



Amendments & Special Contracts

**New Mexico Office of the
State Auditor**

Agenda

- **Contract amendments**
- **Professional service contracts**
- **Contracts for special audits**



Contract Amendments

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When do I need an amendment to my annual audit contract?

- **To change the scope of work / price**
- **To reflect a change in the audit firm name**
- **To add special provisions**
- **To reflect new gross receipts tax rate (if state agency)**
- **To extend the term**
- **To change the tier in the tiered system**
- **To include or exclude a Single Audit**
- **To add a component unit**

When do I not need an amendment to my annual audit contract?

Contract amendments will not be approved if:

- It will take longer to complete the same scope of work.**
- The audit will be late, but will be delivered within the existing term.**
- The only goal is to perform additional procedures to achieve an unqualified opinion.**

Contract Amendment Process

- 1. Visit the website to find the appropriate template:**
 - a. With or without DFA approval**
 - b. Basic amendment can be used to change scope and price**
 - c. Blank amendment can be used for other purposes**
 - d. Contact us**

- 2. Fill out the amendment completely. OSA can give initial review if you want to check completeness before getting signatures.**

- 3. Obtain signatures and send hard copy to OSA for approval.**

Contract Amendment Issues

2.2.2.8.U

- **The State Auditor shall also consider the auditor independence requirements of Subsection P of Section 2.2.2.8 NMAC when reviewing contract amendments for approval**
- **Requests for contract amendments should be submitted to the Office with the original version of the signed contract amendment by the 5th of each month**
- **If a proposed contract amendment is disapproved for lack of adequate information, the IPA and agency may submit a corrected version for reconsideration**

Common Mistakes and Questions: Scope Changes

- The request for contract amendment should include a description of the work to be performed, the estimated hours required to perform the additional work and when the parties became aware the new work was needed. 2.2.2.8.U(2)
- The addition of a “new program” will be considered for approval just like any other amendment.

Common Mistakes and Questions: Price Changes

- **Since annual financial audit contracts are fixed-price contracts, contract amendments for fee increases will only be approved for extraordinary circumstances or a significant change in the scope of an audit**
 - **GRT changes may still require an amendment for now...**
- **If the original contract is under \$60,000 but the amendment will cause the contract to exceed \$60,000, you must consider whether it is necessary to go out to bid.**

Common Mistakes and Questions

- **The OSA does not permit agencies and IPAs to amend an expired contract. After the term of the contract ends, the parties must enter into a new contract.**
- **The OSA does not permit agencies and IPAs to amend a contract to take out essential provisions of the template contract.**

Small Political Subdivision Grants

- **The Small Political Subdivision program provides need-based grants to local public bodies that cannot afford an audit or AUP engagement.**
- **SPS grants involve:**
 - **A grant agreement between the OSA and the agency**
 - **An audit or AUP contract between the agency and the IPA**
 - **Reporting back to the OSA related to the funding**



Professional Service Contracts

Professional Services Contracts

2.2.2.8.N(1)

- **An IPA who performs the agency's annual financial audit shall not enter into any special audit or non-audit service contract with the respective agency without the prior written approval of the state auditor.**
- **Exception - an engagement that costs \$1,000 or less (exclusive of gross receipts tax) for client assistance with responses to IRS and other regulators.**
- **Only one exception per agency will be allowed per fiscal year.**

Professional Service Contracts

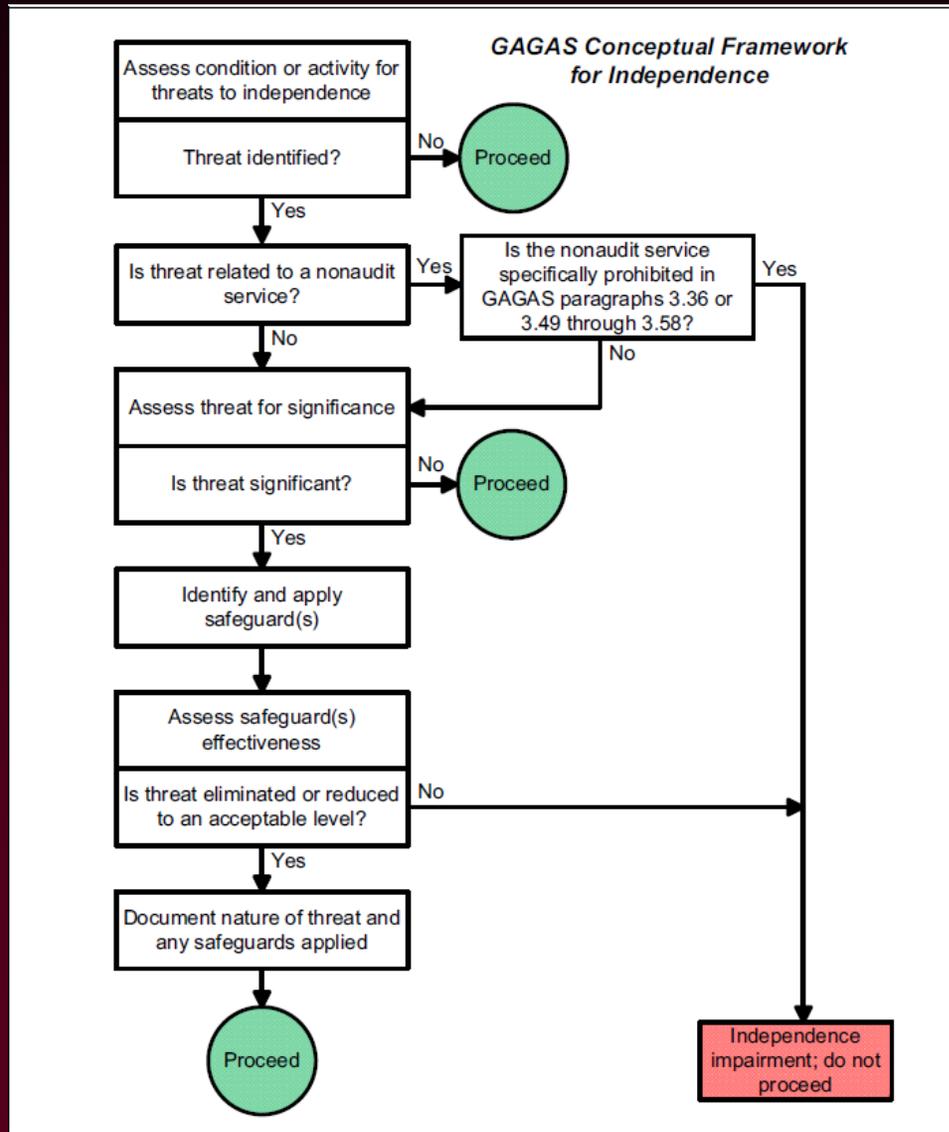
- If an agency wants to enter into a professional services contract with the IPA who performs the agency's annual financial audit and the exception does not apply, the agency must submit the draft contract to OSA:
 - Scope
 - Price
 - Start and end date

Professional Service Contracts

The letter requesting approval must also contain:

- Whether management has the ability to effectively oversee the non-audit service;
- documented assurance from the entity that management will assume all management responsibilities and accept responsibility for the results of the services pursuant to GAGAS 3.37;
- establishment and documentation (engagement letter) of the auditor's understanding with the entity's management; and
- the auditor's consideration of significant threats (if applicable) to independence and a description of safeguards.

Professional Services Contracts 2.2.2.8.N



- OSA evaluates contracts for independence threats.

Prohibited Professional Services Contracts, 2.2.2.8.N(3)

An agency's external auditor to perform the following non-audit services that are management responsibilities:

- (i) setting policies and strategic direction for the audited entity;
- (ii) directing and accepting responsibility for the actions of the audited entity's employees in the performance of their routine, recurring activities;
- (iii) having custody of an audited entity's assets;
- (iv) reporting to those charged with governance on behalf of management;
- (v) deciding which of the auditor's or outside third party's recommendations to implement;

Prohibited Professional Services Contracts, 2.2.2.8.N(3)

An agency's external auditor to perform the following non-audit services that are management responsibilities:

(vi) accepting responsibility for the management of an audited entity's project;

(vii) accepting responsibility for designing, implementing, or maintaining internal control;

(viii) providing services that are intended to be used as management's primary basis for making decisions that are significant to the subject matter of the audit;

(ix) developing an audited entity's performance measurement system when that system is material or significant to the subject matter of the audit; and

(x) serving as a voting member of an audited entity's management committee or board of directors (GAGAS 3.36).

Prohibited Professional Services Contracts, 2.2.2.8.N(3)

The following non-audit services, pursuant to GAGAS 3.50, always impair the auditor's independence:

- (i) determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;**
- (ii) authorizing or approving the entity's transactions;**
- (iii) preparing or making changes to source documents without management approval; source documents include those providing evidence that transactions have occurred (for example, purchase orders, payroll time records, customer orders, and contracts); such records also include an audited entity's general ledger and subsidiary records or equivalent.**

Prohibited Professional Services Contracts, 2.2.2.8.N(3)

The following non-audit services, pursuant to GAGAS 3.53 and 3.54, always impair the auditor's independence:

- (i) setting internal audit policies or the strategic direction of internal audit activities;
- (ii) **performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges; and**
- (iii) determining the scope of the internal audit function and resulting work; and **performing or supervising ongoing internal control monitoring procedures.**

Prohibited Professional Services Contracts, 2.2.2.8.N(3)

The following non-audit services, pursuant to GAGAS 3.56, always impair the auditor's independence:

- (i) designing or developing a financial or other information technology (IT) system that will play a significant role in the management of an area of operations that is or will be the subject matter of an audit;**
- (ii) providing services that entail making other than insignificant modifications to the source code underlying such a system; and**
- (iii) operating or supervising the operations of such a system.**

Prohibited Professional Services Contracts, 2.2.2.8.N(3)

The auditor's independence would also be impaired by the performance of any of the non-audit services listed at GAGAS 3.58 regarding the entity's non tax disbursements, benefit plan administration, investment advisory or management services, listed prohibited consulting or advisory services, executive or employee personnel matters, and business risk consulting.

Professional Service Contracts

- The IPA must give a copy of the final report from any PSC to OSA for our information.
- If an agency has entered into any professional services contract with the IPA who performs the agency's annual financial audit, or the scope of work on any professional services contract relates to fraud, and the contract was not approved by the state auditor, this shall be reported as a finding of non-compliance
2.2.2.10(I)(5)



Special Audit Contracts

Special Audits

- **NMSA 1978, § 12-6-3 (C) states, “In addition to the annual audit, the state auditor may cause the financial affairs and transactions of an agency to be audited in whole or in part.”**
- **NMAC 2.2.2.15.C (Agency-initiated). With exception of agencies authorized by statute to conduct performance and forensic audits, contracts relating to financial fraud, waste or abuse must be approved by the OSA.**

Why does OSA care about a special audit initiated by an agency?

- **Understanding of the right type of engagement**
- **Making sure the right questions are asked**
- **Coordinating with any complaints OSA has received**
- **Helping with cost efficiency**
- **Meeting the expectations of the public**

Special Audits

- **Contracts vary but OSA reviews for:**
 - **Selection of IPA or other professionals**
 - **Requirement to give report to OSA for review prior to release**
 - **Requirement to present findings as required by Audit Rule**

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