

**OFFICE OF THE STATE AUDITOR (OSA)  
SUMMARY OF CHANGES TO AUDIT RULE 2015**

Rule Section	Description of the Change
2.2.2.6 Objective	<p>The language that has been added appears in <b>bold</b> letters below:</p> <p>The objective is to establish policies, procedures, rules and requirements for contracting and conducting financial audits, special audits, attestation engagements, <b>performance audits, and forensic audits</b> of governmental agencies of the State of New Mexico.</p>
2.2.2.8 (A) Statutory Authority	<p>Subsection A has language that has been added appears in <b>bold</b> letters below:</p> <p><b>Subsection C of Section 12-6-3 NMSA 1978 states that 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. Section 2.2.2.15 NMAC provides regulations regarding this type of engagement.</b></p>
2.2.2.8 (B)(1) Approved Firms	<p>Subsection (B)(1) has language that was added or updated appears in <b>bold</b> letters below:</p> <p>For an IPA to be included on the State Auditor’s List of Approved Firms:</p> <ol style="list-style-type: none"> <li>(1) An IPA shall submit its firm profile <b>annually on January 5<sup>th</sup> or on the next business day</b>, in accordance with the guidelines set forth herein;</li> <li>(2) The Office shall review each firm profile for compliance with the requirements set forth in Subsections <b>A through F</b> of Section 2.2.2.8 NMAC;</li> <li>(3) The State Auditor may approve contracts only with IPA firms that have submitted a complete and correct firm profile complying with all the requirements set forth in this Rule and that has been approved by the Office;</li> <li>(4) The Office shall inform all IPAs whose firm profiles were submitted by the deadline whether they are on the List of Approved Firms; and</li> <li>(5) Concurrent with publication of the List of Approved Firms, the Office shall inform government agencies and local public bodies that they are to select an IPA to perform their audit or agreed upon procedures engagement. The notification shall inform the agency or local public body that it should consult its prospective IPA to determine whether the prospective IPA has been restricted by the Office as to the type of engagement or number of contracts it is eligible to perform.</li> </ol>
2.2.2.8 (E)(1) Restriction	<p>Subsection (E)(1) has language that was added or updated appears in <b>bold</b> letters below:</p> <ol style="list-style-type: none"> <li>(1) IPAs may be placed on contract restriction based on the Office’s review of the firm profile and deficiency considerations as described below. Contract restriction may take the form of limiting either the type of engagement or the number of audit contracts, or both, that the IPA may hold. The Office may impose a corrective action plan associated with the contract restriction. The deficiency considerations include, but are not necessarily limited to: <ol style="list-style-type: none"> <li>(a) Failure to submit reports in accordance with Paragraph (1) of Subsection A of</li> </ol> </li> </ol>

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	<p>Section 2.2.2.9 NMAC, or the terms of their individual agency contract(s) whichever applies;</p> <p>(b) Failure to submit late report notification letters in accordance with Paragraph (5), Subsection A of Section 2.2.2.9 NMAC;</p> <p>(c) Failure to comply with Paragraphs (1) and (2) of Subsection M of Section 2.2.2.8 NMAC;</p> <p>(d) Poor quality reports as determined by the Office;</p> <p>(e) Poor quality working papers as determined by the Office;</p> <p>(f) A peer review rating of “pass with deficiencies” with the deficiencies being related to governmental audits;</p> <p><b>(g) Failure to contract through the Office for New Mexico governmental audits or agreed upon procedures engagements;</b></p> <p>(h) Failure to submit to the Office a dated signed engagement letter within 30 days of execution;</p> <p>(i) Lack of compliance with the Procurement Code;</p> <p>(j) Failure to inform agency in prior years that the IPA is restricted;</p> <p>(k) Failure to comply with the confidentiality requirements of Section 2.2.2.15 NMAC;</p> <p><b>(l) Failure to invite the State Auditor or his designee to engagement entrance conference, progress meetings or exit conferences after receipt of related notification from the Office;</b></p> <p><b>(m) Refusal to comply with Office referrals or requests in a timely manner; or</b></p> <p>(n) Any other reason determined by the State Auditor to serve the interest of the State of New Mexico.</p>
<p>2.2.2.8 (G)(1) Procedures to Obtain Professional Services from an IPA</p>	<p>Subsection (G)(1) has language that was added or updated appears in <b>bold</b> letters below:</p> <p>(1) Upon receipt of written notification to proceed from the Office, the agency shall identify all elements or services to be solicited pursuant to Subsection A of Section 2.2.2.10 NMAC, and request quotations or proposals for each applicable element of the annual financial audit as indicated below. <b>Costs for the IPA to cooperate with the group engagement partner and team, and the primary government, caused by the requirements of AU-C 600 (Group Audit) will be included in the cost of the engagement like compliance with any other applicable standard.</b></p>
<p>2.2.2.8 (G)(3) Procedures to Obtain Professional Services</p>	<p>Subsection (G)(3) has language that was added or updated appears in <b>bold</b> letters below:</p> <p><b>The agency should note that the above circulars are in the process of being replaced</b></p>

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from an IPA	<b>by <i>Uniform Guidance for Federal Awards</i>. For one full fiscal year after the effective date of the Uniform Guidance (FY15), non-federal entities must comply with the terms and conditions of their federal award, which will specify whether the Uniform Guidance applies.</b>
2.2.2.8(G)(6)(c)(v) Procedures to Obtain Professional Services from an IPA	<p>Subsection (G)(6)(c)(v) has language that was added and appears in <b>bold</b> letters below to add the State of New Mexico CAFR:</p> <p>(c) The agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the deadlines shown below. If a completed IPA Recommendation Form and audit contract are not delivered to the State Auditor by these deadlines, the auditor may according to professional judgment, include a finding of noncompliance with Paragraph (6) of Subsection G of Section 2.2.2.8 NMAC in the audit report.</p> <p>(i) Regional Education Cooperatives, Independent Housing Authorities, Hospitals and Special Hospital Districts - April 15;</p> <p>(ii) School Districts, Counties, and Higher Education - May 1;</p> <p>(iii) Local Workforce Investment Boards and combined County/Municipality governments - May 15;</p> <p>(iv) Local Public Bodies that <u>do not</u> qualify for the tiered system - May 15;</p> <p>(v) Councils of Governments, District Courts, District Attorneys, State Agencies and the <b>State of New Mexico CAFR - June 1;</b></p> <p>(vi) Local Public Bodies that qualify for the tiered system pursuant to Subsections A and B of Section 2.2.2.16 NMAC should follow the procedures at Subsection D of Section 2.2.2.16 NMAC, and submit the required Recommendation Form for Tiered System Local Public Bodies and the completed signed agreed upon procedures contract to the State Auditor - July 1; and</p> <p>(vii) Component units on the primary government's due date.</p>
2.2.2.8 (H)(1)(b)(iii)	<p>Subsection (H)(1)(b)(iii) has language that was updated and appears in <b>bold</b> letters below:</p> <p>(iii) If the firm resulting from a merger or acquisition is determined to be the same firm as before, and it is in the middle of a multiple year award, there will be a mandatory rotation of the audit manager <b>and the consecutive year count for rotation purposes starts over again (resets) with the new audit manager;</b></p>
2.2.2.8 (H)(1)(b)(v)	<p>Subsection (H)(1)(b)(v) was added and appears in <b>bold</b> letters below:</p> <p>(v) <b>The parties to a proposed acquisition, merger or consolidation may apply to the State Auditor for the determination on an individual basis, referred to in (ii) above, of audit rotation conditions prior to the closing</b></p>

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	<b>of the transaction.</b>
2.2.2.8(L)(1) Subcontractor Requirements	<p>Subsection (L)(1) has language that was updated and appears in <b>bold</b> letters below:</p> <p>(1) Audit firms that have only one individual qualified to supervise a GAGAS audit and issue the related audit report pursuant to Section 61-28B-17(B) NMSA 1978, and GAGAS Paragraph 3.76 must submit with the firm profile, a completed original Contingency Subcontractor Form that is dated <b>to be effective until the date the next firm profile must be submitted</b>. The form shall indicate which IPA on the State Auditor's current list of approved IPA's will complete the IPA's audits in the event the one individual with the qualifications described above becomes incapacitated and unable to complete the audit. See the related Contingency Subcontractor Form available at <a href="http://www.osanm.org">www.osanm.org</a>. The Office will not approve audit contracts for such a firm without the required original Contingency Subcontractor Form.</p>
2.2.2.8 (M)(1) IPA Independence	<p>Subsection (M)(1) has language that was added and appears in <b>bold</b> letters below:</p> <p>(1) An IPA who performs the agency's annual financial audit shall not enter into any special audit or nonaudit service contract with the respective agency without the <u>prior written approval</u> of the State Auditor. <b>The exception to this requirement is an engagement that costs \$1,000 and 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.</b> Requests for approval of professional service contracts should be submitted to the Office with the <u>original</u> version of the signed agreement by the 5<sup>th</sup> of each month. The Office shall review the requests and respond to the agency and the IPA by the 25<sup>th</sup> of each month. The following documentation must be submitted to the Office for review and approval.</p>
2.2.2.8(O)(5) Requirements for Preparation of Financial Statements	<p>Subsection (O)(5) has language that was added and appears in <b>bold</b> letters below:</p> <p>(5) <b>If the agency is a component of a primary government, the agency's procurement for audit services must include the AU-C 600 (Group Audits) requirements for the IPA to communicate and cooperate with the group engagement partner and team, and the primary government. This requirement applies to agencies and universities that are part of the statewide CAFR, other component units of the statewide CAFR and other component units of any primary government that use a different audit firm from the primary government's audit firm.</b></p>
2.2.2.8(Q)(4) Auditor Communication Requirements	<p>Subsection (Q)(4) has language that was added and appears in <b>bold</b> letters below:</p> <p>(4) <b>The IPA shall conduct an audit entrance conference with the agency. The Office has the authority to notify the agency or IPA that the State Auditor should be informed of the date of the entrance conference, any progress meetings and the exit conference. If such notification is received, the IPA and agency must invite the State Auditor or his designee to attend all such conferences.</b></p>

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2.2.2.8(R)(3) Contract Amendments Requirements	<p>Subsection (R)(3) has language that was added and appears in <b>bold</b> letters below:</p> <p>(3) 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; for example, if an audit contract did not include a federal single audit, a contract amendment will be approved if a single audit is required. Other examples of significant changes in the scope of an audit include: the addition of a new program, function or individual fund that is material to the government-wide financial statements; the addition of a component unit; and special procedures required by a regulatory body or a local, state or federal grantor. <b>The addition of a “new program” does not mean the addition of one more major federal program when the Single Audit was already included in the IPA’s procurement response.</b> Contract amendments will not be approved to perform additional procedures to achieve an unqualified opinion. The State Auditor shall also consider the auditor independence requirements of Subsection M 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 <u>original</u> version of the signed contract amendment by the 5<sup>th</sup> of each month. <b>The request for contract amendment should include a description of the work to be performed and the estimated hours required to perform the additional work.</b> The Office will review the requests and respond to the agency and the IPA by the 25<sup>th</sup> of each month. Requests for contract amendments submitted after the 5<sup>th</sup> of each month will not be reviewed and responded to by the Office until the 25<sup>th</sup> of the following month.</p>
2.2.2.9(A)(1) Report Due Dates	<p>Subsection (A)(1) has been updated for the addition of the New Mexico CAFR and changes in due dates appear in <u>underlined</u> and <b>bold</b> letters below.</p> <p>(1) The audit report due dates are as follows:</p> <ul style="list-style-type: none"> <li>(a) Regional Education Cooperatives, Cooperative Educational Services and Independent Housing Authorities: <b>September 30;</b></li> <li>(b) Hospitals and Special Hospital Districts: <b>October 15;</b></li> <li>(c) <u>Counties</u>: <b>November 1;</b></li> <li>(d) School Districts and Higher Education: <b>November 15;</b></li> <li>(e) District Courts, <b>County/Municipality governments</b> and District Attorneys: <b>December 1;</b></li> <li>(f) Pursuant to Section 12-6-3(D) NMSA 1978, state agency reports are due no later than <b>sixty (60) days</b> after the State Auditor receives notice from the Financial Control Division of the Department of Finance and Administration (DFA-FCD) that the agency’s books and records are ready and available for audit, see Paragraph (1) of Subsection A at Section 2.2.2.12 NMAC for additional details regarding due dates for state agencies. <b><u>State agency reports are due no later than December 1 after the close of the fiscal year.</u></b></li> </ul>

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	<p>(g) <b><u>Workforce Investment Boards, Councils of Governments and Local Public Bodies (see also Subsection H of Section 2.2.2.16 NMAC): December 15.</u></b></p> <p>(h) Agencies with a fiscal year-end other than June 30 must submit the audit report no later than <b>5 months after the fiscal year-end</b>; and</p> <p>(i) All separate audit reports prepared for component units (e.g., housing authorities, charter schools, hospitals, foundations, etc.) are due <b>fifteen days before the primary government’s audit report is due.</b></p> <p>(j) <b><u>The State of New Mexico Comprehensive Annual Financial Report (CAFR) is due February 15.</u></b></p>
2.2.2.9(A)(3) Report Due Dates	<p>Language that was added to this subsection appears in <b>bold</b> letters below.</p> <p>(3) An organized bound hard copy of the report should be submitted for review by the Office with the following: copy of the signed management representation letter; a copy of the completed State Auditor report review guide (available at <a href="http://www.osanm.org">www.osanm.org</a>); <b>and a completed <u>Summary of Findings Form</u> also available at <a href="http://www.osanm.org">www.osanm.org</a>.</b> The report review guide should reference applicable page numbers in the audit report and be signed by the person completing the review guide. The audit manager or person responsible for the firm’s quality control system should either complete the report review guide or sign off as having reviewed it. A report will not be considered submitted to the Office for the purpose of meeting the deadline until a copy of the signed management representation letter, the completed report review guide; <b>and completed <u>Summary of Findings Form</u> are also submitted to the Office.</b> All separate reports prepared for component units should also be submitted to the Office for review, along with a copy of the representation letter, and a completed report review guide for each separate audit report. A separate component unit report will not be considered submitted to the Office for the purpose of meeting the deadline until a copy of the signed management representation letter, the completed report review guide, <b>and a completed <u>Summary of Findings Form</u></b> are also submitted to the Office. If a due date falls on a weekend or holiday, or if the Office is closed due to inclement weather, the audit report is due the following workday by 5:00 p.m. If the report is mailed to the State Auditor, it should be postmarked no later than the due date to be considered filed by the due date. If the due date falls on a weekend or holiday the audit report shall be postmarked by the following workday. The State Auditor will grant no extensions of time to the established regulatory due dates.</p>
2.2.2.9(A)(3) Report Due Dates	<p>Language that was removed from this subsection appears in <b>bold</b> letters below.</p> <p>(3) An organized bound hard copy of the report should be submitted for review by the Office with the following: copy of the signed management representation letter; <del>a list of the passed audit adjustments, clearly labeled “passed adjustments” (or memo stating there are none)</del>; and a copy of the completed State Auditor report review guide (available at <a href="http://www.osanm.org">www.osanm.org</a>).</p>

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2.2.2.9(A)(5) Report Due Dates	<p>Language that was added to this subsection appears in <b>bold</b> letters below.</p> <p>(5) As soon as the auditor becomes aware that circumstances exist that will make an agency's audit report <b>be submitted after the applicable due date shown in Subsection A above</b>, the auditor shall notify the State Auditor and oversight agency of the situation in writing. This notification shall consist of a letter with official signatures, not an email. However, a scanned version of the official letter sent via email that contains the required signatures is acceptable. There must be a separate notification for each late audit report. The notification must include a specific explanation regarding why the report will be late, when the IPA expects to submit the report <u>and a concurring signature by the agency</u>. If the IPA is going to miss the expected report submission date, then the IPA should send a revised notification letter. In the event the contract was signed after the report due date, the notification letter must still be submitted to the Office explaining the reason the audit report will be submitted after the report due date. A copy of the letter must be sent to the Legislative Finance Committee and the applicable oversight agency: Public Education Department, DFA's Financial Control Division, DFA's Local Government Division, or the Higher Education Department. <b>The late report notification letter is not required if the report was submitted to the Office for review by the deadline, and then rejected by the Office, making the report late when resubmitted.</b> At the time the audit report is due, if circumstances still exist that will make the report 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 auditor 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 unmodified opinion. <b>Therefore, reports resubmitted to the Office with changes of the IPA's opinion after the report deadline will be considered late and a late audit finding must be included in the audit report.</b></p>
2.2.2.9(C)(1) Delivery and Release of the Audit Report	<p>Language that was added to this subsection appears in <b>bold</b> letters below.</p> <p>(1) All audit reports (and all separate reports of component units if applicable) must be organized, bound and paginated. The Office does not accept facsimile or emailed versions of the audit reports for initial review. The IPA shall deliver to the State Auditor a hard copy of the audit report for review by 5:00 p.m. on the day the report is due. Reports postmarked by the due date will be considered received by the due date. Unfinished or excessively deficient reports will not satisfy this requirement; such reports will be rejected and returned to the IPA and the Office may take action in accordance with Subsection C of Section 2.2.2.13 NMAC. <b>The firm should submit an electronic version of the corrected rejected report for Office review. The name of the electronic file should be "Corrected Rejected Report" followed by the agency name and fiscal year.</b></p>
2.2.2.9(C)(3) Delivery and Release of the Audit Report	<p>Language that was added to this subsection appears in <b>bold</b> letters below.</p> <p>(3) The Office will review all audit reports submitted by the report due date before reviewing reports that are submitted after the report due date. Once the review of the report is completed pursuant to Section 2.2.2.13 NMAC, and any significant deficiencies have been corrected by the IPA, the Office will indicate to the IPA that the report is ready to print. After the Office review of the final version of the</p>

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	<p>audit report pursuant to Section 2.2.2.13 NMAC, the Office will authorize the IPA to submit the following items to the Office within <b>five</b> business days; the required number of hardcopies specified in the audit contract; and an electronic version of the audit report <b>labeled “Final,”</b> in PDF format. The Office will not release the report until the electronic version of the report that meets the following criteria is received by the Office. The electronic file must:</p> <p>(k) the electronic file name <b>must start with “Final Version,”</b> followed by the name of the agency and the fiscal year, and then end with .pdf.</p>
<p>2.2.2.9(C)(5) Delivery and Release of the Audit Report</p>	<p>Language that was added to this subsection appears in <b>bold</b> letters below.</p> <p><b>(5) After the release of a report, the Office will provide DFA and the Legislative Finance Committee with notification that the report is available on the Office website.</b></p>
<p>2.2.2.10(A)(1)(c) Scope of Annual Financial Audit</p>	<p>Added language appears in <b>bold</b> letters below.</p> <p>(c) The State Auditor requires the component unit(s) to be audited by the same audit firm that audits the primary government (except for public housing authority component units that are statutorily exempt from this requirement and <b>the statewide CAFR</b>). Requests for exemption from this requirement must be submitted in writing by the primary government to the State Auditor. If the request to use a different auditor for the component unit is approved in writing by the State Auditor, the following requirements must be met:</p> <p>(i) The <b>group engagement partner should agree that the group engagement team will be able to obtain sufficient appropriate audit evidence through the use of the group engagement team’s work or use of the work of the component auditors (AU-C 600.15);</b></p> <p>(ii) The component unit auditor selected must appear on the Office of the State Auditor list of eligible independent public accountants;</p> <p>(iii) The bid and auditor selection processes must comply with the requirements of this Rule;</p> <p>(iv) The Office of the State Auditor standard contract form must be used;</p> <p>(v) <b>The primary government, the primary engagement partner, management of the component unit, and the component auditor should all coordinate their efforts to ensure that the audit reports of the component unit and the primary government are submitted by the applicable deadlines;</b></p> <p>(vi) All component unit findings must be disclosed in the primary government’s audit report (<b>except the statewide CAFR is required to include only separate legal component unit findings that are significant to the state as a whole</b>); and</p>

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	(vii) Any separately issued component unit audit report must be submitted to the State Auditor for the review process described in Section 2.2.2.13 NMAC.
2.2.2.10(A)(1)(d) and (e) and (2)(a) & (d) Scope of Annual Financial Audit	<p>Added language related specifically to the New Mexico CAFR appears in <b>bold</b> letters below.</p> <p>(1) The financial audit shall cover the entire financial reporting entity including the primary government and any component units of the primary government.</p> <p>(d) The level of planning materiality required by the State Auditor for component units is at the individual fund level. <b>This requirement does not apply to the audit of the statewide CAFR.</b> College and university component units have a different materiality level. See Paragraph (3) of Subsection E of Section 2.2.2.12 NMAC.</p> <p>(e) <b>With the exception of the statewide CAFR</b>, the following supplemental information (SI) pertaining to component units should be audited at the more detailed fund level included in the scope of the audit and opined on as illustrated in Example A-14 (AAG-SLV):</p> <p>(2) Audits of state and local governmental agencies shall be comprised of a financial and compliance audit of the financial statements and schedules as follows:</p> <p>(a) <b>The level of planning materiality described in the AICPA Audit and Accounting Guide, State and Local Governments, paragraphs 4.72 and 4.73, should be used for the statewide CAFR audit.</b></p> <p>(d) <b>With the exception of the statewide CAFR</b>, the auditor must audit the following supplemental information at the individual fund level, if applicable, and opine on it in the auditor’s opinion following Example A-14 (AAG-SLV 14 Appendix A):</p>
2.2.2.10(H) Federal Compliance Requirements	<b>2.2.2.10 H.</b> The following federal compliance requirements must be tested ( <b>with the exception of the statewide CAFR audit</b> ):
2.2.2.10(I) Audit Finding Requirements	<b>2.2.2.10 I.</b> (6) Component unit audit findings must be reported in the primary government’s financial audit report. <b>This is not required for the statewide CAFR unless a <u>legally separate component unit’s</u> (like NM Finance Authority’s or NM Mortgage Finance Authority’s) finding is significant to the State as a whole.</b>
2.2.2.10(O) Appropriations to Agencies	<b>2.2.2.10 O.</b> (2) Special, Deficiency, Specific, and Capital Outlay Appropriations:  Special, deficiency, and specific appropriations and capital outlay appropriations funded by severance tax bonds or general obligation bonds of the State must be disclosed in the financial statements. The original appropriation, the appropriation period, expenditures to date, outstanding encumbrances and

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2.2.2.10(U) Joint Powers Agreements and Memorandums of Understanding	<p>unencumbered balances should be shown in a supplementary schedule or in a note to the financial statements. <b><u>This is a special requirement of the State Auditor and it does not apply to the statewide CAFR audit.</u></b></p> <p><b>2.2.2.10 U.</b> (1) All joint powers agreements (JPA) and memorandums of understanding (MOU) must be listed in a supplementary schedule in the audit report. <b>The statewide CAFR schedule should include JPAs and MOUs that are significant to the state as a whole.</b></p>
2.2.2.10(A)(2)(g) Scope of Annual Financial Audit	<p>This is an <b><u>entirely new</u></b> subsection that says the following.</p> <p><b>(g) The audit engagement and audit contract compensation include AU-C 720 procedures and auditor reporting be performed on a <u>schedule of vendor information</u>. The agency shall prepare a schedule of vendors for purchases exceeding \$60,000 (excluding gross receipts tax) that includes the following information: names of all vendors that responded to requests for bids or requests for proposals during the fiscal year; whether the vendor was an in-state vendor or an out-of-state vendor; if the vendor was in-state and chose the veterans’ preference instead of the in-state preference; a short description of the scope of work; the name of the vendor that was awarded the contract; and the dollar amount of the resulting contract. This “Schedule of Vendors” must be included in the Other Information section of the audit report.</b></p>
2.2.2.10(C) Reverting or Non- Reverting Funds	<p>Language that was added to this paragraph appears in <b>bold</b> letters below.</p> <p>Legislation can designate a fund as reverting or non-reverting. The IPA must review the state law that 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 or non-reverting status of a fund or appropriation. The financial statements must disclose the specific legislation that makes a fund or appropriation non-reverting <b>and any minimum balance required</b>. If non-reverting funds 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 Subsection A of Section 2.2.2.12 NMAC and the DFA White Papers “Calculating Reversions to the State General Fund,” and “Basis of Accounting—Modified Accrual and the Budgetary Basis.” <b>The statewide CAFR is exempt from this requirement.</b></p>
2.2.2.10(D)(3) Standards	<p>The wording that appears in <b>bold</b> below was added.</p> <p>The audits shall be conducted in accordance with:</p> <p>(3) <i>OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations</i>, as amended (<b>unless the grant agreement specifies that the Uniform</b></p>

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2.2.2.10(G) State Compliance Audit Requirements	<p align="center"><b>Administrative Requirements apply in FY15.)</b></p> <p>Language that was added to this paragraph appears in <b>bold</b> letters below and language that was removed is indicated by a strikethrough.</p> <p>An IPA shall identify significant state statutes, rules and regulations applicable to the governmental agency under audit and perform tests of compliance. In addition to the significant state statutes, rules and regulations identified by the IPA, the following state statutes and constitutional provisions must be tested <b>(with the exception of the statewide CAFR audit):</b></p> <p>(1) Procurement Code (Sections 13-1-1 to 13-1-199 NMSA 1978) <b>including providing the State Purchasing Agent with the name of the agency’s or local public body’s chief procurement officer, pursuant to Section 13-1-95.2 NMSA 1978,</b> and State Purchasing Regulations 1.4.1 NMAC;</p> <p><del>(3) Personnel Act (Sections 10-9-1 to 10-9-25 NMSA 1978) and State Personnel Administration 1.7.1 NMAC (state agencies only);</del></p> <p><b>(19) If applicable to the agency’s audit contract, the auditor shall perform additional audit procedures indicated in the “other provisions section” of the audit contract. If the additional audit procedures required by the “Other Provisions” section of the contract cause a significant change in the scope of the audit, then the contract amendment provisions of 2.2.2.8(R) NMAC will apply.</b></p>
2.2.2.10(H)(2)(b) Federal Compliance Requirements	<p>Language that was removed from this subsection appears in stricken-through letters below.</p> <p><del>(b) The auditor should test to ensure that agency personal service contractors (1099 employees) meet the IRS tests to qualify as contract labor and that employees with contractor characteristics are properly classified as employees. The relevant IRS criteria for these tests are available in chapter 2 of the IRS Publication 15-A, Employer’s Supplemental Tax Guide. In the event a personal services contractor is in substance an employee, the governmental agency could be liable for the employee’s share of FICA and employer FICA match on the contract payments. Public Employees Retirement Association (PERA) or the Educational Retirement Board (ERB) could expect excess retirement payments to be refunded in some circumstances. See Sections 10-11-8(C) and 22-11-25 NMSA 1978.</del></p>
2.2.2.10(I)(3)(c)(i) Audit Finding Requirements	<p>Language that was added to this paragraph appears in <b>bold</b> letters below.</p> <p>(i) Condition (provides a description of a situation that exists and should include the extent of the condition and an accurate perspective; the number of instances found and the dollar amounts involved, if any, and , <b>for repeat findings, include here management’s progress or lack of progress towards implementing the prior year corrective action plan);</b></p>
2.2.2.10(I)(3)(c)(vi) Audit Finding	<p>Language that was added to this paragraph appears in <b>bold</b> letters below.</p>

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Requirements	(vi) Agency Response (agency’s comments about the finding including a specific corrective action plan <b>with a timeline and designation of what employee position(s) are responsible for meeting the deadlines in the timeline</b> ).
2.2.2.10(J)(1) Exit Conference and Related Confidentiality Issues	<p>Language that was added to this paragraph appears in <b>bold</b> letters below.</p> <p>The IPA must hold an exit conference with representatives of the agency's governing authority and top management including representatives of any component units (housing authorities, charter schools, hospitals, foundations, etc.) if applicable. <b>The Office has the authority to notify the agency or IPA that the State Auditor should be informed of the date of the entrance conference, any progress meetings and the exit conference. If such notification is received, the IPA and agency must invite the State Auditor or his designee to attend all such conferences.</b> 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. <b>Unless the cost of the audit is \$5,000 or less,</b> the exit conference must be held in person; a telephone or webcam exit conference will not meet this requirement. If <u>extraordinary circumstances</u> exist that will prevent the exit conference from taking place in person, the IPA shall submit a written request for an exemption from this requirement to the State Auditor at least 48 hours prior to the scheduled exit conference. The written request for the exemption must include the justification for the request and the concurring signature of the agency. The IPA may not hold a telephonic or webcam exit conference without prior written approval of the State Auditor. The date of the conference(s) and the names and titles of personnel attending must be stated in the last page of the audit report.</p>
2.2.2.10(L) Special Revenue Funds Authority	<p>Language that was added in this paragraph appears in <b>bold</b> letters below.</p> <p>The authority for creation of special revenue funds <b>and any minimum balance required</b> must be shown in the audit report (i.e., cite the statute number, code of federal regulation, executive order, resolution number, or other specific authority) on the divider page before the combining financial statements or in the notes to the financial statements. <b>This requirement does not apply to the statewide CAFR.</b></p>
2.2.2.10(M)(3)(g) Public Monies	<p>This is an <b>entirely new</b> subsection that says the following.</p> <p><b>(g) In auditing the investment in the State General Fund Investment Pool (SGFIP) of a state agency, the IPA should review the individual state agency’s cash reconciliation procedures and determine whether those procedures would reduce the agency’s risk of misstatement in the investment in SGFIP, and whether the agency is actually performing those procedures. The IPA should also take into consideration the complexity of the types of cash transactions that the state agency enters into and whether the agency processes its deposits and payments through SHARE. For example, some agencies receive only the cash annually appropriated to the agency, and process all expenditures through SHARE, resulting in low risk that the investment in SGFIP could be misstated. Every state agency audit report should include disclosure in light of the reconciliation issues at the statewide level, and what the agency is doing to mitigate its risk of misstated SGFIP account balances. Taking all these and more facts gained during audit</b></p>

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	<p><b>procedures into consideration, the IPA should use his or her professional judgment to determine each agency’s risk of misstatement in the investment in the SGFIP and write findings and modify opinions as deemed appropriate by the IPA. (state agencies only)</b></p>
2.2.2.10(M)(4)(e) Pledged Collateral	<p>The stricken portion of this paragraph was deleted because it was deleted from the law.</p> <p><del>Securities which are of obligations of the State of New Mexico, its agencies, institutions, counties, municipalities or other subdivisions shall be accepted as securities at par value. All other securities shall be accepted as security at market value pursuant to Section 6-10-16(C) NMSA 1978.</del></p>
2.2.2.10(Z) SAS 127: Omnibus Statement on Auditing Standards - 2013	<p>This description of SAS 127 (various effective dates) which amends parts of SAS 122 (2013 Audit Rule – 2.2.2.10.CC NMAC) was removed.</p> <p>Language that was added in this paragraph appears in <b>bold</b> letters below.</p> <p><b>AICPA Statement on Auditing Standards No. 128, Using the Work of Internal Auditors.</b></p> <p><b>This statement is effective for audits of financial statements for periods ending on or after December 15, 2014 (FY15). SAS No. 128 describes the external auditor’s responsibilities when using the work of internal auditors when (1) the external auditor is using the work of the internal audit function in obtaining audit evidence; and (2) when the external auditor is using the internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor. SAS No. 128 supersedes previous related guidance in AU-C 610. One of the things that SAS 128 requires as a prerequisite to being able to use the work of the internal audit function, is that the external auditor evaluate the application by the Internal audit function of a systematic and disciplined approach, including quality control.</b></p>
2.2.2.10.AA-.EE	<p>These are <b><u>entirely new</u></b> subsections:</p> <p><b>2.2.2.10 AA.</b> AICPA Statement on Auditing Standards No. 129, Amendment to Statement on Auditing Standards No. 122 Section 920, Letters for Underwriters and Certain Other Requesting Parties, as amended –</p> <p>This statement is effective for comfort letters issued on or after December 15, 2014.</p> <p><b>2.2.2.10 BB.</b> GASBS 69, <i>Government Combinations and Disposals of Government Operations</i> –</p> <p>This Statement establishes accounting and financial reporting standards related to government mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 (FY15) and should be applied on a prospective basis. Earlier application is</p>

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	<p>encouraged.</p> <p><b>2.2.2.10 CC.</b> GASBS 71, <i>Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 –</i></p> <p>“This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine <u>all</u> such amounts.” The requirements of this statement should be applied at the same time the provisions of Statement 68 are applied (fiscal years beginning after June 15, 2014 (FY15)).</p> <p><b>2.2.2.10 DD.</b> GASBS 68, <i>Accounting and Financial Reporting for Pensions-An Amendment of GASBS Statement No. 27:</i></p> <p>Note that paragraphs (1) through (3) remain unchanged and still require an AU-C 805 audit to be performed on the PERA and ERB schedules of pension liability information allocated to each participant employer. Paragraph (4) below was added to the 2015 Audit Rule.</p> <p>(4) On the subject of whether the liability should be included in the stand-alone financial statements of funds see Implementation Guide—GASB Statement 68, Question and Answer 122, that says, “Except for blended component units, which are discussed in Questions 34 and 35, Statement 68 does not establish specific requirements for allocation of the employer's proportionate share of the collective net pension liability or other pension-related measures to individual funds. However, for proprietary and fiduciary funds, consideration should be given to NCGA Statement 1, paragraph 42, as amended, which requires that long-term liabilities that are “directly related to and expected to be paid from” those funds be reported in the statement of net position or statement of fiduciary net position, respectively. Stand alone state agency financial statements that exclude the proportionate share of the collective net pension liability of the State of New Mexico based on the above guidance, should include note disclosure referring the reader to the statewide comprehensive annual financial report (CAFR) for the state’s pension liability and other pension-related information. The stand-alone report for the New Mexico Component Appropriation Funds should include note disclosure of the net pension liability for all the state agencies of the State of New Mexico.</p> <p><b>2.2.2.10 EE.</b></p> <p>OMB Circular A-133 is being replaced by “Uniform Guidance for Federal Awards” (the Uniform Guidance). The standards set forth in Subpart F – Audit Requirements were effective December 26, 2013, and will apply to audits of fiscal years beginning on or after December 26, 2014 (FY16). For one full fiscal year after the effective date</p>

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	<p>of the Uniform Guidance (FY15), non-federal entities must comply with the terms and conditions of their Federal award, which will specify whether the Uniform Guidance applies. Regarding the new procurement standards, “the non-Federal entity must document whether it is in compliance with the old or new standard, and must meet the documented standard. For example, the first full fiscal year for a non-Federal entity with a June 30th year end would be the year ending June 30, 2016 (FY16). The Single Audit Compliance Supplement will instruct auditors to review procurement policies and procedures based on the documented standard. For future fiscal years, all non-Federal entities will be required to comply fully with the uniform guidance.” See Item 200.110, Frequently Asked Questions for OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirement for federal awards at 2 CFR 200.</p>
<p>2.2.2.12(B)(3) Pertaining to Audits of Housing Authorities</p>	<p>The language in bold wording was added to paragraph (b).</p> <p>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. <b>The Office has the authority to notify the agency or IPA that the State Auditor should be informed of the date of the entrance conference, any progress meetings and the exit conference. If such notification is received, the IPA and agency must invite the State Auditor or his designee to attend all such conferences.</b></p>
<p>2.2.2.12(B)(4)(c)(i) Pertaining to Audits of Housing Authorities</p>	<p>The <b>bold</b> wording in paragraph (i) below was updated based on current auditing standards.</p> <p>(4) Housing authorities that are component unites of a local government  (c) Any separate audits of component unit housing authorities must be conducted according to the following requirements.  (i) <b>The primary engagement partner should agree that the group engagement team will be able to obtain sufficient appropriate audit evidence through the use of the group engagement team’s work or the use of the work of the component auditors (AU-C 600.15).</b></p>
<p>2.2.2.14(A) Continuing Professional Education and Peer Review Requirements</p>	<p>The bold wording was added to paragraph (6) below.</p> <p>During the procurement process audit firms shall provide a copy of their most recent external peer review report to the agency upon submitting a bid proposal or offer and <b>any subsequent peer review reports received during the period of the contract.</b></p>
<p>2.2.2.15 Special Audits, Attestation Engagements, Performance Audits, and Forensic Audits</p>	<p>This entire section has been modified. See the 2015 Audit Rule.</p>
<p>2.2.2.16(F)(3) Requirements of the IPA Selected to Perform the Agreed</p>	<p>This is an <b>entirely new</b> subsection:</p> <p><b>(3) The IPA will hold an entrance conference and an exit conference with the local public body unless the IPA has submitted a written request to the Office</b></p>

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Upon Procedures	<p><b>for an exemption from this requirement and has obtained written approval of the exemption from the Office. Unless the cost of the AUP is \$5,000 or less, the exit conference must be held in person; a telephone or webcam exit conference will not meet this requirement. The Office has the authority to notify the agency or IPA that the State Auditor should be informed of the date of the entrance conference, any progress meetings and the exit conference. If such notification is received, the IPA and agency must invite the State Auditor or his designee to attend all such conferences.</b></p>
2.2.2.16(F)(4) Requirements of the IPA Selected to Perform the Agreed Upon Procedures	<p>Language that was added or updated in this paragraph appears in <b>bold</b> letters below.</p> <p>(4) <b>The report should be submitted to the Office for review along with a completed Summary of Findings Form available at <a href="http://www.osanmn.org">www.osanmn.org</a>. The report will not be considered received by the Office unless it is accompanied by the required Summary of Findings Form.</b> Once the report is officially released to the agency by the State Auditor (by an authorizing letter) and the required waiting period of five calendar days has passed or has been waived by the local public body, the agreed upon procedures report shall be presented by the IPA, to a quorum of the governing authority of the local public body at a meeting held in accordance with the Open Meetings Act, if applicable.</p>
2.2.2.16(H)(1) Report Due Dates, Notification Letters and Confidentiality	<p>Language that was added or updated in this paragraph appears in <b>bold</b> letters below.</p> <p>(1) For local public bodies with a June 30 fiscal year-end, the report <b>or certification</b> due date is <b>December 15</b>. Local public bodies with a fiscal year end other than June 30 must submit the agreed upon procedures report no later than five months after the fiscal year-end. An organized bound hard copy of the report should be submitted. Reports submitted via fax or email will not be accepted. A copy of the signed dated management representation letter shall be submitted with the report. If a due date falls on a weekend or holiday, or if the Office is closed due to inclement weather, the report is due the following business day by 5:00 p.m. If the report is mailed to the State Auditor, it should be postmarked no later than the due date to be considered filed by the due date. If the due date falls on a weekend or holiday the audit report should be postmarked by the following workday. The State Auditor will grant no extensions of time to the established regulatory due dates.</p>
2.2.2.16(H)(2) Report Due Dates, Notification Letters and Confidentiality	<p>Language that was added or updated in this paragraph appears in <b>bold</b> letters below.</p> <p>(2) As soon as the auditor becomes aware that circumstances exist that will make the local public body's agreed upon procedures report <b>be submitted after the applicable due date shown in Paragraph (1) above</b>, the auditor shall notify the State Auditor and oversight agency of the situation in writing. This notification shall consist of a letter with official signatures, not an email. However, a scanned version of the official letter sent via email that contains the required signatures is acceptable. There must be a separate notification for each late agreed upon procedures report. The notification must include a specific explanation regarding why the report will be late, when the IPA expects to submit the report <u>and a</u></p>

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	<p><u>concurring signature by the local public body.</u> If the IPA will not meet the expected report submission date, then the IPA should send a revised notification letter. In the event the contract was signed after the report due date, the notification letter must still be submitted to the Office explaining the reason the agreed upon procedures report will be submitted after the report due date. A copy of the letter must be sent to the LGD, if LGD oversees the local public body. <b>The late report notification letter is not required if the report was submitted to the Office for review by the deadline, and then rejected by the Office, making the report late when resubmitted.</b></p>
<p>2.2.2.16(J) Review of Agreed Upon Procedures Reports and Related Workpapers</p>	<p>Language that was added or updated in this paragraph appears in <b>bold</b> letters below.</p> <p>Agreed Upon Procedures reports will be reviewed by the Office for compliance with the professional services contract. Unfinished or excessively deficient reports will not be considered received. Such reports will be returned to the firm and a copy of the rejection letter will be sent to the local public body. If the Office rejects and returns a substandard agreed upon procedures report to the firm, the report will be considered late if the revised report is not submitted by the due date, and the firm must include a finding for noncompliance with the due date <b>The firm should submit an electronic version of the corrected rejected report for Office review. The name of the electronic file should be “Corrected Rejected Report” followed by the agency name and fiscal year.</b> The Office encourages early submission of reports to avoid findings for late reports. After its review of the agreed upon procedures report for compliance with the professional services contract, the Office will authorize the IPA to print and submit the final report; the required number of hardcopies specified in the professional services contract and an electronic version of the agreed upon procedures report, in PDF format described at Paragraph (3) of Subsection C of Section 2.2.2.9 NMAC, all must be delivered to the Office within <b>five</b> business days.</p>