

**OFFICE OF THE STATE AUDITOR
SUMMARY OF AUDIT RULE 2010 CHANGES**

Rule Section	Description of the Change
2.2.2.3 Statutory Authority	Inserted an explanation of the tiered system of financial reporting for local public bodies pursuant to Section 12-6-3(B) NMSA 1978, for which the amount of annual revenue determines whether the local public body is subject to an agreed upon procedures engagement.
222.6 Objective	The objective was expanded to include establishing policies, procedures, rules and requirements for agreed upon procedures engagements.
2.2.2.7 Definitions	Added definitions for <ul style="list-style-type: none"> • A “Local public body” which is a mutual domestic water consumers association, a land grant, an incorporated municipality or a special district; • “SAS” which is AICPA’s Statement on Auditing Standards; and • “Tier” which refers to the type of IPA procedures (if any) that a local public body must obtain, as required by Section 12-6-3(B) of NMSA 1978 .
2.2.2.8 (A) The Audit Contract	Inserted the explanation of the tiered system and referred the reader to Section 2.2.2.16 NMAC for information applicable to local public body contracting.
2.2.2.8(B)(2) Small Purchases	Added an explanation that IPA services that cost no more than \$50,000 excluding gross receipts tax on each year’s contract should be considered small purchases. Inserted a sentence explaining that an agency may procure audit services for one year only.
2.2.2.8(B)(3) Competitive Sealed Proposals	Added an explanation that for IPA services that cost over \$50,000 excluding gross receipts tax for each year of the contract , the agency shall seek competitive sealed proposals.
2.2.2.8(B)(5) Component Unit Participation	Changed “shall” to “are encouraged to be” in the following sentence. Members of component units such as charter schools, housing authorities, etc., are encouraged to be included in the IPA selection process.
2.2.2.8(B)(6) IPA Recommendation	<ul style="list-style-type: none"> • Inserted the explanation regarding the June 1 deadline, that in the event the due date falls on a weekend or holiday the due date will be the next work day. • Item (a) was updated to refer the reader to the Office website at www.osanm.org for the example Cover Letter for the IPA Recommendation that was previously Audit Rule Appendices A and B. • Item (c) was expanded to request information regarding all professional services contracts the agency entered into for special audits or agreed-upon procedures relating to financial fraud, waste or abuse, since the last firm profile was submitted to the Office.
2.2.2.8(C) State Auditor May Not Approve Recommendations	This list of reasons for disapproval of an IPA recommendation was expanded to apply to apply to local public body recommendations for an IPA to perform agreed upon procedures engagements.
2.2.2.8(D) Audit Contract Forms	This section was updated to explain that the state auditor will provide the audit contract forms to the agency via email unless the agency specifically requests that the contract form be provided by US mail.
2.2.2.8(E) Liability Insurance	The requirement to provide proof of professional liability insurance coverage was expanded to apply to IPA’s performing agreed upon procedures engagements for local public bodies.
2.2.2.8(F) Disqualification From Contracting	The disqualification of an IPA from contracting privileges caused by an IPA knowingly making false statements, assurances, or disclosures, was expanded to also apply to IPA’s contracting to perform agreed upon procedures engagements for local public bodies.
2.2.2.8(G) Subcontracting	The subcontractor form is available at www.osanm.org rather than as an Appendix of the Audit Rule.
2.2.2.8(H)(1) Submission of Professional Service Contracts for Approval	The language was updated to specify that the “original” professional services contract (PSC) must be submitted for approval. PSC’s submitted by the 5 th of the month will be reviewed and responded to by the 25 th of the same month.
2.2.2.8(H)(2) PSC’s That Do Not Require Prior Written Approval	This section was updated for the exception in 2.2.2.15(C) which requires all professional services contracts for audits or agreed-upon procedures relating to financial fraud, waste or abuse in government to obtain the prior written approval of the state auditor.

2.2.2.8(H)(4) and (5) Nonaudit Services that the State Auditor May Not Approve	The excerpts from the Yellow Book on independence issues were deleted. The agencies and auditors can research this information in the <i>Government Auditing Standards</i> .
2.2.2.8(J)(4) Financial Statement Preparation	The requirement for the auditor to determine whether a SAS 112 audit finding should be reported when the auditor prepared the financial statements was updated to change “SAS 112” to “SAS 115.”
2.2.2.8(K)(3) Access to Predecessor Auditor’s Documentation	Inserted the reference to the predecessor auditor’s audit contract requirement to make his or her workpapers available to the successor auditor.
2.2.2.8(L) Auditor Communication	The subsection was renumbered as the request of Records and Archives
2.2.2.8(L)(5) Guidance on the Severity of Deficiencies	This subsection was previously 2.2.2.8(L)(f), but has been updated to 2.2.2.8(L)(5). SAS 112 information was updated for SAS 115, which is effective for audits of financial statements for periods ending on or after December 15, 2009 (FY10).
2.2.2.8(M)(1) Contract Amendments	This section was expanded to: <ul style="list-style-type: none"> • also apply to local public body agreed upon procedures engagements; and • require contract amendments to be made using the form available at www.osanm.org if the original contract was made on forms provided by the office.
2.2.2.8(M)(3) Contract Amendments	This section was amended to require that the “original” version of the signed contract amendment be submitted to the Office for approval.
2.2.2.9.(A)(1)(d) Report Due Dates for Local Public Bodies	Language was added to the December 1 due date section explaining that mutual domestic water consumers associations, land grants, incorporated municipalities, and special districts that are defined as “local ‘public bodies” should see Section 2.2.2.16(H) for report due dates.
2.2.2.9.(A)(1)(f) Report Due Date for State Agencies	Financial Control Division’s (FCD’s) requirement was added for each agency to submit a management representation letter to FCD documenting: management’s responsibility for the accounting records; that the agency has recorded all transactions properly in SHARE; and that the agency is ready and available for audit. Once FCD receives the management representation letter, the schedule of deliverables, and milestones, the FCD will notify the state auditor in writing of the expected audit deadline for the agency. The management representation letter is available at www.dfa.fcd.state.nm.us under the FYxx Year-End Closing link.
2.2.2.9.(A)(1)(f) Report Due Date for State Agencies	The requirement to submit a copy of the late notification letter to the DFA Financial Control Division was changed to require that the financial control division must also be notified regarding the fact that the report will be late. However, that notification must exclude confidential audit information.
2.2.2.9.(A)(3) Report Submission	The list of items that should be submitted with the audit report received a minor change. The phrase “a list of passed audit adjustments and adjusting journal entries” was updated to “a list of passed audit adjustments.”
2.2.2.9.(A)(3) Report Submission	The person responsible for the firm’s quality control system was added to the audit manager as an individual who may complete or sign off as having reviewed the report review guide.
2.2.2.9.(A)(5) Late Audit Notification Letter	The requirement to send a copy of the late audit notification letter 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 was deleted because confidential audit information should not be disclosed in such copies.
2.2.2.9(C)(4) Delivery of Audit Report Copies	This section was updated to state that the <u>agency or the IPA shall ensure</u> that every member of the agency’s governing authority receives a copy of the audit report.
2.2.2.10(A)(2)(f) Scope of the Financial Audit	Item (f) is new and it explains what auditing procedures the auditor should apply to remaining supplemental schedules including school district cash reconciliation schedules. It requires the auditor to subject the school district cash reconciliation to audit procedures that ensure the cash per the cash reconciliation schedule reconciles to the PED report as also explained at 2.2.2.12(C).
2.2.2.10(G)(2) State Compliance	The Per Diem and Mileage Act section has been updated to provide auditors with the web addresses for relevant updates.

2.2.2.10(G)(17) and (19) State Compliance	<ul style="list-style-type: none"> Deleted Governmental Conduct Act at (17) because auditing standards require disclosure of related party transactions. Added the requirement in item (19) for auditors to test to ensure that 100 % of payroll is reported to the NM Retiree Health Care Authority.
2.2.2.10(H)(2)(e) Federal Compliance	Added the telephone number for the Santa Fe office of the IRS Federal State and Local Government Specialist, (505)-986-5260.
2.2.2.10(I)(1) Audit Findings	<ul style="list-style-type: none"> Added the GAO's Interim Guidance on Reporting Deficiencies in Internal Control for GAGAS Financial Audits and Attestation Engagement (November 2008), "auditors may satisfy the internal control reporting requirements in GAGAS 5.11 by including in the GAGAS report on internal control all identified "material weaknesses" and "significant deficiencies" following the new definitions and requirements from SAS 115." The old SAS 112 references were deleted. Auditors are instructed to use the version of the <i>Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards</i> that is updated for SAS 115. Auditors are directed to SAS 115 Paragraphs 8 through 16 for guidance in evaluating control deficiencies found during audit procedures.
2.2.2.10.J.(2) Delivery of the Draft Financial Statement to the Agency	<ul style="list-style-type: none"> Changed the requirement to deliver the draft financial statements to the agency "at" the exit conference to "before" the exit conference. Changed the requirement to provide the agency with at least ten (10) workdays to review the draft audit report to the updated requirement to provide the agency with at least five (5) workdays to review the draft audit report and respond to the IPA regarding any issues that need to be resolved "prior to the agency accepting responsibility for the financial statements by signing and dating the management representation letter".
2.2.2.10.J(3)(b) Waiting Period Prior to Public Record Classification	Updated the period from 10 calendar days to 5 calendar days that a released audit report must be held before it becomes a public record. This update is related to the change in the related statute, Section 12-6-5 NMSA 1978.
2.2.2.10.K.(1) SAS 99 excerpts	The excerpts from SAS 99 and related amendments were deleted. The auditor can research this information in the standards.
2.2.2.10.K.(3) State Auditor Reports of Violations	Inserted the missing portion of Section 12-6-6 NMSA 1978, which states that the state auditor, <u>immediately upon discovery of any violation of a criminal statute in connection with financial affairs</u> , shall report the violation to the proper prosecuting officer.
2.2.2.10.N.(2) Public Monies	A new item was added stating that when the agency has material derivatives or securities investments, the auditor should seek the assistance of audit firm staff or of a specialist from outside the firm that has the skill or knowledge required to plan and perform auditing procedures for specific assertions of management regarding material derivatives and securities investments.
2.2.2.10.N.(5) Public Monies FDIC	Updated the information regarding FDIC coverage and referred auditors to the FDIC website for additional information.
2.2.2.10.N.(6) Public Monies - GASBS 53	Deleted the old section of excerpts regarding GASBS 40 disclosure requirements and inserted a short description of GASB 53, <i>Accounting and Financial Reporting for Derivative Instruments</i> , which is effective for periods beginning after June 15, 2009 (FY10).
2.2.2.10.N.(7)(e)(f) Public Monies	Updated items (e) & (f) referring the auditor to the State Treasurer's website to obtain the current credit rating and weighted average maturity of the State Treasurer Local Government Investment Pool for disclosure purposes.
2.2.2.10.O.(1)(b) Budgetary Presentation	Added "or fund balance on the cash basis" to the following sentence. If the agency prepared its budget on the cash basis, the statement of revenues and expenditures (budget and actual) or the budgetary comparisons shall include the amount of prior-year cash balance required to balance the budget (or fund balance on the cash basis).
2.2.2.10.Q.(1) Internal Controls	Deleted the old information on various SAS's on the subject of internal controls.

2.2.2.10.S Interfund Activity	Updated the wording of this section based on GASB 34 paragraph 112.
2.2.2.10.T.(2) Dating the Independent Auditor's Report	Deleted the old section of excerpts from SAS 103 and 113 on this subject. The subsection items were renumbered due to this deletion.
2.2.2.10.T.(3) Report on Internal Control	The old item (3) is now item (2) and it has been changed to refer the auditor to the version of the <i>Report on Internal Control over Financial reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i> that has been updated for SAS 115.
2.2.2.10.T(2)(b) Report on Internal Control	Item (2)(b) refers the auditor to the report example at www.osanm.org to see how to report findings required by Section 12-6-5 NMSA 1978.
2.2.2.10.T(3) Report on Compliance	This section refers the auditor to the Government Audit Quality Center website for any SAS 115-related updates to the <i>Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB circular A-133</i> , since the update was not available at the time the Audit Rule was updated.
2.2.2.10.U Service Organizations	This section has been updated to delete excerpts from the SAS's that the auditor and agency can research in the standards.
2.2.2.10.V Property Disposition Notifications	The underlined language was added indicating that the agency may "sanitize" or <u>effectively make "inaccessible"</u> all licensed software and electronic media pertaining to the agency and that the agency will certify in writing the proper erasure or <u>destruction</u> of the hard drive.
2.2.2.10.Z Audit Documentation	The old subsection Z which included excerpts from SAS 103 has been deleted. The auditor can research this information in the standards.
2.2.2.10.Z Changes in Assets and Liabilities for Agency Funds	This section has been updated to require the schedule of changes in assets and liabilities for agency funds to include additions and deductions for each agency fund, except school districts that have to follow 2.2.2.12.(C)(4)(e) of NMAC.
2.2.2.10.CC SAS No. 106, Audit Evidence	Excerpts from the SAS for information purposes were deleted from the Audit Rule. The auditor and agency can research this information in the standards.
2.2.2.10.DD SAS 107, Audit Risk and Materiality in Conducting an Audit	Excerpts from the SAS for information purposes were deleted from the Audit Rule. The auditor and agency can research this information in the standards.
2.2.2.10.EE SAS No. 108, Planning and Supervision	Excerpts from the SAS for information purposes were deleted from the Audit Rule. The auditor and agency can research this information in the standards.
2.2.2.10.FF GASB 43 Requirements for OPEB Plan Reporting	Excerpts from the standard which were for information purposes were deleted from the Audit Rule. The auditor and agency can research this information in the standards.
2.2.2.10.GG GASB No. 48, Sales and Pledges of Receivables	Excerpts from standard which were for information purposes were deleted from the Audit Rule. The auditor and agency can research this information in the standards.
2.2.2.10.HH GASBS 49 Pollution Remediation Obligations	Excerpts from the standard which were for information purposes were deleted from the Audit Rule. The auditor and agency can research this information in the standards.
2.2.2.10.KK GASBS 52 Land and Other Real Estate	Excerpts from the standard which were for information purposes were deleted from the Audit Rule. The auditor and agency can research this information in the standards.
2.2.2.10.BB Tax Increment Development Districts (TIDD)	This is a new section directing the auditor and agency to apply the criteria of GASBS 14 to the specific TIDD in question to determine whether the TIDD is a component unit or related organization of the municipality or county that approved it.
2.2.2.10.CC GASBS 51, Intangible Assets	The subsection identification changed from JJ in the previous Audit Rule to CC in the current Audit Rule.
2.2.2.10.DD GASBS 53, Derivative Instruments	The subsection identification changed from LL in the previous Audit Rule to DD in the current Audit Rule. The description of the guidance provided by GASBS 53 was updated.

2.2.2.11(C) The Accountability In Government Act.	The excerpts from SAS 70 were deleted. The auditor can research this information in the standards.
2.2.2.12(A)(1)(3)(5)(11)(12)(16) State Agencies	DFA Financial Control Division requested various changes to the language in these items
2.2.2.12.(A)(1) State Agency Late Audit Notifications	This language was updated. The late audit notification that is submitted to the DFA Financial Control Division should not include any confidential audit information.
2.2.2.12(A)(10) State Agency Independent Auditors' Report	The excerpts from the <i>AICPA Audit and Accounting Guide State and Local Governments</i> Example A.16 in Appendix A were removed and the auditor was referred to the example in the audit guide.
2.2.2.12(A)(17) State Agencies	This is a new requirement. Component units of the state that benefit a specific state agency must be included in the financial statements of that state agency by discrete presentation.
2.2.2.12(B)(5)(b) Housing Authority Fee Accountants	This item was updated to delete excerpts from SAS 70. The auditor can research that information in the standards.
2.2.2.12.(C)(1) School Districts	The IPA recommendation due date of June 1 was further explained as the next work day when June 1 falls on a weekend or holiday.
2.2.2.12.(C)(3)(e) School Districts	This is a new item requiring audit reports of REC's to include a cash reconciliation schedule using the same categories as the REC's monthly cash reports to PED. A finding is required if the cash reconciliation schedule does not reconcile properly back to cash per the PED report.
2.2.2.12.(C)(4)(b) School Districts	The cash reconciliation schedule is required for each charter school of the district and each charter school of the PED. If there is some difference between the school district records and the PED report cash amounts other than those explained by the adjusting entries, the IPA should write a finding stating that the PED reports do not reconcile to the school district or charter school records.
2.2.2.12.(C)(4)(e) School District Schedule of Changes in Assets and Liabilities	This item was updated to clarify that the schedule of changes in assets and liabilities should include both additions and deductions.
2.2.2.12.(C)(5)(a) Charter Schools	The explanation of what a charter school is was expanded to also include charter schools that are authorized by the public education department.
2.2.2.12.(D)(2) and (3) Pertaining to Counties	The various dates in these items were updated to reflect the current fiscal year.
2.2.2.12.(D)(4) Pertaining to Counties	The location for the example of the schedule titled "County Treasurer's Property Tax Schedule" was updated from Appendix E in the prior Audit Rule to the Office website at www.osanm.org .
2.2.2.12.(E)(1) Colleges and Universities	The location for the sample Cover Letter for the IPA Recommendation was updated from Appendix A & B in the Audit Rule to the Office website at www.osanm.org . The recommendation due date of June 1 was explained to be the next work day in the event the due date falls on a weekend or holiday.
2.2.2.12.(E)(5) College and Universities	The colleges and universities must still obtain an exemption from the audit rule requirements in order to: present a component unit as blended; or to use a different auditor for the component unit. However, the requirement to obtain these exemptions annually was deleted.
2.2.2.14(B)(4) Peer Review Requirements	The requirement that the IPA firm profiles include copies showing that the peer reviewer's firm received an "unqualified" opinion was corrected to "unmodified rating" and expanded to include "pass" pursuant to the updated peer review standards that became effective January 1, 2009.
2.2.2.14(B)(4) Peer Review Requirements	The statement that an IPA firm would be disqualified from performing governmental audits if the firm received a peer review opinion of "less than modified" was updated. It now says that failure to submit a peer review rating of less than "pass with deficiencies" (under the January 1, 2009 standards) or a rating of less than modified (under the pre-January 1, 2009 standards) on the auditor's peer review will disqualify the IPA from doing governmental audits.

2.2.2.14.(B)(7) Peer Review Requirements	The excerpts from <i>Government Auditing Standards</i> regarding the requirements for peer reviewers were deleted and the reader was referred to GAGAS paragraph 3.55 through 3.60.
2.2.2.14.(B)(8) Peer Review Requirements	This update explains that the New Mexico Public Accountancy Board’s old “substantial equivalency” provision has been replaced with “mobility.” Under the mobility provision, a CPA may enter the state and perform work provided he holds a current, valid license from some state. If the CPA is performing any type of attest work (including peer reviews) in New Mexico, his firm must apply for a New Mexico firm permit.
2.2.2.14.(B)(9) Peer Review Requirements	The Audit Rule requirement that a peer reviewer “must” be familiar with the Audit Rule has been updated to say that the reviewer “should” be familiar with this rule.
2.2.2.14.(B)(10) Peer Review Requirements	The excerpts from GAGAS paragraph 3.55 that listed what the peer review should include have been deleted. The audit firm can research these requirements in the <i>Government Auditing Standards</i> .
2.2.2.15.A.(1) and (2) Special Audits and Examinations	References to auditing standards and professional standards were deleted.
2.2.2.15.A.(4) Reports Regarding Financial Fraud	The following was added to the end of the paragraph: Reports received or created by the office are audit information and audit documentation in connection with the state auditor’s statutory duty to examine and audit the financial affairs of every agency, or in connection with the state auditor’s statutory discretion to audit the financial affairs and transactions of an agency in whole or in part.
2.2.2.15.B.(1) and (2) Confidentiality	In item (1) the word “confidential” was changed to “confidential audit information.” In item (2) the word “confidential” was changed to “confidential audit documentation.”
2.2.2.15.B.(3) Confidentiality	The subsection that describes the circumstances under which the office may disclose audit information or audit documentation that is confidential has been updated. All four circumstances listed have been updated.
2.2.2.15.C(3) Report delivery	The sentence that says, the office will not release the report until the electronic version of the report is received by the office, was added.
2.2.2.16 Annual Procedures Required for Local Public Bodies	<p>This is a new section on annual procedures that apply to local public bodies.</p> <ul style="list-style-type: none"> • Subsection A defines a “local public body.” • Subsection B provides the criteria that local public bodies must use to determine the type of annual procedures they must perform or solicit IPA services for. • Subsection C describes the written certification some local public bodies must submit to DFA local government division if they are not required to solicit IPA services. • Subsection D sets forth the procurement requirements for local public bodies that must solicit agreed upon procedures services from an IPA. It also explains what firm information an IPA must submit to the office to get on the state auditor’s list of IPA’s approved to perform agreed upon procedures engagements. • Subsection E describes the state auditor approval process of the local public body IPA recommendation letter and the requirements for completion and submission of the related contract. • Subsection F states that the IPA must provide the local public body with an agreed upon procedures engagement letter and that the IPA may not subcontract out any portion of the services to be performed. • Subsection G sets forth the progress payment process for agreed upon procedures engagements. • Subsection H explains the agreed upon procedures report due dates and related report submission requirements. • Subsection I states that Section 2.2.2.16 is effective for local public body fiscal years ending on or after June 30, 2010. • Subsection J explains the office report review process for agreed upon procedures reports, related expectations the office has of the IPA’s and the consequences for deficient reports.