

**OFFICE OF THE STATE AUDITOR
SUMMARY OF AUDIT RULE 2009 CHANGES**

Rule Section	Description of the Change
2.2.2.7 Definitions	Agency definition expanded to include land grants, domestic water consumer associations and public improvement districts.
2.2.2.8(B)(5) Procuring an Independent Public Accountant (IPA)	Language is changed to allow agencies some flexibility with the criteria used to select an auditor. Agencies are strongly encouraged to consider the following criteria when selecting an auditor (a) the capability of the IPA (b) the work requirements and audit approach of the IPA and (3) the IPA's technical experience.
2.2.2.8(B)(6) Deadline for selection of an IPA	The agency must submit to the Office of the State Auditor a cover letter, signed evaluation form, list of professional service contracts and approval from its oversight committee, if applicable, by June 1, 2009. The deadline was changed from June 2 in 2008.
2.2.2.8(C)(1)(b) Rotation of an IPA	The auditor rotation requirement has been modified. An IPA is prohibited from conducting an agency audit for a period of two years because the IPA conducted the agency audit for a period of (a) six consecutive years and for at least one of those years, the audit fees exceeded \$50,000 excluding gross receipts tax; (b) ten consecutive years and each year the audit fees did not exceed \$50,000, excluding gross receipts tax.
2.2.2.8(C)(2)(k) Denial of an audit contract recommendation	This subsection was added to allow the State Auditor discretion to disapprove an audit contract recommendation of an IPA that releases an audit report to an agency or the public before the audit report is released by the OSA.
2.2.2.8(H) GAGAS Independence Standards	This section was revised to include the latest version of GAGAS standards related to independence.
2.2.2.8(H)(1) and 2.2.2.8(H)(2) Professional Service Contracts	If an IPA performs an agency's financial audit, they shall not enter into any special audit or nonaudit service contract without the prior written approval of the State Auditor. An IPA that does not perform an agency financial audit shall submit a copy to State Auditor of each professional services contract entered into between the agency and the IPA. The contract shall not require approval by the State Auditor but shall be submitted to the State Auditor within 30 days of execution. This is a change from previous years which required all professional service contracts to be approved by the State Auditor.
2.2.2.8(L) Auditor Communication	This section was revised to include the latest version of GAGAS standards related to auditor communication.
2.2.2.8(M) Contract Amendments	Language was added that contract amendments for audit services and nonaudit services shall be approved in writing by the State Auditor if the original contract requires State Auditor approval pursuant to 2.2.2 NMAC. Additional language was added that contract amendments submitted for State Auditor approval shall include a detailed explanation of: (a) the work to be performed and estimated hours and fees required for completion of each separate professional service contemplated by the amendment; (b) how the work to be performed is beyond the scope of work outlined in the original contract; and (3) when the auditor became aware of the

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	work needed to be performed. Contract amendments will only be approved for extraordinary circumstances or a significant change in the scope of an audit. This section does provide examples of what will be consider a change in scope. This section also provides examples of what will not be approved. The section further provides language that contract amendments received by the 5 th of each month will be responded to by the OSA on the 25 th of the month. If contract amendments are received after the 5 th , then the OSA will respond on the 25 th of the following month.
2.2.2.9(A)(1)(d) Audit Report Due Dates	Public Improvement Districts, Mutual Domestic Water Consumer Associations and Soil and Water Conservation Districts were added to the list of audit reports due one December 1.
2.2.2.9(A)(1)(f) Audit Report Due Dates	The following language was added to this subsection: “Once the agency and auditor have certified to the Financial Control Division that the agency’s books and records are ready and available for audit, if the auditor or agency find that the scheduled audit deliverables or agreed upon milestones are not accomplished timely and there is a possibility the audit report will be late, the auditor or agency shall immediately write a dated letter to the State Auditor describing the problems. The Financial Control Division must be sent a photocopy of the letter.”
2.2.2.9(A) Audit Report Due Dates	The following language was deleted from this section “Audit reports for agencies that have submitted auditor recommendations after the due dates specified above will be due 30 days after the auditor recommendations has been approved by the State Auditor.”
2.2.2.9(A)(3) Audit Report Submissions	Language was added to this subsection to address office closures due to inclement weather.
2.2.2.9(A)(5) Late Audit Report Notification	The word “specific” was added so that IPA’s are required to provide a “specific explanation regarding why the report will be late”.
2.2.2.9(C)(1) Delivery of the Audit Report	Language was added that states the Office of the State Auditor does not accept facsimile versions of the audit reports for review.
2.2.2.9(C)(1) Delivery and Release of the Audit Report	Language was added that states that “unfinished or excessively deficient reports” will not be considered received. Such reports will be rejected and returned to the IPA and the Office may take action in accordance with Subsection C of 2.2.2.13. NMAC.
2.2.2.9(C)(3) Delivery and Release of the Audit Report	Language was added that states that IPA’s have two business days to submit the requisite number of hardcopies and an electronic version of the audit report after the office has authorized the IPA to print the report.
2.2.2.(9)(E) Delivery and Release of the Audit Report	Language was added that if the Office rejects and returns a substandard report to the IPA, the Office will consider the audit report late if the corrected report is not submitted by the due date and the IPA will be required to report a finding for the late audit report.

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2.2.2.10(A)(1)(a) Scope of Annual Financial Audit - Component Units	If an exemption is requested for the component unit to be presented as other than a discrete component unit, language was added that the exemption must include “a detailed explanation, conclusion and supporting documentation.”
2.2.2.10(A)(2)(d)(i) and 2.2.2.10(A)(2)(d)(ii) Scope of Annual Financial Audit	Language was added to include “individual fund” financial statements.
2.2.2.10(A)(2)(d)(iii) Scope of Annual Financial Audit	Language was added to include “capital project” or “debt service” funds, “enterprise” funds and “internal service” funds that are not presented as part of the basic financial statements.
2.2.2.10(I)(3)(b) Current Year Findings	The following language was added to this Subsection: “The agency’s responses to the audit findings and the correction action plan should be including in the finding after the recommendation. When the audited entity’s comments are inconsistent or in conflict with findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditor’s recommendations, the auditors should evaluate the validity of the audited entity’s comments. If the auditors disagree with the comments, they should explain their reasons for disagreement after the agency’s response. Conversely, the auditors should modify their report as necessary if find the comments valid and supported with sufficient, appropriate evidence (GAGAS 5.37).” The following language was revised to state “If the audited entity refused to provide comments or is unable to provide comments within a reasonable period of time, indicate that the responses to the findings were not received and the reason why after the recommendation (GAGAS 5.38).”
2.2.2.10(I)(3)(c) Current Year Findings	The following language was revised to provide more descriptive language for Condition, Criteria, Effect and Cause”: “Each audit finding (including unresolved prior-year findings) shall specifically state and describe the following in the following order: (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, should be reported in the condition); (ii) Criteria (should identify the required or desired state or <u>what is expected</u> from the program or operation; should cite the specific section of law, regulation, ordinance, contract, or grant agreement if applicable); (iii) Effect (the logical link to establish the <u>impact or potential impact of the difference</u> between the situation that exists (condition) and the required or desired state (criteria); demonstrates the need for corrective action in response to identified problems or relevant risks); (iv) Cause (identifies the reason or explanation for the condition or the factors responsible for the <u>difference</u> between what the auditors found and what is required or expected; the cause will serve as a basis for the recommendation);”
2.2.2.10(I)(5) Audit Findings	This section was revised to clarify that a finding is only necessary when an agency has entered into any professional services contract with the IPA who performs the agency’s annual financial audit and the contract was not approved by the State Auditor.
2.2.2.10(N)(3) Public Monies	Language was added to include State Treasurer and State Investment Council as names of depositories.

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2.2.2.10(N)(4)(b) Pledged Collateral	The following language was added to this subsection “(for line items iv-viii, delete the line items if custodial credit risk category does not apply)” Also, the amounts were changed on line item (i) from \$300,000 to \$450,000 and line item (ii) from \$100,000 to \$250,000. Language was also added to this subsection stating “Congress has temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. Changes have also been made to other account types. For more information, visit www.fdic.gov .”
2.2.2.10(O)(2) Budgetary Presentation	The following language was added to this subsection: “Also, the notes to the financial statements should disclose any excess of expenditures over appropriations at the legal level of budgetary control.”
2.2.2.10(O)(3) Budgetary Presentation	This subsection was expanded to include final budgets approved by HED or PED.
2.2.2.1(P)(1) Appropriations to Agencies	This section was revised to state “If actual expenditures exceed budgeted expenditures at the legal level of budgetary control, the fact must be reported in a finding and disclosed in the notes to the financial statements. If budgeted expenditures exceed budgeted revenues (after prior-year cash balance and any applicable federal receivables required to balance the budget), the fact must also be reported in a finding since budget deficits are generally not allowed.”
2.2.2.10(FF) Financial Reporting for OPEB	The following language was added to this subsection: “For employers that participate in the state’s Retiree Health Care Authority’s postemployment benefit plan, the notes to the financial statements must include the standard note disclosure for the plan which is posted on the Office’s website under “Audit Firms/Report Review Guides.” The standard note disclosure will comply with the requirements of GASBS 45.24.”
2.2.2.10(II) Pension Disclosures	The following language was added to this subsection: “For employers that participate in the retirement plans administered by the Public Employees Retirement Association or the Educational Retirement Board, the notes to the financial statements must include the standard note disclosure for the plan which is posted on the Office’s website under “Audit Firms/Report Review Guides.” The standard note disclosures will comply with the requirements of GASBS 27.20 and 50.7.”
2.2.2.10(LL) GASBS 53, Accounting and Financial Reporting for Derivative Instruments	This subsection was added to the rule. The subsection states the following” The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 (FY10). Earlier application is encouraged. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, can also expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.”
2.2.2.12(A)(5)(b) Audits of State	Language was modified in this subsection to state “The SHARE chart of accounts reflects the following appropriation unit levels. The statement of revenues and expenditures in the audit

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Agencies – Book of Record	report should be presented in according with GAAP, by function or program classification and object code.”
2.2.2.12(A)(11) Audits of State Agencies – Budgetary Basis	Language was modified in this subsection to state “The legal level of budgetary control should be disclosed in the notes to the financial statements.”
2.2.2.12(A)(12)(b) Audits of State Agencies – Capital Outlay Appropriations Financed by Bond Proceeds	This subsection was modified on how state agencies that receive or administer any special capital outlay appropriations from the State Legislature that are financed by bond proceeds should account for the transactions.
2.2.2.12(A)(14) Audits of State Agencies – Investments in the State Treasurer’s General Fund Investment Pool (GFIP)	Language was modified in this subsection to state “These investments should be recorded as investments on the statement of net assets and the balance sheet, not as cash or cash equivalents. The notes to the financial statements should contain the following disclosures for the GFIP as required by GASBS 40.”
2.2.2.13(A) Review of Audit Reports and Audit Documentation	This subsection was modified. The subsection eliminated the language stating the Office may charge for agencies for the audit report review process. The subsection also eliminated the section discussing the review process including deficiency process and subsequent faxes. The subsection added the following language “Section 12-6-14(B) 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 the contracts approved by the State Auditor are subject to review. The Office will review all reported submitted by the IPA to determine if the reports are presented in accordance with the requirements of this rule and applicable auditing, accounting and financial reporting standards. The office will review all audit reports submitted by the report due date before reviewing reports that are submitted after the report due date.”
2.2.2.15 Special Audits and Examinations	This Subsection was added related to special audits and examinations. This Subsection addresses, but is not limited to such topics as reporting requirements, fact-finding procedures, confidentiality, contract requirements and report submission.
Audit Rule	Other minor revisions have been made throughout the audit rule.
Appendices	The appendices have been updated.