial statements, fund financial statements, budget comparison statements and notes to the financial statements, along with combining financial statements and individual fund budget comparison statements (where appropriate). The Management Discussion and Analysis (MD&A) is required supplementary information that the auditor should apply certain limited procedures to and report deficiencies in, or the omission of, in the Independent Auditor's Report (SAS AU 558.06). The level of planning materiality required by the State Auditor is at the individual fund level. The State Auditor requires that the budget comparison statements be audited and be included as part of the basic financial statements.

**B. House Joint Memorial 24 (Pertaining to GASB Statements 34 and 35) of the Forty-Fifth Legislature – First Session 2001:**

(1) "Whereas, the governmental accounting and standards board has adopted Statements 34 and 35, which effectively change governmental accounting for all governmental agencies in New Mexico; and

(2) Whereas Statements 34 and 35 change the format and contents of government financial statements and also include a government's infrastructure that may now be depreciated; and

(3) Whereas, the American Institute of Certified Public Accountants will be forthcoming with an audit guideline that will compel certified public accountants to render an adverse opinion on an audit of the financial statements of an entity that does not fully implement Statements 34 and 35 within established staggered timelines; and

(4) Whereas, the federal government uses the audits of government agencies as one of several criteria to evaluate fund proposals submitted by government agencies; and

(5) Whereas, investment firms, banks and other investors use audits of government agencies to assess a bond rating and interest and ultimately to decide whether to invest in state, county, municipal or other governmental indebtedness, and

(6) NOW, THEREFORE, BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO that all state agencies, state oversight agencies, school districts, colleges and universities and any other agencies that receive governmental funds take action to institute the Governmental Accounting Standards Board Statement 34 and 35 to ensure timely and accurate implementation; and

(7) BE IT FURTHER RESOLVED that a copy of this memorial be transmitted to the State Auditor for distribution to all government agencies."

C. Legislation regarding budget adjustment requests (BARs) prevents or restricts many budget transfers or increases. The IPA shall satisfy himself that these restrictions are not being violated by direct payment or other unauthorized transfers.

D. Legislation can designate a fund as "reverting or non-reverting. The IPA must review the law which appropriated funds to the agency to confirm whether any unexpended, unencumbered balance of a specific appropriation must be reverted, and to whom. The law will also indicate the deadline for the required reversion. Appropriate audit procedures must be performed to determine compliance with the law and accuracy of the related liability account balances due to other funds, governmental agencies, or both. The financial statements and the accompanying notes should fully disclose the reverting versus non-reverting nature of an appropriation. The financial statements must disclose the specific legislation that makes a fund or appropriation non-reverting. If non-reverting appropriations are commingled with reverting appropriations, the notes to the financial statements must

disclose the methods and amounts used to calculate reversions. For more information regarding state agency reversions see Section 2.2.2.12 A of this Rule.

E. Governmental Auditing, Accounting and Financial Reporting Standards: The audits shall be conducted in accordance with:

- (1) Generally Accepted *Government Auditing Standards* (GAGAS) issued by the U.S. General Accounting Office, latest edition and amendments;
- (2) *Codification of Statements on Auditing Standards* (SAS) issued by the AICPA, latest edition (see Appendix C);
- (3) *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations*;
- (4) SOP 98-3, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, latest edition;
- (5) AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units* (ASLGU), latest edition;
- (6) AICPA Audit and Accounting Guide, *Audits of Health Care Organizations*, latest edition;
- (7) AICPA Audit and Accounting Guide, *Audits of Colleges and Universities*, latest edition;
- (8) AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*, latest edition; and
- (9) 2.2.2 NMAC, *Requirements for Contracting and Conducting Audits of Agencies*, latest edition.

F. The financial statements and notes to the financial statements shall be prepared in accordance with accounting principles generally accepted in the United States. Governmental accounting principles are identified in the *Codification of Governmental Accounting and Financial Reporting Standard (GASB)*, latest edition (see Appendix B). Auditors shall follow interpretations, technical bulletins, concept statements issued by GASB and other applicable pronouncements issued by Financial Accounting Standards Board (FASB).

G. IPAs who perform government audits are expected to maintain professional libraries with current editions of the above publications. The audit guides published by Practitioners Publishing Company (PPC) are practice aides only and are not considered to be authoritative.

H. State Compliance: An IPA shall identify significant state statutes and rules and regulations applicable to the governmental agency under audit and perform tests of compliance. In addition to those significant state statutes, rules and regulations identified by the IPA, the following state statutes and constitutional provisions will be tested:

- (1) Procurement Code (13-1-1 to 13-1-199 NMSA 1978);
- (2) Per Diem and Mileage Act (10-8-1 to 10-8-8 NMSA 1978);
- (3) Personnel Act (10-9-1 to 10-9-25 NMSA 1978);
- (4) Public Money Act (6-10-1 to 6-10-63 NMSA 1978);
- (5) Public School Finance (22-8-1 to 22-8-42 NMSA 1978);
- (6) Investment of Public Money (6-8-1 to 6-8-21 NMSA 1978);
- (7) Public Employees Retirement Act (10-11-1 to 10-11-38 NMSA 1978);
- (8) Educational Retirement Act (22-11-1 to 22-11-45 NMSA 1978);
- (9) Sale of Public Property (13-6-1 to 13-6-4 NMSA 1978);
- (10) Anti-Donation Clause (NM Constitution Article IX, Section 14);
- (11) Special, Deficiency, and Specific Appropriations (appropriation laws applicable for the year under audit);
- (12) Budget Compliance (6-3-1 to 6-3-25 NMSA 1978);
- (13) Lease Purchase Agreements; (6-6-11 to 6-6-12, *Montano v. Gabaldon*, 108 NM 94, 766 P.2d 1328, 1989);
- (14) 1NMAC 1.2.1, Accounting and Control of Fixed Assets of State Government;
- (15) 2.2.2 NMAC Requirements for Contracting and Conducting Audits of Agencies; and
- (16) Article IX of the State Constitution limits on indebtedness.

I. Federal Compliance: The following government pronouncements establish requirements and give guidance for a Single Audit.

- (1) **Single Audit Amendments of 1996**; (Public Law 104-156);
- (2) Generally Accepted *Government Auditing Standards* (GAGAS) issued by the U.S. General Accounting Office, latest edition and amendments;
- (3) OMB Circular A-21, *Cost Principles for Educational Institutions*, latest edition;
- (4) OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, latest edition;

(5) OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, latest edition;

(6) OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, latest edition;

(7) OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, latest edition;

(8) OMB Circular A-133 *Compliance Supplement*, latest edition; and

(9) OMB *Catalog of Federal Domestic Assistance* (CFDA), latest edition;

J. Audit Findings:

(1) Section 12-6-5 NMSA 1978 (Reports of Audits) states each report shall set out in detail, in a separate section, **any** violation of law or **good accounting practices** found by the audit or examination. Therefore, all findings should be included in the annual audit report. **“There is no level of materiality in government auditing and all violations must be disclosed because “public monies” are involved.”**

(2) The second planning standard for financial audits per Generally Accepted *Government Auditing Standards* (GAGAS), issued by the U.S. General Accounting Office (Section 4.7, 4.10 and 4.11), requires the auditor to follow up on known material findings and recommendations from previous audits. This includes findings reported in financial, special and internal audits. In addition to this standard, the IPA will report the status of **all** prior-year findings by reference number (i.e. 00-1, 00-2) and descriptive title in the audit report as being resolved or repeated in the current-year.

(3) Current-Year:

(a) All current-year audit findings shall have a reference number and a short title that identifies the finding (i.e. 02-1, 02-2, 02-3).

(b) A memorandum on potential audit findings should be prepared and submitted to agency management as soon as the IPA becomes aware of the findings so the agency has time to respond to the findings prior to the exit conference. Findings are not subject to negotiation but should comply with good accounting practices. If applicable, the agency should also prepare a corrective action plan. **The agency shall respond, in writing, to the IPAs memorandum of findings within 10 workdays. Responses to the audit findings should be included in the audit report. Lack of agency responses within the 10 days does not warrant delay of the audit. If the responses are not received, indicate that they were not received and the reason why after each finding.**

(c) Each audit finding (including unresolved prior-year findings) shall specifically state and describe the following:

(i) Condition (quantify where possible-number of instances, dollar amounts, etc.);

(ii) Criteria (which must include specific reference to the law, regulation, or other guidance that was violated);

(iii) Effect;

(iv) Cause;

(v) Recommendation; and

(vi) Agency Response (i.e., agency comments and a specific corrective action plan).

(4) Failure to file the audit report by the due date set in Section 2.2.2.9 of this Rule is considered noncompliance with this Rule and shall be a current-year finding.

(5) If an agency has entered into any professional services contract with an IPA without written State Auditor approval, this should be reported as a finding of noncompliance with Section of 2.2.2.8.I of this Rule.

(6) Component unit findings must be included in the primary government financial audit report.

(7) A release of the audit report by the IPA or agency prior to being officially released by the State Auditor is a violation of state statute and will require an additional finding in the audit report.

K. Exit Conference:

(1) The IPA must hold an exit conference with representatives of the agency's governing authority and top management including representatives of any component unit's (housing authorities, charter schools, hospitals, foundations, etc.) if applicable. If component unit representatives cannot attend the combined exit conference a separate exit conference must be held with the component unit's governing authority and top management. The date of the conference(s) and the names and titles of personnel attending must be stated in a concluding paragraph of the audit findings and recommendations section of the audit report.

(2) The IPA shall deliver to the agency a draft audit report (must be stamped “Draft”) **and a list of the “passed audit adjustments”** at the exit conference. The draft audit report shall include the independent

auditor's report, a complete set of financial statements, notes to the financial statements, audit findings that include response from agency management, status of prior-year audit findings, and the reports on compliance and internal control required by auditing standards and the Single Audit Act. Section 2.2.2.10.BB of this Rule and SAS 89 *Audit Adjustments* provides an explanation regarding the list of "passed audit adjustments." The agency will have at least ten (10) workdays to review the draft audit report and report to the IPA any issues that need to be resolved prior to submitting the report to the State Auditor. The audit report shall be delivered to the State Auditor **with a copy of "passed audit adjustments"** attached, on or before the due date specified in Section 2.2.2.9.A of this Rule.

(3) Section 12-6-5 NMSA 1978 (Reports of Audits) provides that an audit report does not become a public record, subject to public inspection, until ten days after it is released by the State Auditor to the agency audited. The Attorney General's *Open Meetings Act Compliance Guide* states that the agency being audited is governed by a public body subject to the Open Meetings Act and where discussion of the report occurs at an exit conference at which a quorum of the members of that body is present, such an exit conference **shall not** be open to the public in order to preserve the confidentiality of the information protected by Section 12-6-5 NMSA 1978.

(4) Pursuant to the Open Meetings Act (10-15-1 to 10-15-4 NMSA 1978), any closed meetings shall be held only after reasonable notice to the public.

(5) Because the audit process will not have been completed at the time of the exit conference, neither the IPA nor agency personnel shall release any information relating to the audit, including the working papers, until the audit becomes a public record. However, the State Auditor shall have access to the working papers at his discretion. Agencies subject to the Open Meetings Act (Act) will schedule an exit conference during closed meetings in compliance with this Act. The final audit report shall be presented and accepted by the governing authority of the agency, if applicable, at a **public meeting** after the audit becomes a public record.

L. Possible Violations of Criminal Statutes in Connection With Financial Affairs:

(1) Every agency and IPA, pursuant to Section 12-6-6 NMSA 1978 (Criminal Violations), shall notify the State Auditor immediately, in writing, upon discovery of any possible criminal statute violation in connection with its financial affairs. The notification shall include an estimate of the dollar amount involved, and a complete description of the violation, including names of persons involved and any action taken or planned. The State Auditor will determine whether a special audit is warranted based upon the written information provided. If warranted, the State Auditor will conduct the special audit. The IPA shall not enter into **any financial or special** audit contract unless selected through a process consistent with the procurement code and subject to the **prior written approval** of the State Auditor. A copy of the report shall be provided to the State Auditor.

(2) The State Auditor shall immediately report the violation to the proper prosecuting officer and furnish the officer with all data and information in his possession relative to the violation.

M. Compensated Absences:

(1) Vacation pay and other compensated absences should be computed in accordance with the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, and be reported in the financial statements. The notes to the financial statements should disclose the accounting treatment applied to compensated absences.

(2) If GASB 34 has been implemented by the agency, the Statement of Net Assets, governmental activities column should report both the current and long-term portions of the compensated absence liability because the government-wide financial statements report all liabilities.

N. Special Revenue Funds Authority: The authority for creation of special revenue funds must be shown in the audit report (i.e., cite the statute number, executive order, resolution number, or other specific authority) in the divider page or notes to the financial statements.

O. Public Monies:

(1) Pledged Collateral by Banks:

(a) All audit reports should disclose the collateral requirements in the notes to the financial statements. In addition, there should be a supplementary schedule to the financial statements that discloses the collateral pledged by each bank and savings and loan association (S&L) that is a depository for public funds. The schedule should disclose the type of security (i.e. bond, note, treasury, bill, etc), security number, CUSIP number, **fair market value** and maturity date. The schedule should also disclose the name of the custodian and the place of safe keeping for all collateral. If the bank balances of deposits as of the balance sheet date are entirely insured or collateralized with securities held by the agency or by its agent in the agency's name, that fact should be stated. If not, disclosures should be made in accordance with GASB Statements No. 3 and 31.

(b) If the pledged collateral in an aggregate amount is not equal to one half of the amount of public money in each account (Section 6-10-17 NMSA 1978), there should be a finding in the audit report. No

security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Shares Insurance Fund (NCUSIF) according to Section 6-10-16 NMSA 1978. The supplementary schedule of collateral requirements should be calculated separately for each bank and disclosed in the report as follows:

(i)	Total amount of deposit in bank or credit union	\$300,000
(ii)	Less: FDIC or NCUSIF coverage*	<u>100,000</u>
(iii)	Total uninsured public funds	200,000
(iv)	50% collateral requirement (Section 6-10-17 NMSA 1978)	<u>100,000</u>
(v)	Pledged Security	<u>100,000</u>
(vi)	Over (Under)	<u>\$ 0</u>

[\*The FDIC issued an advisory opinion (FDIC 94-24) on June 13, 1994, stating that public funds are entitled to \$100,000 insurance for time or savings deposits and \$100,000 for demand deposits deposited within the state in compliance with 12 CFR Subsection 330.14(b)]

(c) Repurchase agreements must be covered by 102% of pledged collateral (Section 5-10-10 H, NMSA 1978) and must be disclosed in the supplemental schedule of pledged collateral.

(d) Applicable Statutes: Agencies who deposit and invest public monies are subject to provisions of the following sections:

- (i) Chapter 6, Article 10, Public Money, NMSA 1978; and
- (ii) Chapter 22, Article 8, Public School Finance, NMSA 1978.

(e) There should be compliance testing for all local public bodies subject to the above sections. If the agency is not complying with the statutes, there should be a finding in the audit report.

(f) All monies coming into all agencies, i.e., vending machines, fees for xerox copies, telephone charges, etc., shall be considered public monies and be accounted for.

(g) The State Treasurer's Office monitors the collateralization of the bank accounts of most state agencies. If the collateralization of a state agency's bank accounts is monitored by the State Treasurer's Office, the IPA only need to include a note stating that the accounts are monitored by the State Treasurer's Office and that the State Treasurer issues separate financial statements which disclose the collateral pledged to secure these deposits. If the collateralization of a state agency's bank accounts is not monitored by the State Treasurer's Office, then the IPA needs to confirm the collateral held by the bank in much the same manner as would be done in the audit of a local government or school district.

(2) List of Individual Deposit Accounts and Investments: Each audit report shall include a list of individual deposit and investment accounts held by the agency. The information presented in the audit report shall include at a minimum:

- (a) Name of depository (i.e., bank, credit union);
- (b) Account name;
- (c) Type of account (checking, savings, investment);
- (d) Bank balance of deposits and investments as of the balance sheet date; and
- (e) Reconciled balance of deposits and investments as of the balance sheet date, as reported in the financial statements.

(3) Repurchase Agreements: Section 6-10-10 NMSA 1978 (Deposit and Investment of Funds) was amended effective July 1, 1994, allowing certain agencies to invest in repurchase agreements with certain stipulations and prerequisites.

(4) Cities, counties, and other non-state agencies that have investments in the State Treasurer external investment pool (the Local Government Investment Pool) must include the following disclosures in the notes to their financial statements (GASB Statement No. 31 paragraph 15):

(a) The investments are valued at fair value based on quoted market prices as of the valuation date;

(b) The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments;

(c) The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts fund were invested; and

(d) Participation in the local government investment pool is voluntary.

P. Budgetary Presentation:

(1) The Statements of Revenues and Expenditures Budget and Actual, shall include the amount of prior-year cash balance required to balance the budget. The differences between the budgetary basis and GAAP basis revenues and expenditures should be reconciled and disclosed in the notes to the financial statements or on the face of the financial statement.

(2) For agencies that have adopted GASB 34, a budget comparison statement for each of the major funds presented, and one for the aggregated nonmajor funds, must be included as part of the basic financial statements in front of the notes. Individual fund budget comparison schedules must be included after combining statements for each fund that has a legally adopted budget that is not already presented in front with the basic financial statements. All budget comparisons must show the original and final appropriated budget, the actual amounts on the budgetary basis, and a column with the variance between the final budget and actual amounts.

(3) **It is a requirement of the State Auditor that budget comparison statement be audited.**

Q. Appropriations to Agencies: The budget comparison presented in the financial statements must be at least at the same appropriation level as the approved budget to demonstrate compliance with legal requirements. See 2.2.2.12.A.(4) of this Rule for the list of the old and new budget categories. If actual expenditures exceed budgeted expenditures within a category it must be reported in a finding. If budgeted expenditures exceed budgeted revenues (after prior-year cash balance and any applicable federal receivables required to balance the budget) that fact must also be reported in a finding. Revenue categories of appropriations to state agencies are listed below. The budget comparison statements must be presented in the audit report by the revenue categories shown below and by the expenditure categories that appear in the appropriation, either the old or new categories shown on Section 2.2.2.12.A.(4) of this Rule.

- (1) State General Fund;
- (2) Other State Funds;
- (3) Internal Service Funds/Inter-Agency Transfers; or
- (4) Federal Funds.

R. Deferred Compensation Plans:

(1) GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, was issued to reflect a change in the legal status of Internal Revenue Code (IRC) Section 457. The provisions of IRC Sections 457 deferred compensation plans were amended to state that a plan shall not be treated as an eligible deferred compensation plan unless all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Previously, the amounts deferred under an IRC Section 457 plan were legally the property of the sponsoring employer government. Under these new requirements, the government no longer owns the amounts deferred by employees or related income on those amounts.

(2) The change in the law requires existing plans to establish a trust to hold IRC Section 457 plan assets by January 1, 1999. Sponsor governments must adopt the provisions of GASB Statement No. 32 for periods beginning after December 31, 1998, or in the period the government complies with the law change, if earlier. A government is considered to hold plan assets in a fiduciary capacity only if it 1) has significant administrative responsibility for the plan or 2) performs the investment function for the plan.

(3) Agencies that implement GASB 34 should be aware that GASB 32 has been amended by GASB 34. See GASB 34 paragraphs 69 through 72 and examples E-1 and E-2 for guidance on reporting fiduciary funds.

(4) **GASB Statement No. 32 does not require specific note disclosures.**

S. Consideration of the Internal Control in a Financial Statement Audit:

(1) SAS No. 55, *Consideration of Internal Control in a Financial Statement Audit*, and SAS No. 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55*, and Governmental Auditing Standards, Section 4.21 to 4.29, provide guidance to IPAs related to consideration of internal control as part of an audit. SAS No. 78, replaces the SAS No. 55 definition and description of internal control with the definition and description from *Internal Control-Integrated Framework*, published by the Committee on Sponsoring Organizations of the Treadway Commission (the COSO Report).

(2) Audits performed under OMB Circular A-133 require additional consideration on internal control regardless of the assessed level of control risk. The control environment, risk assessment, information and communication, control activities and monitoring components of internal control which assure compliance will in most instances require further understanding and test controls whether or not such tests represent the most efficient approach. Assessing control risk at the maximum for efficiency reasons will not decrease the testing of controls required in a Single Audit. The requirement is to test internal control even if the IPA has assessed control risk at the maximum and is taking a substantive approach to the audit of the financial statements.

(3) Financial audits performed under this Rule, require the same level of consideration of internal control as that required by a Single Audit performed in accordance with OMB Circular A-133. This is a special requirement of the State Auditor.

(4) The IPA is required to document the understanding of internal control, risk assessment and test of controls in the working papers of the financial audit.

T. Lease Purchase Agreements:

(1) The New Mexico Supreme Court has held that it is unconstitutional for agencies to enter into lease purchase agreements after January 9, 1989, unless special revenue funds are the designated source of payments for the agreement. (Any agreements executed prior to that date may not be extended or amended without compliance with the guidelines of Montano v. Gabaldon, 108 N.M. 94, 766 P.2d 1328).

(2) The Attorney General interpreted Montano to mean that long-term contracts for professional services, leases, and real property rental agreements may still be entered into within the constraints of the Bateman Act and the Procurement Code. However, any agreement which is in effect for more than one fiscal year, including leases of real property, must have a provision allowing the agency to terminate the agreement at will at anytime, or at least at the end of each fiscal year, without penalty. Furthermore, the agency must have no "equitable or moral" duty to continue to make payments under the contract. The agreements must also contain a non-appropriation clause allowing for termination of the agreement in the event the agency decides not to appropriate funds for each fiscal year.

(3) The Attorney General subsequently opined that if the source of funds to repay the debt is solely repaid from the project revenue or from a special non-general-tax fund and not from any general tax revenue, then the debt, be it in the form of bonds or a lease purchase agreement, is not the sort of debt which triggers the constitutional requirement of approval by the voters. This is the teaching of the Connelly case relied on by the court in Montano. Montano did not reverse Connelly, Seward and the other cases which have consistently limited the application of constitutional restrictions to debts which are paid out of general tax revenues.

(4) If specific questions as to the constitutionality of a particular lease agreement remain, an independent legal opinion should be obtained from the Attorney General.

U. Inter-fund Transfers: All inter-fund transfers must balance. If there are transfers to other agencies, the amounts must be segregated and explained in the notes to the financial statements.

V. Required Auditor's Reports:

(1) Reports issued for agencies should follow the examples contained in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, issued May 1, 2001. Appendix D includes Examples 1 through 5 revised to reflect the requirements of SAS 93 with references to auditing standards generally and accounting principles generally accepted in the United States of America. Revised reports are also available from the AICPA's website at <http://www.aicpa.org/belt/a133main.htm>.

(2) Proper implementation of GASB 34 and/or GASB 35 will impact the auditor's opinion in the Independent Auditor's Report.

(a) An adverse opinion shall result if anything less than a full set of financial statements as required by GASB 34 and/or GASB 35, are presented.

(b) An adverse opinion shall result if the old model is presented instead of the new model under GASB 34 and/or GASB 35.

(c) A modified opinion may result if a component unit fails to implement GASB 34 and/or GASB 35 in the same fiscal period as the primary government.

(d) An adverse opinion will result if infrastructure is excluded from the government-wide statements and it is significant.

(3) GAAP is defined by GASB 34 and/or 35 once the implementation date for the entity passes. "Rule 203 of the Code of Professional Conduct of the AICPA states: 'A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that

should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole, ' ' (SAS AU Sec 508.14).

(4) A revised AICPA audit guide is expected to be available September 2002. Auditors should follow the guidance and report examples in the revised guide when it becomes effective.

W. Service Organizations:

(1) SAS No. 88 amends SAS No. 70, ***Reports on the Processing of Transactions by Service Organizations***, to help IPAs determine what additional information they might need when auditing the financial statements of an agency that uses a service organization to process transactions. SAS No. 70 provides guidance an IPA should consider when auditing the financial statements of an agency that uses a service organization to process certain transactions. SAS No. 70 also provides guidance for an IPA who issues reports on the processing of transactions by a service organization for use by other IPAs.

(2) SAS No. 70 (AU 324.03) defines a service organization as an organization that is engaged to provide either or both of the following services:

- (a) Execution of transactions and maintenance of the related accountability; and
- (b) Recording of transactions and processing of related data.
- (c) The following are examples of service organizations:
  - (i) Tax collection authorities;
  - (ii) EDP service centers that process transactions and related data for others;
  - (iii) Regional educational service centers;
  - (iv) Bank trust departments that invest and hold assets for employee benefit plans or others;
  - (v) Payroll service companies that process payroll transactions and make payroll disbursements; and
  - (vi) Potentially public housing authority fee accountants.

(3) When a governmental agency uses a service organization (as defined by AU 324.03), its transactions are processed through another organization's financial reporting system and are subject to that organization's controls. If the use of the service organization is significant to planning and performing the audit, the IPA should obtain an understanding of the client's financial reporting system and internal controls for information produced by that organization in accordance with SAS No. 70.

X. Disposition of Computers: Sections 13-6-1 through 13-6-2 NMSA 1978 and the procurement code govern the disposition of fixed assets. Prior to disposing of a computer, an agency shall erase all licensed software and any electronic media pertaining to the agency. The agency will certify in writing the erasure of the hard drive and submit the certification along with the notification of the proposed disposition of property to the State Auditor at least thirty days prior to taking action. The IPA shall test for compliance with this requirement. This is a special requirement of the State Auditor.

Y. Joint Powers Agreement:

(1) All joint powers agreements must be listed in a supplementary schedule in the audit report. The schedule should include the following:

- (a) Participants;
- (b) Responsible party for operations;
- (c) Description;
- (d) Beginning and ending dates of agreement;
- (e) Total estimated amount of project and portion applicable to agency;
- (f) Amount agency contributed in current fiscal year;
- (g) Audit Responsibility;
- (h) Fiscal agent if applicable; and
- (i) Name of government agency where revenues and expenditures are reported.

(2) For self-insurance obtained under joint powers agreements see Section 2.2.2.10.Z (Self-Insurance) Section of this Rule.

Z. Self Insurance: Those agencies that have self-insurance agreements should disclose the data in the notes to the financial statements. The note should include the name of the agency that is providing the insurance and the amount of contribution by the agency to the fund during the year. Reserves should be reviewed to



determine if the reserves are actuarially sound. There should be full disclosure in the notes to the financial statements.

AA. Non-exchange Transaction Revenue Recognition: GASB Statement No. 33 establishes accounting and financial reporting standards for the non-exchange transactions of state and local governments. It is effective for fiscal years starting after June 15, 2000. A non-exchange transaction occurs when a government (including the federal government) either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. There are four types of non-exchange transactions: derived tax revenues (income and motor fuel taxes); imposed non-exchange revenues (property tax, fines and penalties, and property forfeitures); government-mandated non-exchange transaction revenues (federal programs that state or local governments are mandated to perform, state programs that local governments are mandated to perform); and voluntary non-exchange transactions (grants, entitlements, and donations by nongovernmental entities, including private donations.) On both the accrual and modified accrual basis of accounting, revenue recognition is required for non-exchange transactions in the financial statements unless the transaction is not measurable (reasonably estimable). For guidance in applying the accrual basis of revenue recognition see GASB 33 paragraphs 16 through 28. For guidance in applying the modified accrual basis of revenue recognition, see GASB 33 paragraphs 29 and 30. Implementation of GASB 34 will require revenue recognition on both basis of accounting: full accrual basis in the government-wide statements; and modified accrual basis in the fund financial statements. Common application issues are listed below.

(1) Property taxes are an example of “imposed non-exchange” revenue. According to GASB 33 paragraph 18, “Governments should recognize revenues from property taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different period.” For modified accrual presentation, property tax revenues are recognized when they become available. Available means due or past due and receivable within the current period, usually within 60 days. (NCGAI 3 paragraph 8)

(2) New Mexico capital projects funds drawn down from the State Board of Finance are voluntary non-exchange revenues to the capital project recipients. The State Board of Finance, as the provider has restrictions and eligibility requirements related to the requests for draw downs that pay for the capital projects. On the full accrual basis of accounting, project recipients should recognize receivables and revenues when all applicable eligibility requirements of the State Board of Finance are met (GASB 33 paragraph 21). On the modified accrual basis of accounting, recipients should recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available (GASB 33 paragraph 29(d)).

(3) There will be no direct increases to contributed capital under GASB 33, all inflows from non-exchange transactions must be reported as revenue (GASB 33 paragraph 93). This is consistent with the statement in GASB 34 that “All proprietary fund revenues, including capital contributions and additions to permanent and term endowments, should be reported in the statement of revenues, expenses, and changes in fund net assets (GASB 34 paragraph 103).

BB. SAS 89 Audit Adjustments:

(1) Statement on Auditing Standards (SAS) 89, issued December 1999, is effective for fiscal years beginning on December 15, 1999. Per the AICPA summary, SAS 89 is designed to encourage management to record adjustments aggregated by the auditor. It clarified management’s responsibility for the disposition of financial statement misstatements brought to its attention. The engagement letter should state that management is responsible for adjusting the financial statements to correct material misstatements (if the agency prepared the financial statements). In the representation letter, management should affirm to the auditor that the effects of any uncorrected financial statement misstatements aggregated by the auditor are immaterial, both individually and in total (if the agency prepared the financial statements). In such cases, a summary of any misstatements that management did not correct in their financial statements must be included in or attached to the management representation letter.

(2) SAS 89 requires the auditor to inform those who have oversight of the financial reporting process about uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Those having oversight of the financial reporting process are generally the governing board or an audit committee. This is a list of audit adjustments determined by the auditor that did not get included in the audited financial statements. **The auditor must present this list of “passed adjustments” to the agency management and governing board representatives in the exit conference. A copy of the list must be attached to the audit report submitted to the State Auditor for review.** In the event no audit

adjustments were omitted from the financial statements a memo stating that there were “no passed adjustments” should take the place of the list of “passed adjustments.”

[2.2.2.10 NMAC – Rp 2.2.2.10 NMAC, 3-29-02]

**2.2.2.11 THE ACCOUNTABILITY IN GOVERNMENT ACT:**

A. The Accountability in Government Act (AGA) (Chapter 15, Laws of 1999) provides a general process for implementation of performance-based budgeting over a four-year period.

B. For agencies whose performance measures are included in the General Appropriations Act, the agency shall include a schedule of performance data (outcomes, outputs, efficiency, etc.) if, the schedule is required by the agencies oversight agency such as DFA, CHE and SDE and preparation guidelines are issued by the oversight agency.

C. The auditor’s responsibilities for performing procedures and reporting on Required Supplemental Information (RSI) is provided in SAS No. 52, *Omnibus Statement on Auditing Standards* 1987 (AICPA, Professional Standards, vol. 1, AU 558, *Required Supplemental Information*). The auditor ordinarily should apply the following limited procedures to RSI.

- (1) Inquire of management about the methods of preparing the information, including:
  - (a) whether it is measured and presented within prescribed guidelines;
  - (b) whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes; and
  - (c) any significant assumptions or interpretations underlying the measurement or presentation.
- (2) Compare the information for consistency with:
  - (a) management’s responses to foregoing inquiries;
  - (b) audited financial statements; and
  - (c) other knowledge obtained during the audit.
- (3) Consider whether to include representations on RSI in the management representation letter.

D. Apply additional procedures, if any, that other AICPA SASs, SAS, Interpretations, Audit and Accounting Guides, or Statements of Position prescribe for specific types of RSI.

E. Make additional inquiries if applying the foregoing procedures causes the auditor to believe that the information may not be measured or presented within applicable guidelines.

F. The IPA should report on the Performance Data in either an agency-prepared or auditor submitted document when:

- (1) The required performance data is omitted;
- (2) The auditor concludes that the measurement or presentation of the performance data departs materially from prescribed guidelines;
- (3) The auditor is unable to complete the prescribed procedures; and
- (4) The auditor is unable to remove substantial doubts about whether the performance data conforms to prescribed guidelines.

G. The IPA generally has no reporting requirement; however, the IPA may disclaim an opinion on the information.

[2.2.2.11 NMAC – Rp 2.2.2.11 NMAC, 3-29-02]

**2.2.2.12 SPECIFIC CRITERIA:** The applicable specific criteria should be considered in planning and conducting governmental audits. These requirements are not intended to be all-inclusive; therefore, the appropriate state statutes should be reviewed in planning governmental audits.

**A. PERTAINING TO AUDITS OF STATE AGENCIES:**

- (1) Encumbrances Reconciliation:
  - (a) DFA maintains an encumbrance system for all state agencies under its jurisdiction.
  - (b) The state agency is responsible for preparing a list of the valid encumbrances and a reconciliation with DFA. The differences in the reconciliation must be disclosed in the notes to the financial statements, by category of expenditure and by appropriation level.
- (2) Special, Deficiency, and Specific Appropriations:
  - (a) The financial statements must disclose special, deficiency, and specific appropriations in the financial statements and shall be explained in the notes to the financial statements, when appropriate. The original appropriation, expenditures to date, outstanding encumbrances and unencumbered balances shall be disclosed in a supplementary schedule or in a note to the financial statements.

(b) Any special, deficiency, and specific appropriation balances that are not reverted at the balance sheet date must be presented as unearned or deferred revenue or as a part of the "Reserved for Subsequent Year's Expenditures" depending on the nature of the transaction and must be fully explained in the notes to the financial statements. This is a special requirement of the State Auditor.

(3) Fund Balance: At a minimum, financial statements must disclose the following two components of fund balance:

(a) Reserved Fund Balance. In general, an agency can only reserve fund balance related to encumbrances, inventories, and petty cash, as these balances are considered expenditures under the state's budgetary basis of accounting. All other reservations must be specifically required or authorized by legislation. The notes to the financial statements must disclose the specific legal authority for all reservations of fund balance.

(b) Unreserved, Designated for Future Expenditures: Certain funds have specific legal authority to accumulated unreserved fund balance. These funds are called non-reverting funds. "Financial statements should disclose, as unreserved, designated for future expenditure," the amount of fund balance designated by legislation to be a non-reverting fund. Since the Legislature usually makes appropriations to the organization and not funds, past practices may have to be looked at to determine to which fund within the organization the Legislature intended the appropriation to be credited.

(4) Books of Record:

(a) DFA maintains a central accounting system of state accounts for cash and budgetary control purposes. The DFA may require original documents to be processed through them for vouchers, transfers, and budget adjustments; therefore, the IPA must use discretion to determine whether to rely upon the original documents that are filed with DFA or the copies at the agency.

(b) DFA has made changes to the chart of accounts. There are now five appropriation unit codes instead of the previous eleven. Statements of revenues and expenditures presented throughout the financial statements must continue to be presented at the old appropriation code level. Budget comparison statements must be presented using the level of appropriation reflected in the agency appropriation for the current-year.

New Appropriation Code	Old Appropriation Name	Old Appr Unit
200	Personal Services	000
200	Employee Benefits	010
400	In-State Travel	020
400	Maintenance & Repairs	030
400	Supplies	040
300	Contractual Services	050
400	Operating Costs	060
400	Other Costs	070
400	Capital Outlay	080
400	Out-of-State Travel	095
500	Other Financing Uses	150
600	Refunds, Reversions, Annuity	160

The updated revenue codes follow a format that facilitates GASB 34 revenue classification:

Revenue Code	Type of Revenue
XXX3	Program Charges for Services
XXX4	Program Operating Revenue
XXX5	Program Capital Contrib/Grants
XXX6	General Revenue
XXX7	Addition to Employee Retirement Plan
XXX8	Other Financing Sources
XXX9	Special Items/Extraordinary
XXX0	Transfers

For more detail about the chart of accounts see the DFA website.

(5) Reversions to State General Fund:

(a) All reversions to the State General Fund must be identified in the financial statements by the fiscal year of appropriation (e.g. Reversion to State General Fund FY 01). The gross amount of the appropriation and the gross amount of the reversion must be stated separately.

(b) 6-5-10 NMSA 1978 requires all unreserved undesignated fund balances in reverting funds and accounts as reflected in the central accounting system as of June 30, as adjusted, shall revert to the general fund within ten days of release of the audit report for that fiscal year.

(6) Transfers of Cash Between Agencies that are not Payments for Materials or Services:

(a) Intra-agency transfers between funds should offset. Reasons for intra-agency transfers should be fully explained in the notes to the financial statements.

(b) Inter-agency transfers that are not payments for materials or services rendered should be segregated from intra-agency transfers and should be fully explained in the notes to the financial statements along with the agency number and cash account to whom and from whom transferred. The transfers may be detailed in supporting schedules rather than notes, but agency and cash account numbers must be shown.

(c) The IPA is also responsible for performing audit procedures on all inter-agency transfers of cash that are not payment for goods and services between the receiving and transferring agency.

(d) All transfers to and from CAS fund 853, the State General Fund Appropriation Account, must be clearly identifiable in the audit report as State General Fund appropriations, reversions, or collections.

(7) General Services Department (GSD) Capital Projects: GSD records the State of New Mexico capitalized land and buildings for which it is responsible, in its accounting records. The cost of furniture, fixtures, and moveable equipment owned by agencies is to be capitalized in the accounting records of the agency that purchased them. The agency must capitalize those assets based on actual amounts expended, in accordance with GSD instructions issued in 1 NMAC 1.2.1.10, *Valuation of Assets*.

(8) State-owned Motor Vehicle Inventory: Successful management of the state-owned vehicles pursuant to the Transportation Services Act (15-8-1 to 15-8-11 NMSA 1978) is dependent on reliable and accurate fixed assets inventory records and physical verification of that inventory. Thus, the annual audit of state agencies shall include specific tests of the reliability of the fixed assets inventory and verification that a physical inventory was conducted for both the agency's owned vehicles and long-term leased vehicles.

(9) Fixed Assets Inventory:

(a) The Audit Act (12-6-10 NMSA 1978) requires agencies to capitalize only chattels and equipment whose cost is over \$1,000. Neither the statute nor Rule 1 NMAC 1.2.1 "Accounting and Control of Fixed Assets of State Government" requires that agencies remove items from their fixed asset inventory whose value is less than \$1,000; and

(b) The State Auditor encourages agencies to maintain a separate accountability report (listing) for management purposes of those items that cost less than \$1,000. This listing will not be reflected in the financial statements.

(10) Independent Auditor's Report: The Independent Auditor's Report for state agencies, district attorneys, district courts, and educational institutions created by the New Mexico Constitution must include an explanatory paragraph preceding the opinion paragraph. The explanatory paragraph should reference the Summary of Significant Accounting Principles disclosure regarding the reporting agency, and indicate that the financial statements present the financial position and results of operation of only that portion of the financial reporting agency of the State that is attributable to the transactions of the agency. See Example A.15 in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*.

(11) GASB 34 Revenue Classification: The State of New Mexico is the primary government of the component unit agencies.

(a) All resource flows (except loans, repayments, and similar "balance sheet" transactions) between a primary government and its **discretely presented** component units are required to be reported as external transactions – revenues and expenses – in both the primary government's financial statements and the component unit(s) separately issued financial statements. Resource flows between the primary government and blended component units (legally separate from the primary government in form, but not in substance) are reported as revenues and expenses in separately issued reports of those component units but should be reclassified as transfers (internal activity) when included in the primary government's financial statements..

(b) When a state agency receives a federal grant directly from the federal grantor, restricted for use in a particular program, that receipt is revenue to the receiving agency. It should be recorded in central accounting system revenue code 5194 if it can be used either for operating expenses or for capital expenditures of the program at the discretion of the agency. It should be recorded in revenue code 5195 if it must be used for

capital purposes – to purchase, construct, or renovate capital assets associated with that specific program (GASB 34 paragraph 50). In these cases the federal grants will appear as program revenues in the GASB 34 Statement of Activities. In the event a federal multipurpose grant is directly received from the federal grantor, it should appear as general revenue on the GASB 34 Statement of Activities (GASB 34 paragraph 50). If a state agency receives a federal grant passed through from another state agency that receipt should be recorded in the DFA transfer account 9950 “Intra-State WTS-FED Grants;” and it must appear as a transfer on the GASB 34 Statement of Activities.

**B. PERTAINING TO HOUSING AUTHORITIES:**

(1) **The State of New Mexico currently has 47 Housing Authorities that are included under the Audit Act:**

(a) Independent	5
(b) Component units or department of municipalities	33
(c) Component units or department of counties	8
(d) Component unit of the state	1

(2) The Housing Authority must be included in the financial report of the primary government by discrete presentation unless otherwise approved by the State Auditor.

(a) Discrete presentation shows financial data of the component unit in a column, to the right of and separate from the financial data of the primary government. See GASB 14 paragraphs 44 through 50 for additional guidance.

(b) The primary government and/or auditor must make the determination whether the housing authority is a component unit of the primary government. See Section 2.2.2.10.A(1) of this Rule for guidance in this determination. In the event the primary government and/or auditor determine that the housing authority is a department of, rather than a component unit of the primary government, a request for exemption from the discrete presentation requirement must be submitted to the State Auditor explaining why the housing authority is not a blended component unit. The request for exemption must include evidence that the housing authority is not a separate legal agency from the primary government and that the corporate powers of the housing authority are held by the primary government. Evidence included in the request must address these issues:

- (i) The Housing Authority is not a corporation registered with the Public Regulation Commission;
- (ii) There was never a resolution or ordinance making the housing authority a public body corporate; and
- (iii) The housing authority was authorized under Section 3-45-1 NMSA, 1978, Municipal Housing Law.

(c) Upon receipt of the exemption from the requirement for discrete presentation, granted by the State Auditor, the housing authority department or program would be included in the financial report of the primary government like any other department or program of the primary government.

(d) **An annual exemption is required.**

(3) For Housing Authorities that are component units, the financial data for all funds of the housing authority must be accounted for in proprietary funds.

(4) The IPA shall issue a **separate audit report** to the Housing Authority.

(a) The Independent Auditor’s Report in the separate report on the public housing authority must include an explanatory paragraph preceding the opinion paragraph. The explanatory paragraph should reference the Summary of Significant Accounting Principles disclosure regarding the reporting agency, and indicate that the financial statements present the financial position and results of operation of only that portion of the financial reporting agency of the primary government (city or county) that is attributable to the transactions of the housing authority. See Example A.15 in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*.

(b) The IPA shall include the housing authority’s governing board and management representatives in the entrance and exit conferences with the primary government. If it is not possible to hold such combined conferences, the IPA shall hold a separate entrance and exit conference with housing authority’s management and a member of the governing board. The separate housing authority audit report is due on or before the due date specified in Section 2.2.2.9 of this Rule. The IPA shall provide the Housing Authority with an itemized cost breakdown by program area for audit services rendered in conjunction with the Housing Authority.

(c) Notice PIH 2002-4 (HA) dated February 11, 2002, requires all public housing authorities to submit one copy of the completed audit report including the findings to the HUD office for review, effective for fiscal years ended June 30, 2001.

(5) Housing Authority audits shall be conducted by the same IPA who performs the audit of the local government. Separate audit contracts will not be approved. The local governments are encouraged to include representatives from the Housing Authority in the IPA selection process.

(6) On September 1, 1998, the U.S. Department of Housing and Urban Development (HUD) published in the Federal Register the Uniform Financial Reporting Standards (UFRS) Rule implementing requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information by agencies receiving HUD financial assistance. In March 2001, HUD published ***Guidelines on Reporting and Attestation Requirements of Uniform Financial Reporting Standards (UFRS)***. These guidelines can be found on the REAC web site at [http://www.hud.gov/reac/pdf/ufrs\\_22801.pdf](http://www.hud.gov/reac/pdf/ufrs_22801.pdf). Both the Housing Authority and the IPA must follow these guidelines in order to comply with the UFRS.

(7) The Public Housing Management Assessment System (PHAS) Rule, establishes procedures for the assessment of:

- (a) physical condition;
- (b) financial health;
- (c) management operations; and
- (d) resident service and satisfaction.

(8) The Real Estate Assessment Center (REAC) is the HUD national management center created to receive and evaluate these electronic submissions and to assess the condition of HUD owned and assisted developments. REAC developed the Financial Assessment Subsystem (FASS) specifically to facilitate the financial health portion of the overall PHAS assessment. Public Housing Authority (PHA) financial information must be submitted to REAC electronically by the PHA on FASS using a template known as the Financial Data Schedule (FDS).

(9) REAC will utilize the information electronically filed on the FDS to provide scoring of approximately 3,200 PHAs receiving HUD financial assistance. This scoring is part of an overall requirement for REAC to assist HUD with improving the management of assets funded with HUD financial assistance. The purpose of the new electronic assessment system is to enhance public trust by creating a comprehensive management tool that effectively and fairly measures a PHA's performance based on standards that are objective, uniform and verifiable.

(10) Although the agreed-upon procedures are separate from the audit engagement, for administrative purposes, they will be included in the same contract as the audit engagement.

(11) In order to insure accuracy and consistency of FDS data in the assessment process for PHA assets, REAC requires:

(a) Audited annual basic financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental agencies, as prescribed by the Governmental Accounting Standards Board (GASB);

(b) Attestation by IPAs on FDS data as to its "fair presentation in relation to audited basic financial statements" in accordance with the audit provisions of the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 29, ***Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents***; and

(c) A separate attestation agreed-upon procedures engagement under AICPA ***Statement on Standards for Attestation Engagements*** (SSAE) No.4, Agreed-Upon Procedures Engagements where the auditor compares the electronically submitted data in the REAC staging database to the hard copy of the audit report and FDS.

(12) Electronic FDS filing is required under the UFRS Rule beginning with PHA fiscal years ending on or after September 30, 1999. A PHA must submit its preliminary FDS electronically within two months after its fiscal year end based on unaudited financial statements. A final FDS based on audited financial statements must be filed within the earlier of 30 days after receipt of the IPA's report or 9 months after a PHA's fiscal year-end (pursuant to OMB Circular A-133 subpart C subsection .320)

(13) While the above requirements are separate from the audit requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, REAC has designed its data requirements to correspond with OMB Circular A-133 audits. For example, the audit of a PHA's basic financial statements often is required by OMB Circular A-133. That audit also serves as the basis for PHA preparation of and IPA reporting on the FDS and involvement in the electronic submission process. Only the FDS and certain other information required by OMB Circular A-133 must be submitted electronically to HUD by the PHA.

(14) These guidelines address the requirements for electronic submission of data for those PHAs subject to OMB Circular A-133. However, under New Mexico law, all PHAs are subject to audit requirements and must submit audited financial data.

(15) More information about REAC and the UFRS Rule can be found on the REAC web site at <http://www.hud.gov/reac/ufr.pdf>. Any questions related to this guide should be referred to the director of PHA Finance, Real Estate Assessment Center at (202) 708-4932 x 3142.

C. **PERTAINING TO SCHOOL DISTRICTS:**

(1) Regional Center Cooperative (RCC) and Regional Education Cooperative (REC) Audits:

(a) For accounting purposes, RCCs and RECs are considered joint ventures, in accordance with the GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Section J50 "Accounting for Participation in Joint Ventures and Jointly Governed Organizations".

(b) A separate financial and compliance audit is required on activities of RCCs and RECs. The IPA shall provide a copy of this report to the participating school districts and the New Mexico Department of Education once the report has been released by the State Auditor. The presentation of these funds should be in conformity with accounting principles generally accepted in the United States of America.

(c) Audits of RECs should test for compliance with SBE Regulation 6 NMAC 11.3.2 relating to RECs.

(d) On-behalf payments for fringe benefits and salaries made by RCCs and RECs for employees of school districts should be accounted for in accordance with GASB Cod. Sec. N50.135 and communicated to the employer in accordance with Sec. N50.131.

(2) School District Audits must address the following issues:

(a) Audits of school districts shall test for compliance with SBE Regulation 6 NMAC 20.2.1, *Governing Budgeting and Accounting for New Mexico Public Schools and School Districts* and the *Manual of Procedures*, primarily Supplement 7, Cash Controls, (pages 7-1 through 7-13).

(b) The audit report of each school district shall include a cash reconciliation schedule which reconciles the cash balance as of the end of the previous fiscal year to the cash balance as of the end of the current fiscal year. This schedule will account for cash in the same categories as used by the District in its monthly cash reports to the State Department of Education.

(c) On-behalf payments of salaries and fringe benefits made for school district employees by RCCs and RECs must be accounted for in accordance with GASB Cod. Sec. N50.129 through .133 and disclosed in accordance with Sec. N50.134. "Employer governments should obtain information about the amount of on-behalf payments for fringe benefits and salaries from the paying entity or the third-party recipient; interentity cooperation is encouraged. If information cannot be obtained from those sources, employer governments should make their best estimates of the amounts." (GASB 24 paragraph 9)

(d) Any joint ventures or other entities created by the school districts are agencies subject to the Audit Act.

(e) Agency Fund Reporting:

(i) Under the old reporting model, the Combining Statement of Changes in Assets and Liabilities – All Agency Funds shall show all individual agency funds of the school district.

(ii) When GASB 34 is implemented, the statement of changes in fiduciary net assets will omit agency funds. Therefore, it is a requirement of the State Auditor that a schedule be included in the audit report, showing the changes in the individual funds of the school district.

(3) Pertaining to Charter Schools:

(a) A charter school is a conversion school or start-up school within a school district authorized by the local school board to operate as a charter school. A charter school is considered a public school, accredited by the state board of education and accountable to the school district's local school board for ensuring compliance with applicable laws, rules and charter provisions. A charter school is administered and governed by a governing body in a manner set forth in the charter.

(b) In defining a school district's financial reporting agency, certain GASB 14 criteria must be applied to determine whether the district (primary government) has any component units that must be included. A charter school is a component unit of its sponsoring school district. The charter schools must be included in the financial statements of their sponsoring school districts by discrete presentation. Discrete presentation entails reporting component unit financial data in a column(s) separate from the financial data of the primary government.

(c) GASB 14 paragraph 50 requires the presentation of combining financial statements for discretely presented component units. Presentation of the underlying fund types of the individual component units

is required since separately issued financial statements of the component units are not available. The combining statements should appear in the report with the other combining statements and should be at the level of detail that will include disclosure of information required by GASB 14 paragraph 51.

(d) The State Auditor requires that individual budget-to-actual comparison statements for the charter schools be included in the financial report following the combining statements to demonstrate compliance with legally adopted budgets.

(4) New Mexico Public Schools Insurance Authority (NMPSIA): Both legal compliance and substantive tests should be performed at the agency level on these transactions.

**D. PERTAINING TO LOCAL PUBLIC BODIES:**

(1) Tax Roll Reconciliation – County Governments: Counties must include two supplementary schedules. The first schedule is a “Tax Roll Reconciliation of Changes in the County’s Treasurer’s Property Taxes Receivable” showing the June 30th receivable balance with an additional breakout of the receivable for the past 10 years. The second schedule titled “County Treasurer’s Property Tax Schedule” must show by agency, the amount of taxes: levied; collected in the current year; collected to-date; distributed in the current-year; distributed to-date; the amount determined to be uncollectible in the current year; the uncollectible amount to-date; and the outstanding receivable balance at the end of the fiscal year, by agency. This information is necessary for proper revenue recognition on the part of the county as well as on the part of the recipient agencies, under GASB 33. See 2.2.2.10.AA of this Rule for more information regarding GASB 33 property tax revenue recognition. Property taxes levied on January 2001 are budgeted for the fiscal year July 1, 2001 through June 30, 2002. If the county does not have the information required for these schedules there should be a related audit finding.

(2) The following is an example of a tax roll reconciliation schedule:

STATE OF NEW MEXICO (NAME) COUNTY TAX ROLL RECONCILIATION – CHANGES IN PROPERTY TAXES RECEIVABLE FOR THE YEAR ENDED JUNE 30, 2002	
Property taxes receivable, beginning of year	\$ 641,290
Changes to Tax Roll:	
Net taxes charged to treasurer for fiscal year	4,466,602
Adjustments:	
Increases in taxes receivables	3,066
Charge off of taxes receivables	(6,144)
Total receivables prior to collections	5,104,814
Collections for fiscal year ended June 30, 2002	(4,330,993)
Property taxes receivable, end of year	<u>\$ 773,821</u>
Property taxes receivable by years:	
1992	0
1993	29
1994	556
1995	1,848
1996	3,381
1997	5,498
1998	13,169
1999	34,134
2000	167,729
2001	547,477
Total taxes receivable	<u>\$ 773,821</u>

(3) An example of the schedule titled “County Treasurer’s Property Tax Schedule “ is on Appendix

D.

**E. PERTAINING TO AUDITS OF COLLEGES AND UNIVERSITIES:**



(1) Budget Comparison Statements: The Legislature appropriates money to various levels in the universities. A budget comparison in the financial statements must show that there has been compliance with the individual appropriations. **The State Auditor requires that every institution include budget comparison statements in the audit report** whether GASB 34 has been implemented or not. The budget comparison statements must follow the general purpose financial statements (or the basic financial statements for GASB 34 implementers) and appear before the notes to the financial statements in the report.

(a) The budget comparison statement must include columns for the original budget, the final budget, actuals, and the variance of actuals from budget, for each campus, in sufficient detail to determine compliance with each category of appropriated revenue, expenditure, and transfer shown in the law. See Sections 2.2.2.10.Q and 2.2.2.12.A.(4) of this Rule for additional detail regarding category levels of appropriations.

(b) The auditor must confirm the final adjusted and approved budget with the Commission on Higher Education (CHE).

(2) Component Unit Issues

(a) Educational institutions determined to be a component unit of the State of New Mexico must have a paragraph preceding the opinion paragraph in the Independent Auditor's Report referring to the Summary of Significant Accounting Principles disclosure regarding the reporting agency, and indicate that the financial statements present the financial position and results of operation of only that portion of the financial reporting agency of the state that is attributable to the transactions of the educational institution.

(b) Legally separate entities that meet the criteria set forth in GASB 14 to qualify as a component unit of the educational institution must be included in the financial statements of the educational institution in accordance with GASB 14 and Section 2.2.2.10.A (1) of this Rule.

(3) The level of planning materiality required by the State Auditor for audits of all educational institutions is at the individual fund level before and after GASB 34 implementation.

(4) Institutions scheduled to implement GASB 34 and GASB 35 should use the business-type activities model for reporting purposes.

(a) See Section 2.2.2.10.M.(2) of this Rule for reporting of compensated absence liability under this model.

(b) Special appropriations should be clearly shown in the Statement of Revenues, Expenses, and Changes in Fund Net Assets or explained in the notes to the financial statements. Any unexpended balances of such appropriations that do not require reversion, should be shown as "Restricted" net assets at the fiscal year-end and explained in the notes to the financial statements. See Section 2.2.2.12.A.(5) of this Rule for more information regarding reversions.

(5) Institutions still reporting under the old model should follow the format in the AICPA Industry Audit Guide, *Audits of Colleges and Universities*.

(a) The liability for vacation pay should be shown in current unrestricted funds under this model.

(b) Special appropriations should be clearly shown in the financial statements or explained in the notes to the financial statements. Any unexpended balances in the appropriations at year-end that do not require reversion should be shown as designated for subsequent year's expenditures. See Section 2.2.2.12.A.(5) of this Rule for more information regarding reversions.

[2.2.2.12 NMAC – Rp 2.2.2.12 NMAC, 3-29-02]

**2.2.2.13 REVIEW OF AUDIT REPORTS AND WORKING PAPERS:**

A. Section 12-6-14(D) NMSA requires that the State Auditor or personnel of his office designated by him examine all audit reports of agencies made pursuant to contract. All audits under contracts approved by the State Auditor are subject to review.

(1) The State Auditor conducts a preliminary review of all audit reports received for proper reporting and presentation of financial statements, note disclosures and audit findings.

(2) The State Auditor notifies the IPA regarding any deficiencies found during the review process. The IPA shall submit related corrections or notification of disagreement with the review comments to the State Auditor **within ten days** of receipt of the deficiency notification.

(3) A copy of the deficiency comments will be mailed to the agency, by the State Auditor, if the IPA does not respond to the deficiency notification. These deficiency comments are considered public documents and may be requested by the agency.

B. Released audit reports may be subject to a comprehensive desk and working paper review by the State Auditor. These review checklists are public document and are available upon request. If during the course of such a quality control review, the State Auditor determines that deficiencies noted are significant enough that the audit was not performed in accordance with auditing standards generally accepted in the United States of America and/or this Rule, any or all of the following action(s) may be taken:

- (1) The IPA may be required to correct the working papers and reissue the audit report to the agency, and any others receiving copies;
- (2) The IPA may be denied the issuance of future audit contracts; or
- (3) The IPA may be referred to the New Mexico Public Accountancy Board for possible licensure action.

C. Results of Review:

- (1) A letter will be issued upon completion of each report or working paper review to advise the IPA of the results of the review. The IPA is required to respond to each review comment as directed.
- (2) Any corrective actions will be approved by the State Auditor based on the recommendation of the in-charge reviewer.
- (3) The IPA may request a review of the recommended action by the State Auditor. If requested, the State Auditor will schedule a conference, within fifteen days, to allow the IPA an opportunity to analyze the results of the desk or working paper review and present any information the IPA deems appropriate.

D. External Report Reviews: Revisions to the audit reports from reviews conducted by the Federal Inspector General Offices and the State Auditor will be made by the IPA to all copies of the audit report held by the agencies and the State Auditor.

[2.2.2.13 NMAC – Rp 2.2.2.13 NMAC, 3-29-02]

#### **2.2.2.14 CONTINUING EDUCATION AND QUALITY CONTROL REQUIREMENTS:**

A. The IPAs should be aware that effective January 1, 1989, individuals responsible for planning, directing, conducting substantial portions of the field work, or reporting on government audits should complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the governmental accounting or auditing environment. The State Auditor requires that the 24 hours in governmental and auditing be completed prior to beginning any audit engagement. At least 20 of the 80 hours should be completed in any one-year of the two-year period. An Individual Firm Profile Worksheet shall be completed for each employee indicating governmental CPE courses taken for the past two-year period. The IPAs must also meet the requirements set forth in the Public Accountancy Act (61-28A-14.D NMSA 1978). The State Auditor may request proof of compliance with the continuing education requirements.

B. The U. S. GAO proposed changes to *Government Auditing Standards* (GAGAS) that would become effective for financial audits of periods ending on or after January 1, 2003, require that “each auditor performing work under GAGAS should complete, every 2 years, at least 80 hours of CPE which directly contributes to the auditor’s professional proficiency to perform such work. At least 20 hours should be completed in any one year of the two-year period. In addition, auditors responsible for planning or directing an assignment, performing substantial portions of the field work, or reporting on the assignment under GAGAS should complete at least 24 of the 80 hours of CPE in subjects directly related to the government environment and to government auditing. If the audited agency operates in a specific or unique environment, auditors should receive CPE that is related to that environment.” The State Auditor supports these proposed changes to the “yellow book” and will adopt them when they are implemented by GAGAS.

C. The IPAs should be aware that the U.S. GAO Government Auditing Standards (GAGAS), Section 3.31 requires each audit organization conducting audits in accordance with these standards have an appropriate internal quality control system in place and undergo an external quality control review (peer review). Section 3.33 states, “Organizations conducting audits in accordance with these standards should have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed.”

(1) Audit organizations should have an external quality control review completed (that is, report issued) within 3 years from the date they start their first audit in accordance with these standards. Subsequent external quality control reviews must be completed within 3 years after the issuance of the prior review. Reviewers shall meet the requirements of Section 3.34 of GAGAS.

(2) If the firm is unable to complete its external quality control review by the required due date, it will render the firm ineligible from conducting audits of governmental agencies. **Extension requests to complete**

**the external quality control review that are approved by the administering organization will not be accepted by the State Auditor.**

(3) Audit firms shall provide the most recent external quality control peer review report to the agency upon submitting a bid proposal or offer. The external quality control review report and the corresponding letter of comments completed for the IPA, **and a list of the governmental audits selected for peer review** shall be submitted to the State Auditor. Failure to submit the required documentation, or an opinion less than **modified**, will disqualify the IPA from doing governmental audits.

(4) The State Auditor performs its own quality control review of IPA audit reports and working papers. When the result of the State Auditor's quality control review differs significantly from the external quality control report and corresponding letter of comments, the State Auditor will no longer accept external peer review reports performed by that reviewer. In making this determination, the State Auditor will take into consideration the fact that AICPA peer reviews are performed on a risk-based or key-element approach looking for systemic problems, while the State Auditor reviews are engagement-specific reviews.

(5) The State Auditor is adopting U. S. GAO Government Auditing Standards (GAGAS) proposed revision requirements for external peer reviews:

(a) "Individuals conducting peer reviews of an audit organization's system of quality control should have thorough knowledge of GAGAS and the government environment relative to the work being reviewed.

(b) Reviewers should be independent (as defined in GAGAS) of the audit organization being reviewed, its staff, and the assignments selected for review. An organization is not permitted to review the organization that conducted its most recent external peer review. Also, the employing organization of the peer reviewers should have received an unqualified opinion on the review of their organization's system of quality controls. **The IPA will submit a copy of his/her peer reviewer's peer review with the profile information to the State Auditor.** See Section 2.2.2.8.A of this Rule for additional information regarding the profile submission.

(c) Reviewers should have knowledge and training on how to perform a peer review and should use professional judgment in conducting and reporting the results of the review.

(d) This review should include a review of the organization's internal quality control policies and procedures, reports, audit documentation, and other necessary documents (for example, independence statements, outside employment requests, financial disclosure reports, and CPE documentation). The review should also include contacts with various levels of the reviewed organization's professional staff to assess their understanding of and compliance with relevant quality control policies and procedures.

(e) Reviewers should use one of the following approaches to selecting assignments for review: (1) select assignments that provide a reasonable cross section of the assignments performed by the reviewed organization in accordance with GAGAS or (2) select assignments that provide a reasonable cross section of the reviewed organization's work subject to quality control requirements, including one or more assignments performed in accordance with GAGAS.

(f) The review should be sufficiently comprehensive to provide a reasonable basis for concluding whether the reviewed audit organization complied with its system of quality control to provide the organization with reasonable assurance of conforming with professional standards in the conduct of its work. Reviewers may scale back the peer review procedures based on the reviewer's evaluation of the adequacy and results of the reviewed organization's monitoring efforts.

(g) Reviewers should prepare a written report(s) communicating the results of the external peer review. The report should indicate the scope of the review, including any limitations thereon, and should express an opinion on whether the system of quality control of the reviewed organization was in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable government auditing standards were followed. The report should also describe the reason(s) for any modifications to the opinion. When there are matters that resulted in a modification to the standard report, reviewers should report a detailed description of the findings and recommendations to enable the reviewed organization to take appropriate actions. To help users of the peer review report understand the peer review process, each report should be accompanied by an attachment describing the process, including how peer reviews are planned and performed.

(6) The State Auditor requires the location of the external quality control review to be the office of the firm under review, regardless of whether the firm reviewed is a sole practitioner and regardless of the number of firm employees. External quality control reviews performed at a location other than the office of the firm under review will not be accepted by the State Auditor.

**D. House Joint Memorial 76 (Requesting an Aggressive Application of Public Accountancy Regulations and Standards)**

- (1) “WHEREAS, New Mexicans rely on the expert and professional audit opinions of public accountants; and
  - (2) WHEREAS, the public trust in an international accounting firm and other auditors of publicly traded companies has recently been shaken by allegations that the ethical and professional standards were not adhered to and not properly enforced in the audits of a recently bankrupt major publicly traded corporation; and
  - (3) WHEREAS, public funds are used for audits of the state, counties, municipalities, state educational institutions and other political subdivisions; and
  - (4) WHEREAS, state law requires auditors conducting audits of the state, counties, municipalities, state educational institutions and other political subdivisions to report any violation of law or violation of standard accounting practices; and
  - (5) WHEREAS, state law requires the State Auditor to examine and audit the financial affairs of every agency in accordance with generally accepted auditing standards; and
  - (6) WHEREAS, the New Mexico Society of Certified Public Accountants and the New Mexico Society of Public Accountants have committees of public accountants who review and approve required peer reviews within the accounting profession; and
  - (7) WHEREAS, the New Mexico Public Accountancy Board is responsible for protecting the public interest by regulating the practice of public accountancy through enforcement and licensing measures;
  - (8) NOW, THEREFORE, BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO that the New Mexico Public Accountancy Board be requested to aggressively apply its regulations and peer review program to ensure that public accountants conducting audits of state, counties, municipalities, state educational institutions and other political subdivisions strictly adhere to the professional standards and requirements adopted by the public accounting profession in an appropriate climate of professional independence; and
  - (9) BE IT FURTHER RESOLVED that the New Mexico Public Accountancy Board and the State Auditor, in conjunction with the New Mexico Society of Certified Public Accountants and the New Mexico Society of Public Accountants, work to ensure strict adherence to public accountancy regulations and standards; and
  - (10) BE IT FURTHER RESOLVED that the New Mexico Public Accountancy Board and the State Auditor report their findings and recommendations to the Legislative Finance Committee by December 1, 2002; and
  - (11) BE IT FURTHER RESOLVED that copies of this memorial be transmitted to the State Auditor, the New Mexico Public Accountancy Board, the New Mexico Society of Certified Public Accountants and the New Mexico Society of Public Accountants.”
- [2.2.2.14 NMAC – Rp 2.2.2.14 NMAC, 3-29-02]

## **HISTORY of 2.2.2 NMAC:**

### **Pre-NMAC Regulatory Filing History**

The material in this part was derived from that previously filed with the State Records Center and Archives under SA Rule No. 71-1, Regulations of State Auditor Relating to Audit Contracts with Independent Auditors by State Agencies, filed 5-14-71; SA Rule No. 71-2, Regulations of State Auditor for Audits by Independent Auditors, filed 5-27-71; SA Rule No. 72-1, Regulations of State Auditor Relating to Audit Contracts With Independent Auditors by Agencies of the State of New Mexico, filed 6-1-72; SA Rule No. 72-2, Regulations of State Auditor for Audits by Independent Auditors, filed 6-1-72; SA Rule No. 74-1, Regulations of State Auditor Relating to Reporting Statutory Violations, filed 2-28-74; SA Rule No. 74-2, Rotation of Assignments, filed 2-28-74; SA No. 78-1, Regulations Governing the Auditing of New Mexico Governmental Agencies, filed 11-3-78; Amendment No. 1 to SA Rule 78-1, Regulations Governing the Auditing of New Mexico Governmental Agencies, filed 5-28-80; SA Rule No. 82-1, Regulation Governing the Auditing of New Mexico Governmental Agencies, filed 12-17-82; SA Rule No. 84-1, Regulations Governing the Auditing of Agencies of the State of New Mexico, filed 4-10-84; SA Rule No. 85-1, Regulations Governing the Auditing of Agencies of the State of New Mexico, filed 1-28-85; SA Rule No. 85-3, Regulation for State Agencies Concerning NCGA Statement No. 4 - Accounting and Financial Reporting Principles for Claims and Judgements and Compensated Absences, filed 4-16-80; SA Rule No. 85-4, Regulations Governing the Auditing of Housing Authorities of the State of New Mexico, filed 6-12-85; SA Rule No. 85-5, Regulations Pertaining to Single Audits of State Agencies and Local Public Bodies, filed 6-17-85; SA Rule No. 85-6, Audits of Grants to Subrecipients, filed 6-17-85; SA Rule 86-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 1-20-86; SA Rule No. 86-2, Regulation Governing Violations of Criminal Statutes in

Connection with Financial Affairs, filed 3-20-86; SA Rule No. 86-3, Professional Services Contracts, filed 7-9-86; SA Rule 87-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 2-13-87; SA Rule 87-2, Approval of Audit Contracts, filed 4-2-87; SA Rule 87-3, Audit Requirements for Deferred Compensation, Retirement Plans, Budget and Public Money for the State of New Mexico, filed 8-14-87; SA Rule 88-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 2-10-88; SA Rule 89-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 3-10-89; SA Rule 90-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 3-1-90; SA Rule 90-3, Auditor's Responsibilities Related to Fees Collected on Convictions Relating to Intoxicating Liquor and Controlled Substances, filed 5-7-90; SA Rule 91-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 3-13-91; SA Rule 92-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 3-6-92; SA Rule 93-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 2-25-93; SA Rule 94-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 2-25-94; Amendment 1 to SA Rule 94-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 5-16-94; SA Rule 95-1, Regulations Governing the Audits of Agencies of the State of New Mexico, filed 3-16-95; and 2 NMAC 2.2, Requirements for Contracting and Conducting Audits of Agencies, filed 4-2-96.

**History of Repealed Material:**

2 NMAC 2.2, Requirements for Contracting and Conducting Audits of Agencies – 2.2.2 NMAC, Requirements for Contracting and Conducting Audits of Agencies, Repealed, 3-30-01; 2.2.2 NMAC, Requirements for Contracting and Conducting Audits of Agencies, Repealed 3-29-02