Office of the State Auditor

Accountability, Transparency and Excellence!

- Annual audit accountability and finding reduction
- Accessible and responsive to agencies and IPAs
- Support for At Risk entities and Small Political Subdivisions
- Robust investigative efforts and case load reduction
- Provide useful and accessible information to the public and policy makers (GAO)

Office of the State Auditor Divisions

- **Financial**: Financial Compliance Audits, Agreed-Upon Procedures (AUP).
- **Special Investigations**: Special Audits, Performance Audits and Forensic Audits.
- **Government Accountability Office**: Transparency and Accountability, Research and Reporting.
- **Administrative**: Information Technology, Budget & Finance and Human Resources.
Office of the State Auditor Team

Celebrating Milestones In Excellence

- 30 Days
  - Deputy State Auditor Announced
  - First Budget Hearing
  - Audit Rule Hearing

- 60 Days
  - Full Leadership Team
  - Audit Rule Changes Draft Published
  - 361 Audits Reviewed and Released
Celebrating Milestones In Excellence

90 Days

- First Audit Rule Roadshow
- Active Recruitment
- Join Team OSA!
  - (2) Staff Auditors, Audit Supervisor
  - Audit Manager, Compliance/Regulation Director

120 Days and Beyond

- New reporting built into FY18 and beyond reports
- What’s next? 33-County Tour

“At-Risk” Designations

- Qualified Opinion
- Adverse Opinion
- Disclaimer
- Discouraging the reader to obtain sufficient appropriate audit evidence on which to base the opinion, and to determine the possible effects on the financial statements of undetected material misstatement.
Growth and Improvement

Bravo, Bravo!
- A County: First time in several years the report was not on the “At-Risk” List for submitting a Late Report. EARLY!
- Several Public Schools: Substantial decrease in findings.

OSA Connect Updates and Improvements
- Developing solutions for improved contract reviews.

Budget increase for more support for At-Risk and Small Entities and for SPS Grants
- INCREASE!

Audit Rule Hearing

- February 4, 2019
- Amendments to Audit Act 12-6-5 Section NMSA 1978 2.2.2.7 through 2.2.2.16 NMAC
- Comments and feedback received and published
  - IPAs and Agencies
  - 19 key changes
    - Elimination of certain electronic schedules
    - Addition of summary of audit results
    - Updates to response time to OSA for agencies
Hit the Road with OSA: 33-County Tour

- Community Outreach and Constituent Services
- Educational Opportunities and Trainings
- Audit Rule Lite & Focused Trainings
BASIC OVERVIEW OF THE AUDIT PROCESS

1. Submission of firm profiles
2. Develop the list of approved audit firms
3. State Auditor’s Office will select which audits we will perform
4. Finalize Audit Rule, Audit Rule trainings & update financial compliance audit contracts
5. Send notification letters to Agencies/IPAs
6. Agencies must submit draft contract by due date listed in Audit Rule
7. IPAs conduct financial audits
8. Progress payments
9. Delivery and review of audit reports
10. Report release and final payments
CONTRACTING 101

- Agency selects IPA
- Agency submits draft contract to OSA through OSA-Connect
- OSA reviews draft contract
- OSA sends a letter of approval to Agency
  - If OSA rejects contract, Agency can correct technical errors and resubmit, or request reconsideration
- Agency obtains necessary signatures and third-party approvals (PED, HED, DFA)
- Agency sends PDF version of final agreement with all signatures to OSA.

(OSA-Connect Upgrades)

SELECTING AN AUDITOR

- Agency must receive written notification from the State Auditor before beginning the selection process (sent)
  - You can request an exception BEFORE you start the RFP process
  - You can perform interim work before this time
- Available at www.osanm.org:
  - 2019 Audit Rule
  - List of approved audit firms
  - Past contract information

SELECTING AN AUDITOR FOR HIGHER ED

- Use OSA-Connect to prepare draft contract
- Submit Contract to HED for review and approval
- HED issues each Institution an IPA Contract approval letter
- Institutions submit draft IPA Contract to the OSA via the OSA-Connect website
- OSA reviews and approves draft IPA Contract based upon review and communicates approval via letter
- Institution obtains required contract signatures and submits final contract to OSA by email
CONTRACTING IS STILL ON OSA-CONNECT

- www.osa-app.org
- Don’t forget to update the contact persons for your agency.
- Make sure to review ALL information for your agency, even if it is pre-filled in OSA-Connect.
- Tier System- don’t forget to go to Agency Profile and confirm the tier for your agency for this fiscal year.

WHERE TO FIND CONTRACTING INSTRUCTIONS

AUDIT AND AUP CONTRACTS

- Scope of work section refers to Audit Rule.
- Deadline section refers to Audit Rule. If you want to have the exact deadline stated in your contract, use “Other”.
CONTRACTS and OSA-CONNECT

• “Intellisense” will auto-fill the name of your audit firm after you start typing.

• AUP contracts include the procedures as an exhibit (same as last year).

PLEASE READ YOUR CONTRACT!

• Late notification required as soon as IPA becomes aware that the audit may be late.
• Subcontracting – requires State Auditor approval
• Conflict of interest – Contractor and Agency both certify that you are complying with Governmental Conduct Act.
• Pay Equity Reporting – are you (IPA) required to do it and are you?
  – Applies to companies with 10 or more New Mexico employees OR 8 or more employees in the same job classification.

OSA CONNECT COMMON QUESTIONS & ERRORS

• Issues with the multi-year proposal – this information is very important to get right.
ROTATION REQUIREMENT 2.2.2.8(G)(1)(b)

• 6 Consecutive Years with an Independent Public Accountant (IPA)
• 2 Year break
• Some exceptions are made when an agency is trying to achieve compliance.
• At every end of a third year bid or sealed request for proposal (RFP), a new bid or sealed (RFP) must be initiated even if the same IPA is used.

OSA-CONNECT COMMON ERRORS

• Don’t forget to press “submit.” Saving and printing are not the same as submitting contracts to OSA.

AMENDMENTS TO CONTRACTS

• Contracts expire one year after the latest signature (or DFA approval for state agencies requiring DFA approval). After that you need to submit a NEW CONTRACT, you can no longer amend.
• Amendments are subject to review by the OSA. Increases in price must be justified by an increase in scope.
• Amendments to change the tier (up or down) of an AUP need to include the procedures for the new tier.
• Change from audit to AUP or vice versa requires new contract.
• Consider price changes in all amendments.
AMENDMENTS TO CONTRACTS

• The OSA has several forms of amendment – pick the one most appropriate for your situation

Progress and Final Payments

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Staff/Contracts Manager
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Progress Payments

2.2.2.8(M)(3)

• Agencies can pay up to 69% of the contract amount without State Auditor Approval.
  - The agency must monitor audit progress and make progress payments only up to the percentage that the audit is completed.

• Progress payments from 70% to 95% require State Auditor approval after being approved by the agency.

• When component unit audits are part of a primary government’s audit contract, requests for progress payment approvals should be submitted by the primary government for both the primary government and the component unit. In this situation, the Office will not process separate progress payment approvals submitted by the component unit.
Final Payment - 2.2.2.8(M)(5)

- The State Auditor's determination with respect to final payment shall be stated in the letter accompanying the release of the report to the agency.
- Final payment to the IPA by the agency prior to review and release of the audit report by the State Auditor is considered a violation of Section 12-6-14, NMSA 1978 and this rule and should be reported as an audit finding.
- If this statute is violated, the IPA may be removed from the list of approved auditors.

Note: If the Office has sent your release letter for your audit report, the authorization to make final payment is listed in the letter.

Reasons for IPA Restriction 2.2.2.8(D)(1-4)

- Failure to submit late report notifications.
- Failure to comply with the Audit Rule.
- Poor quality of reports.
- Poor quality of working papers.
- Peer review ratings of "pass with deficiencies" with deficiencies being related to governmental audits.
- Failure to contract through the OSA for NM governmental audits or AUP engagements.
Take our Survey!

If you do not have a QR scanner installed please go to your App Store and download a free scanner. The link takes you to a Google Survey Form.

Take our Survey!

https://docs.google.com/forms/d/e/1FAlpQLSdaL8hNESCJxqS41U7w9hNuNhXk17_iOZ4QkbauNSs4OzjQ/viewform?vc=0&c=0&w=1

If you prefer not to use the QR code then simply use this link. The link takes you to a Google Survey Form.

Break
**Agenda**

- State Auditor Vision
- Audit Rule Process
  - Annual Rule Hearing
- Key audit rule updates
- The report review process
- Other Helpful information

**STATE AUDITOR VISION**

*Accountability, Transparency and Excellence*

- Commitment to accountability
- Stakeholders
  - Support for At Risk entities and Small Political Subdivisions
- Robust investigative efforts
- Provide useful and accessible information to the public and policy makers (GAO)
Annual Audit Rule

Annual Process:
- Revisions to the Audit Rule
- Timing
  - 30 day vs 60 day session
- Final legislation impact
  - Budget
  - Rule/Audit Act
- Hearing
- Review Process
- Finalization

Key Changes

Change:
- Updates to 2.2.2.9 (b) and 2.2.2.10 (a) no longer require the vendor schedule.

Why this change is important:
- Transparency, accuracy and consistency in information is key to users of the financial statements.

Looking forward:
- This information, in a different format, may be a useful item in the future.
Key Changes (continued)

Change:
• Updates to 2.2.2.10 (A) NMAC — Disclosures related to changes in component units

Why this change is important:
• Note disclosures will now indicate if there has been a change in the component units or the presentation method for component units. This change is our Office’s way to help readers track information and to increase transparency.

Looking Forward:
• There may be future changes to the audit rule regarding the applicability of state law compliance with regards to component units.

Key Changes (continued)

Change:
• Updates to 2.2.2.10 (L)(1) and new 2.2.2.10 (L)(1)(f) NMAC both related to findings.

Why these changes are important:
• Both of these items improve the consistency of all audit reports. Feedback indicated a preference for “other matters” as a classification. The new subsection f addresses audits not subject to a single audit where some audits contained summary information and others did not.

Other useful info related to change:
• The classification of findings is now on our website along with the audit report. Using the same classifications furthers consistency in reports.

Key Changes (continued)

Change:
• Update to 2.2.2.10 (M) related to the in-person exit conference.

Why this change is important:
• This change removes the $5,000 threshold for holding an in-person exit conference.

Where we go from here:
• For now, if circumstances exist that make it necessary to hold a remote exit conference please request an exemption from our office, regardless of the fee amount.
Key Changes (continued)

Change:
• Update to 2.2.2.15 (A)(6) NMAC related to agency response timing to fact finding inquiries (15 days).

Why this change is important:
• It aligns the response time with similar response standards.

Additional requirements:
• If there is a reason for delay the agency is required to notify OSA in writing.

Audit Rule Updates for Tiers

2.2.2.8 (F) (B) (e) & (f) NMAC related to contract due date timing

Contracts for agencies that fall under the tiered system are due to OSA as follows:
• June 30 year end — the contract is due to OSA by July 30th
• Other than June 30 year end— the contract is due to OSA 30 days after the end of the fiscal year.

Audit Rule Updates for Tiers (continued)

2.2.2.16 (A) related to items to include in the cash basis revenues; to calculate revenues to determine the correct tier:
Include:
• Revenues from services provided
• Revenues from property taxes
• Revenue from state funded grants
Exclude:
• Capital Outlay Funds
• Federal and private grants
**GASB Updates for FY19**

GASB updates that require evaluation:
- GASBS 83 – certain asset retirement obligations
- GASBS 88 – Certain disclosures related to debt
- Implementation guide 2018-1 — Implementation guidance update

**GASB 83 Certain Asset Retirement Obligations**

Effective for reporting periods beginning after June 15, 2018.
Establishes criteria for determining the pattern and timing of recognition of non-landfill asset retirement obligations. Asset examples include:
- Sewage treatment plants;
- X-Ray or MRI Machines;
- Decommissioning of research facilities owned by public universities such as nuclear research reactors.

Other takeaways:
- The equipment needs to be disposed of in a particular way to comply with federal, state and local laws, or court decisions.
- The new standard cites specific differences with GASB 18 and GASB 49.
- Tangible capital asset permanently removed from service.

**GASB 83 Certain Asset Retirement Obligations (continued)**

Liability Recognition:
- The disposition requirements create a legally enforceable liability recognized over the assets’ useful life.
- Recognize liability when both liability is incurred and amount is reasonably estimable.
- Amount to use for initial estimate is current value of outlays expected to be incurred.

ARO estimate should be reviewed annually for:
- Gross adjustments, like inflation, and
- Significant changes, like changes in technology or legal disposition requirements.
GASB 83 Certain Asset Retirement Obligations (continued)

**Accounting Treatment**
- **Initial recognition entry**: To set up ARO and related deferred outflow.
- **Subsequent Liability Entries**: To adjust for unusual changes to estimate and to show effects of any significant change.
- **Subsequent Deferred outflow entries**: To amortize deferred outflows over the useful life of the asset.
- **Note Disclosure**: General description, methods and assumptions, remaining useful life and any related asset restrictions.

GASB 88 Certain Disclosures related to Debt, Including Direct Borrowing and Direct Placement

Effective for reporting periods beginning after June 15, 2018.

The objective of the statement:
- Improve note disclosure consistency regarding debt in governmental financial statements and to ensure readers have important information about debt.
- Past confusion regarding whether certain types of liabilities are debt and new statement attempts to provide clarification. This also has affected presentation inconsistency.

**Definition for Disclosure purposes**:
- Debt is defined as a liability that arises from a contractual obligation to pay cash or other assets in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

**For disclosure purposes debt is NOT**:
- Leases, except for contracts reported as a financed purchase of the underlying asset; or
- Accounts payable.
GASB 88 Certain Disclosures related to Debt, Including Direct Borrowing and Direct Placement (continued)

Required Disclosures regarding:
- Amounts of unused lines of credit;
- Any assets pledged as collateral for the repayment of debt;
- Terms specified in debt agreements related to significant events of default with finance-related consequences, (2) termination events with finance related consequences, and (3) subjective acceleration clauses.
- Notes and schedule in the notes must separate amounts directly borrowed/directly placed from other types of debt.

GASB 85 Omnibus 2017

Blending Component Units. For primary government that only has business type activities presented in 1 column a Component Unit that can be blended only if GASB 14 paragraph 53 is applicable. Essentially:
- The CU’s governing body is substantively the same or,
- The CU provides services entirely, or almost entirely to the primary government.

Goodwill: Applies to acquisitions prior to 12/15/2013 (effective date of GASB 69) where the consideration provided exceeds the net position acquired. Essentially:
- “Negative” goodwill should not be reported
- Report the difference as a deferred outflow amortized over future periods.

GASB 85 Omnibus 2017 (continued)

Fair Value Measurement and Applications: Two distinct updates:
- Insurance entities should value real estate as either an investment or a capital asset based on whether the real estate is defined as an investment per GASB 72.
- Money market investments may be measured at amortized costs if they have no more than 1 year remaining to maturity at the time of purchase, and, not held by an external investment pool.

Timing Pension or OPEB Measurement using current financial resources measurement focus:
- All liabilities to employees for both pensions and OPEB should be measured at the end of the reporting period.
- All expenditures, including prepayments to the plan should be measured at the end of the reporting period.
- Recognize expenditures for on-behalf payments for pensions and OPEB’s equal to the amounts paid during the reporting period by the non-employer contributing entity.
Report Review Process

- **Review**: OSA reviews all reports for adherence to professional standards and compliance with the state audit rule prior to their release.

- **Requirement**: 12-6-14 (B) NMSA 1978 states “…The state auditor or personnel of the state auditor’s office designated by the state auditor shall examine all reports of audits of agencies made pursuant to contract…”

- **Assignment**: Once OSA receives a draft report, the report is assigned to a first reviewer. OSA’s goal is to turn around the report to the agency and IPA in the most efficient way possible.

Report Review Process (continued)

- **Report Review Specifics**:
  - First, second and final reviews occur;
  - Professional guidelines established to ensure all key report areas are considered;
  - Ensure findings are adequate to the user;
  - Collaboration regarding difficult technical issues and uncommon audit rule interpretations;
  - Calls to IPAs and agencies for further clarification when necessary;
  - Sending out an “OK to Print Notification” for the IPA and the agency.

Agencies know best what belongs in their report — allocate adequate time to review before submission.

Common Topics: Comments in the “OK to Print” Notification

- In review of approximately 700 reports annually, common items in the “OK to Print” are:
  - Pledged Collateral — Updating the description in accordance with Public Money Act 6-10 NMSA 1978
  - GASB 77 - “If an agency does not need to make a GASB 77 disclosure that fact shall be disclosed in a note to the financial statements” 2.2.2.10 (BB) (3) NMAC
  - Approval for blended component unit — per 2.2.2.10 (A) (1) — Need to include approval copy with draft.
Common topics: Comments in the OK to Print Notification for FINDINGS

Here are the most common topics related to findings:

• Repeated Findings: Please update the condition per 2.2.2.10 (L)(6)(i) NMAC
• Management Response to findings: MUST contain a responsible position and a timeline for corrective action per 2.2.2.10 (L)(6)(v) NMAC
• Invalid Criteria: Please review the criteria to ensure it actually applies to the audited entity.

Classification of Findings: Please use the classifications listed at 2.2.2.10 (L)(1)NMAC. This information will now be on our website.

Budget to Actual Key Reminders

Higher Education:

• 2.2.2.12 (E) NMAC has special requirements for audit reports related to institutes of higher education. Key reminders include:
  • The legal level of budgetary control shall be disclosed in the notes to the financial statements;
  • Budgetary comparisons for institutes of higher education must be included as supplementary information;
  • The budgetary comparisons must be audited and the auditor’s opinion must be rendered

Key takeaway: An AU-C 725 opinion is not sufficient.

School Districts:

• 2.2.2.12 (C) NMAC contains special requirements related to audits of school districts. There are specific requirements to the general fund functions, Operations, transportation, instructional materials, and teacherage. These specific requirements also apply to charter schools:
  • The audit report is required to include individual fund financial statements for each of the general fund functions, as applicable;
  • The audit report must also include a budgetary comparison schedule for each of the general fund functions presented.

Important Note: This required breakdown by function can either be presented as components of the general fund in the basic financial statements, or as a combining schedule presented as supplementary information.
In-relation to Opinion Reminder

Per 2.2.2.10 (A)(2)(e) NMAC, “The audit engagement and audit contract compensation include and AU-C 725 opinion on the SI schedules presented in the audit report…”

Examples include:
- Primary government and individual fund financial statements for all non-major funds;
- The VAT;
- The schedule of pledged collateral;
- The schedule of changes in assets and liabilities for agency funds;
- The financial data schedule for housing authorities;
- School district schedule of cash reconciliation;
- Indigent care schedules for hospitals/government special districts, and
- Any other SI schedules required by the audit rule such as the tax roll reconciliation and county treasurer property tax schedule required per 2.2.2.12 (D) NMAC.

Other Reminders

- MAP’s, PSAB’s & other Official Policies and Procedures (such as DFA-LGD official memos);
- Please document your presentation to governing authority in the workpapers;
- IPA’s - review for applicable audit responsibility;
- No need to submit engagement letter to our office;
- Please do not bind the IPA review guide

Final Report Tips

Key Reminders for final reports:
- The final report is not considered “received” until our office has received the report AND all the required electronic schedules
- Please ensure the final report is in a searchable PDF format
- More usable report for readers
- Ensure that any changes in the final report other than changes addressing comments on the OR to Print are disclosed to OSA
- In writing and with page number reference
- Ensures changes were intentional
- Facilitates more efficient final review
Report Due Dates

Section 2.2.9 NMAC

- REC’s, CES’s and Independent Housing Authorities - September 30th
- Hospitals and Hospital Special Districts — October 15th
- Higher Education, District Courts and District Attorneys, most State Agencies, NMFA and the Lottery Authority — November 1
- School Districts — November 15
- Counties — December 1
- Municipalities and other local public bodies — December 15th

Component unit note: If the component unit report is prepared by a different auditor the due date is 15 days prior to the primary government’s report due date.

Thank you!

Website: www.saonm.org
Fraud Hotline: 1-866-OSA-FRAUD
Main Phone: 505-476-3800

Strengthened & Supported:
A Renewed GAO
Stephanie CW Telles, MBA, CFE
Director, Government Accountability Office
What is the GAO?

"The Government Accountability Office (GAO) is a division of the Office of the State Auditor, focused on bringing transparency and accountability to the agencies that receive and spend public money. The GAO aims to make the important information buried in the 900+ audits and financial reports that New Mexico state and local agencies produce each year accessible and understandable to the public."

Accountability and Transparency

Greater Oversight and Accountability

Deeper Dive into Audit Findings

- Trends
- Critical Issues

Improved quality assurance!

Data, Data, Data

The GAO as a data gathering tool

- Through information gathering by FAD and SID
- Aggregate and Report

Leverage information gathered to provide improved:

- Data accessibility;
- Data quality; and
- More efficient sharing opportunities
Reviews, Bulletins, Reports, and Advisories

Risk Reviews
- Communicate concerning issues to those charged with governance of state and local governmental agencies and other decision-makers

Bulletins
- Technical in nature, and discuss new accounting or auditing standards or regulations

Reports, Advisories, and Bulletins

Reports (GAO and Transparency)
- Aggregate and analyze trends revealed by audit
- Discuss specific issues of interest that relate to how our public dollars are managed and spent.

Risk Advisories
- Notice of concerns that the OSA has discovered regarding transparency, accountability or compliance
Communication and Media

The GAO as a Press Center
- Press Releases
- Media Advisories
- Social Media

Media Inquiries
- Name
- Number
- Matter
- Deadline

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Engagement and Research

Research arm of the OSA
- Conduct studies
- Engage with knowledge partners
- Publically available
- Support policy leaders
Now you know the GAO

Thank you!

Submit a Report or Complaint
ALLEGATIONS OF GOVERNMENTAL FRAUD, WASTE, AND ABUSE

Reports may be made anonymously through the OSA Hotline by visiting our website and submitting a complaint through our online portal or by calling 1-866-GSA-FRAUD (1-866-672-3728).

You may also speak to an investigator by calling 505-476-3800.

You may write to the office at:
New Mexico Office of the State Auditor
2540 Camino Edward Ortiz, Suite A
Santa Fe, NM 87505

www.saonm.org
Submitting a Report or Complaint
WHAT INFORMATION SHOULD BE INCLUDED?

- The specific allegation (violation of law, rule or policy) and the governmental entity involved.
- The parties involved and any witnesses.
- When the act(s) occurred.

- The amount of any financial loss.
- Whether the issue has been reported to any other oversight body or law enforcement agency, and if so, which ones.
- Any supporting documentation that may be available.

Special Investigation Division
BY THE NUMBERS

Historically, 300 ± cases are reviewed annually. This is a comparison of cases received by the OSA Q1 comparison over the last 3 years.

2017 – 2019
110.71%

* Jan. and Feb.
Internal Controls: Types and Concepts

Control Environment
- Provide the foundation for other internal control components, standards, processes, structures.
- Five principles:
  1. Integrity and ethical values;
  2. Oversight responsibilities;
  3. Structure, authority, and responsibility;
  4. Commitment to competence; and
  5. Accountability

Risk Assessment
- Identification, analysis, and response to risk of material misstatement

Control Activities
- Mitigate the risks to entity objectives

Information and Communication
- Information necessary to carry out internal control responsibilities to achieve objectives

Monitoring Activities
- Monitor internal controls by management, board of directors
Internal controls are the policies and procedures that an entity puts into place in order to protect its assets, ensure its accounting data is correct, maximize the efficiency of its operation and promote an atmosphere of compliance among its employees.

**Internal Control Concepts**

**REPRESENTATION**

What do the cogs represent?
- Only when all elements are present and working together
- Continued motion

What happens when one or more of elements or cogs malfunction?
- Exposure to increased opportunity for fraud
- Failure to prevent and detect
- Inherent failure to correct

**Internal Controls**

**FINANCIAL AREA**

- Focus on controls over:
  - Cash
    - Segregation of duties
    - Bank Statement
  - Accounts Payable
    - Fake vendors
    - Approval
  - Revenue and Accounts Receivable
    - Intercept and “write off”
  - Purchasing
    - Artificial split of contract or attempt to manipulate thresholds
  - Journal Entries
Internal Controls
FRAUD SCHEMES

Accounts Payable – Vendor Fraud
- The definition of vendor fraud is schemes in which an organization’s accounts payable and other payment systems are manipulated for illegal personal gain.

Vendor fraud schemes can either include fraud committed by vendors acting alone, or some type of collusion or scheme between vendors and/or employees.

Overbilling
- This is when a vendor submits an inflated invoice(s) for their goods and/or services.

Bid Rigging
- Giving a vendor access to information in order to unfairly “rig” the bidding process.

Kickbacks
- An employee(s) accepts funds or items of value from vendors for facilitating fraud.

Internal Controls
JOURNAL ENTRIES

Controls in place and working?
Who has access?
System restrictions?

Ability to attempt to cover up fraud
- Round numbers
- Unusual, non-routine or non-expected
- No support for “expenditures”
- Importance of verification

Internal Controls
MANAGEMENT RESPONSIBILITY

Management is responsible for internal controls!
Management of the Entity
- Which employees make up “management”
- Role and authority of each employee
- Simple versus complex entities
- Tone at the top

What should management do to fulfill this responsibility?
- Develop and maintain a system of internal control
- Audit committee can provide a monitoring function
- Internal audit can provide assurance regarding compliance with entity policies and procedures
Internal Controls

AUDIT EXAMPLES

Internal Control Findings

- Example – Governmental
- Next Year’s Audit – 6 years later

### Internal Control Findings Example – Governmental

**Findings:**

- Lack of segregation of duties
- Override of controls
  - Authority to force or demand override
  - Fear of retaliation
- Context of lacking control and entity
  - Large and decentralized
  - Critical mission used as advantage
  - Small with few employees – one or more employees has significant control

**Context:** During fiscal year 2008, the District discovered that the former chief financial officer (CFO) used her ability to override control to embezzle over $3,979,791 for nearly 6 years, including $835,952 during the fiscal year ended June 30, 2009. The embezzlement resulted in misstatements of transactions, built balances, and violated ethics.

**Cause:** The District did not maintain internal controls sufficient to detect the embezzle, and another member of management with direct knowledge of the District’s financial activities was not assigned to review the transactions processed by the former CFO manager.
Submitting a Report or Complaint
ALLEGATIONS OF GOVERNMENTAL FRAUD, WASTE, AND ABUSE

Reports may be made anonymously through the OSA Hotline by visiting our website and submitting a complaint through our online portal or by calling 1-866-OSA-FRAUD (1-866-672-3728).

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Santa Fe, NM 87505

Thank you

New Mexico Office of the State Auditor
The Audit Act’s Tiered System of Financial Reporting
Tiered System of Reporting

Criteria and Revenue Calculation

Tiers 1-7

Minimum Reporting Requirements

Audit Rule Requirements

2.2.2.16 NMAC

Other Provisions

The tiered system applies to "local public bodies" with certain annual revenues. A "local public body" is a land grant, mutual domestic water consumer association, special district or incorporated municipality.

Does not apply to Schools, Higher Education, State Agencies, Counties, etc.

The tiered system is based on annual revenues, excluding capital outlay appropriations and federal/private grants.

Section 2.2.2.16(A) - The examination of the financial affairs of a local public body shall be determined according to its annual revenue each year. Revenue calculation for tier determination will exclude capital outlay, federal grant and private grant revenue.

Tier 1 - Less than $10,000 in revenue

Tier 2 - $10,000 < $50,000 in revenue

Tier 3 - $50,000 in revenue and spends 50% or remainder of capital outlay award

Tier 4 - $50,000 < $250,000 in revenue (no capital outlay expenditures)

Tier 5 - $50,000 < $250,000 in revenue plus capital outlay expenditures

Tier 6 - $250,000 < $500,000 in revenue

Tier 7 - $500,000 in revenue
Tier Certification Form (OSA-Connect)

- **Tier certification**
- **Ensure the form is complete and funds are properly included or excluded in calculation**
  - Include a year end date on each form
  - For example 12/31/2016

- **Include any state grants received and expended in the revenue calculation**
  - Certain funds are of mixed composition
  - Example: Water Trust Board Funds, 95-10 ISC Grant - Contact the funding entity to identify what funds you have received and whether they should be included in the revenue calculation or excluded (loans, grants, etc)

2.2.2.16(G)(1) – Report & Certification Due Dates

- If due date falls on weekend or holiday or office is closed due to weather, due date will be the next business day by 5pm.
- Mailed reports must be postmarked no later than due date to be considered received timely.
- If the due date falls on a weekend or holiday, the audit report should be postmarked by the following workday.
- The State Auditor cannot grant extensions of the regulatory due date.

**NEW MEXICO**
Office of the State Auditor

**3rd Party Reporting**

The purpose of this form is to provide financial reporting information to the State Auditor. The information includes all revenue and expenses for the fiscal period. The information is used to determine the funding entity's compliance with state and federal laws. The information is also used to provide a comprehensive view of the funding entity's financial position. The information is used to determine the funding entity's compliance with state and federal laws.

For example, Water Trust Board Funds, 95-10 ISC Grant - Contact the funding entity to identify what funds you have received and whether they should be included in the revenue calculation or excluded (loans, grants, etc).
Confidentiality [2.2.2.16(G)(3)]

- State law requires certain information related to the engagement be kept confidential.
- Local public body personnel shall not release information to the public relating to the agreed upon procedures engagement until the report is released and has become a public record pursuant to the Audit Act (Section 12-6-5 NMSA 1978).
- At all times during the engagement and after the agreed upon procedures report becomes a public record, the IPA shall follow applicable standards and 2.2.2 NMAC regarding the release of any information relating to the agreed upon procedures engagement.

Additional Audit Requirements

- The State Auditor retains authority under the Audit Act to audit the financial affairs and transactions of a local public body in whole or in part, regardless of whether the local public body qualifies for the tiered system of financial reporting.
- The State Auditor may perform the audit or designate the local public body for audit or other type of engagement.
- Oversight agencies and external obligations (debt covenants, etc.) may require the local public body to receive an audit.

Federal Audit Requirements – Single Audit [2.2.2.16(B)(6)]

- If the local public body expended $300,000 or more of federal funds for fiscal years ending FY15 and prior or $750,000 or more of federal funds for fiscal years ending FY16 and forward, are subject to a federal single audit during the fiscal year, then the local public body must procure a Single Audit in accordance with 2.2.2 NMAC.
- December 26, 2014 the Federal guidance changed to the Uniform Grant Guidance.
- This requirement applies regardless of the amount of the local public body’s annual revenue under the Tier System.
- Make sure and check the source of all funding your local public body receives in order to ensure compliance with all financial reporting requirements applicable to that funding source.
2.2.2.16(E)(3) Requirements of the IPA

- 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 for an exemption from this requirement and has obtained written approval of the exemption from the Office.

Small Political Subdivision Funding (SPS Funding)

- Financial assistance offered by OSA to help with reporting requirements under the Audit Act 12-6-1 through 12-6-14 NMSA 1978.
- Agreed-upon Procedures (AUPs)
- Full Financial and Compliance Audits

Who Qualifies?
- Mutual Domestic Water Consumer Associations
- Land Grants
- Certain Municipalities and Special Districts
- Water and Sanitation Districts

SPS Funding - Criteria

- Financial assistance offered by OSA to help with reporting requirements under the Audit Act 12-6-1 through 12-6-14 NMSA 1978.
- Agreed-upon Procedures (AUPs)
- Full Financial and Compliance Audits

Who Qualifies?
- Mutual Domestic Water Consumer Associations
- Land Grants
- Certain Municipalities and Special Districts
- Water and Sanitation Districts
Financial Assistance Determination

- Financial need or hardship associated with completing either an audit report or AUP report
- Whether noncompliance with the financial reporting requirements adversely impacts funding eligibility