



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

November 20, 2013

To: New Mexico State Agency CFO's and IPA's

From: Hector Balderas
NM State Auditor

A handwritten signature in blue ink, appearing to read "HB", is written over the printed name of Hector Balderas.

RE: Financial Reporting Directive Update

On October 31, 2012 and November 21, 2012, the Office of the State Auditor issued directives pursuant to Section 12-6-3 NMSA 1978, which provides that "audits shall be conducted in accordance with generally accepted auditing standards and rules issued by the State Auditor". Those directives provided guidance to Agencies and IPAs regarding the statewide cash reconciliation status. The following serves as an update to that guidance.

The Department of Finance and Administration (DFA) has commissioned two reports that address statewide cash reconciliation issues. They are (1) *Current State Diagnostic of Cash Control*, dated June 20, 2012 and (2) *Cash Management Plan and Business Processes*, dated October 11, 2012, both prepared by Deloitte Consulting, LLP. These reports are available on the DFA website (http://www.nmdfa.state.nm.us/Cash_Control.aspx).

For purposes of each state agency's FY13 Financial Audit, each agency should, at a minimum, do the following:

1. Explain to the agency's Independent Public Accountant (IPA) what policies and procedures the agency has in place to ensure that the agency's cash balances in SHARE are correct; and
2. Disclose to the IPA any communications with DFA Cash Control Bureau regarding monthly cash reconciliation issues including unreconciled items, errors and corrections submitted; and
3. Disclose in the agency's notes to the financial statements the facts about the statewide cash reconciliation as of June 30, 2013, and what the agency's policies and procedures were during FY13 to mitigate the risk that the agency's cash balances would be misstated as of June 30, 2013.

As a reminder, each IPA should use their independent auditor judgment in assessing the language in the agency's General Fund Investment Pool reconciliation footnote as it applies to the agency they are auditing and revise the language as necessary. GASBCS No. 3, paragraph 37 cautions that notes should be the *objective* explanations of agency's management to users, and should never be subjective assessments of the effects of the government's operations on future position or predictions about the effects of future (planned) events.

For questions regarding facts about the statewide cash reconciliation, please contact Ron Spilman, Cash Control Manager at DFA Financial Control Division.

For purposes of each state agency's FY13 Financial Audit, at a minimum, each agency's IPA shall:

1. Test whether the agency performed the procedures related to cash reconciliations and review communications with DFA Cash Control Bureau to evaluate whether internal control deficiencies exist; and

2. Determine what the risk is of misstatement in the specific agency's cash accounts; and
3. Identify whether there is evidence the agency's cash balances have been misstated. If necessary the auditor should include a finding regarding agency cash and/or qualify the opinion on the agency's cash.

If you have any questions, please contact Melissa Spangler at 505-476-3800 or via email at melissa.spangler@osa.state.nm.us.