

February 12, 2020

Mr. Brian Colón, State Auditor
Ms. Natalie Cordova, Deputy State Auditor
Ms. Elise Mignardot, Director of Compliance and Quality Control
New Mexico Office of the State Auditor
2540 Camino Edward Ortiz
Santa Fe, NM 87507

Sent via U.S. Mail and E-mail

Dear Mr. Colón, Ms. Cordova, and Ms. Mignardot:

This letter addresses our ongoing concerns about the impact of accelerating state agency audits to the November 1st deadline from the previous deadline of December 1st, which occurred when the FY17 state audit rule went into effect for June 30, 2017 audits. The November 1st deadline for state agencies remains unchanged within the draft FY20 state audit rule issued January 14, 2020 and our firm would like you to consider moving the date back to December 1st or at the very least November 15th.

Three audit seasons have now completed since this change went into effect and from our point of view many of the issues and concerns we presented in our objection letter to the OSA dated December 28, 2016 (see attached copy for reference) when the audit rule changed proved to be true for us. The main reason for this change in FY17 by the OSA and DFA at the time was that the DFA would be able to issue the NM CAFR much sooner than before. The question today is when will the FY19 NM CAFR be issued now that it's three years later, and has the accelerated deadline resulted in improvement to get this done?

We continue to believe after experiencing three audit seasons now that there are several reasons that the November 1st accelerated deadline by a full month is still concerning to independent public audit firms (IPA) and state government auditees.

Our top concerns which were stated in our letter dated December 28, 2016 are as follows:

- 1) Limitations on both the auditee and IPA staffing and resources must be considered with respect to turnover, stress, scheduling hours per week, training and investment cost for local government, as well as IPA firm human resources. Turnover is expensive and skilled employees are hard to replace. In addition, stress from a compressed schedule causes turnover and unhappiness for our employees.
- 2) Trial balances should be available by August 1st. The trial balances would have to be "ready for audit" i.e. close to final with not too many additional changes expected. Our experience with several of our larger state agency audits is that DFA continues to make changes via journal entries in SHARE in late October which makes auditing the trial balance a moving target. State agencies and the DFA counterparts working with them need more time which means so do IPAs.

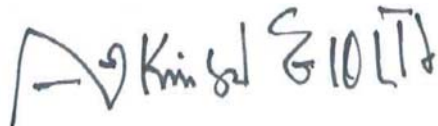
Mr. Brian Colón, State Auditor
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- 3) **Is the skill level needed for this acceleration in place** and are there compensating factors in place that would improve the skill level situation? It appears to us that this is a significant issue. The level of accounting skill (i.e. competent CFO) is not uniformly possessed by certain state and local governments, and state agencies and departments.
- 4) For a medium size local firm there **would be a compression of time to do the work**. There would be less opportunity for one audit team to complete multiple audits during the time frame. This means hiring additional people in an already tough market for recruiting and hiring for a firm that wants to maintain its volume of governmental work. Larger firms that can draw on staff from other offices either electronically or in person could have some of the same problems. All of these factors could result in lower quality work.
- 5) There is a general resistance to raising fees to reflect the ongoing performance requirements for agency audits that carry a concurrent demand for resources – staff and time. The cost of turnover is significant but not readily calculated. Our firm has experienced turnover that is related to the work schedules now required.

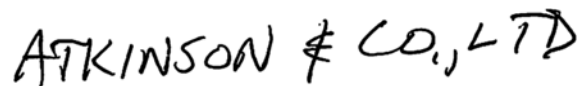
We believe all of these factors have been realized to an extent specific to each firm.

Thank you for your consideration of these factors in your final decisions on the FY20 state audit rule.

Sincerely,



Martin Mathisen, CPA, CGFM
Atkinson & Co., Ltd.



Clarke Cagle, CPA, CCIFP, CGFM
Atkinson & Co., Ltd.

Enc.

December 28, 2016

Mr. Tim Keller, State Auditor
Mr. Sanjay Bhakta, Deputy State Auditor
New Mexico Office of the State Auditor
2540 Camino Edward Ortiz
Santa Fe, NM 87507

Dear Sirs:

This letter addresses the draft state audit rule issued November 30, 2016; in particular, the proposed deadline for submission of audits on November 1. We believe there are various reasons that this acceleration of the deadline by a full month is concerning to independent public audit firms (IPA) and state and local government auditees.

OUR MAIN CONCERNS ARE:

It must be noted that New Mexico's approach to audit each department and agency for state government is **a higher standard than almost all other states**. These audits are primarily outsourced to IPA firms. This approach has benefits, but it takes trained and skilled resources and sufficient time to perform these audits. A reduction of available time to complete more audits than other states can have unintended effects. Limitations on both the auditee and IPA staffing and resources must be considered with respect to turnover, stress, scheduling hours per week, training and investment cost for local government, as well as IPA firm human resources.

We believe that **PERA, ERB and NMRHCA would suffer** from a November 1 deadline due to their requirements to obtain actuarial reviews every two years. The current timetable to perform those reviews and provide plan information is very tight. There is a good chance that this accelerated deadline simply will not work.

Our principal view is that there would have to be **a reengineering of the audit preparation process** by state and local governments and state agencies and departments. Allowing for two months to perform an audit from beginning to end, most audits would have to start at the latest in mid-August. This means that trial balances should be available by August 1. The trial balances would have to be "ready for audit" i.e. close to final with not too many additional changes expected. Auditees would be forced to close earlier each year in late July with an abbreviated period to reconcile year end balances and transactions by mid-August. This in turn means contracts would have to be signed and approved in June or even earlier.

In the audit season just completed, we worked with two clients who did not have CFOs or even experienced general ledger accountants (controllers) during a good part of the year including during audit fieldwork which made for late audit completions. We had two more audits that required an extended fieldwork period to complete with CFOs either breaking in or dealing with issues inherited from the past. **Is the skill level needed for this acceleration in place** and are there compensating factors in place that would improve the skill level situation? It appears to us that this is a significant issue. The level of accounting skill (i.e. competent CFO) is not uniformly possessed by certain state and local governments, and state agencies and departments.

For a medium size local firm there would be a compression of time to do the work. There would be less opportunity for one audit team to complete multiple audits during the time frame. This means hiring additional people in an already tough market for recruiting and hiring for a firm that wants to maintain its volume of governmental work. Larger firms that can draw on staff from other offices either electronically or in person could have some of the same problems. All of these factors could result in lower quality work.

The current state financial condition encourages no change in fees (or even a decrease in audit fees for those out to bid) with increased expectations for performance and demand for resources both staff and time. The current state financial condition does not easily provide for raises for skilled employees or filling open positions for state employees. There might be morale issues (depending on the agency) with no raises and increased job demands.

QUESTIONS RAISED BY THE DRAFT AUDIT RULE:

With the acceleration on the back end, can interim work be performed and contracts signed sooner? Are there any changes on the front end of the audit process contemplated to increase the chance for success?

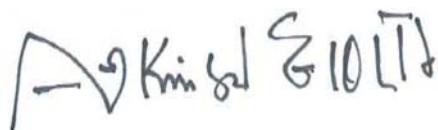
Should every CPA firm specialize in helping clients get ready for audit since this doesn't affect independence (if you don't do the audit) and presumably the contracts for audit assistance could be approved in advance of the audit year. Should additional local governments, agencies, and departments of state government contract with external contractors to prepare for audit under accelerated schedules? These types of engagements currently take place now but the possibility is that this number could increase.

A CLOSING NOTE:

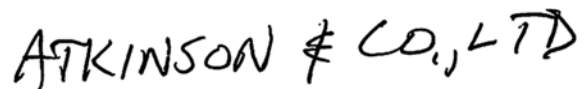
The de facto submission deadline by DFA of November 4 this year (and November 6 in the prior year) should be reviewed to determine how well this imposed deadline met its objective. How many changes were made comparing drafts received by November 4 to the final audit document? And how many drafts were not ready at November 4?

Thank you for your consideration of these factors in your final decisions on the new state audit rule.

Sincerely,



Martin Mathisen, CPA, CGFM
Atkinson & Co., Ltd.



Clarke Cagle, CPA, CCIFP, CGFM
Atkinson & Co., Ltd.