OFFICE OF THE STATE AUDITOR
GOVERNMENT ACCOUNTABILITY OFFICE

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FISCAL YEAR 2022-2023 FINDINGS REPORT

Summarizing New Mexico's Governmental Audit Reports

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Credits:

All information in this report is gathered by the Office of the State Auditor's Financial Audit Division (FAD) staff during the Audit Review Process. Without the work of individual staff members within FAD the analyses in this report would not be possible.

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<u>Note on Presentation of State Financial Audit Data</u>

There are many entities for whom data is unavailable due to late or missing audits. As such, many entities have data excluded from the Fiscal Year 2022-2023 Findings Report. Additionally, there are some entities that are administratively attached to another entity but may have a stand-alone audit or component units which we separately tabulate a financial audit. Therefore, the findings report may provide counterintuitive presentation for some categories of entities. For example, we may present more or less county entities in the report than the 33 counties that constitute state government. The reader is advised that state government financial reporting is separate and distinct from counts of entities operating as governments in the state.

EXECUTIVE SUMMARY

Financial Audit

An audit of financial statements is a written report expressing and attesting whether the accompanying financial statements are stated fairly by the entity's management and presented in accordance with applicable accounting standards. Auditors review underlying data and processes that went into preparing the financial statements.

Audit Opinion

Audit reports include an opinion by the auditor as to whether there is reasonable assurance that the financial statements prepared by management are free from material misstatements. Audit opinions generally are presented as one of the following: unmodified (providing reasonable assurance the financial statements are free from material misstatement), modified (disclaimed or adverse opinions where the auditor does not reach reasonable assurance), or multiple (expressing different opinions on different sections of the government).

The Office of the State Auditor (OSA) has statutory oversight responsibilities for annual financial audits of New Mexico's governmental entities. The OSA ensures that financial audits are completed in accordance with governmental accounting and auditing standards and helps ensure timely completion. For government audits, an OSA-approved independent public accountant (IPA) or OSA auditor review whether the financial statements of an entity are presented fairly in all material respects and in accordance with generally accepted accounting principles (GAAP) and government auditing standards (GAGAS). Audits test and review supporting documentation for financial data and review management processes related to the financial statement preparation. The annual audit process provides data on a government's financial operations and can help identify operations in need of corrective action. The format in which the auditor presents areas of deficiencies or issues of non-compliance in a public audit is termed a finding.

Audited financial statements provide important information on government operations, and for the history of the OSA's Government Accountability Office (GAO), a report analyzing trends in the findings presented in audits has been published. Originally envisioned as a way to empower government leaders to use audit reports as a management tool to guide financial decisions, the findings report has often focused on aggregate trends in all state audits. These larger scale trends are important; they inform government stakeholders of whether the issues being faced in their entity are an outlier or part of a larger trend of similar issues faced by all state governments. However, for fiscal year 2022-2023 (FY23), the OSA GAO again analyzed trends within government entities to further highlight potential areas of risk for subunits of government. Just as the issues faced by the state may differ from a federal government, the areas of risk for a state agency or municipality may differ as well. For FY23, the GAO wants to continue to bring focus on areas of risk for all government subgroups that began in FY22, as well as traditionally presenting the larger statewide trends.

Purpose

The purpose of the FY23 Findings Report is to provide both high-level and more granular data and statistical evidence on the outcomes found in state and local government FY23 audits. This report helps accomplish OSA's mission of establishing and maintaining the public's trust in the use of public funds by enacting a core element of the OSA vision of being the chief steward to help public entities remain financially compliant. The report also helps fulfill the GAO's mission to increase accountability for non-compliant entities, increase transparency of government operations, and strive for excellence in state government financial operations by identifying areas of improvement for state government entities. The GAO also intends that trends within subgroups of government will help similar entities identify areas of risk to address.

Procedures

When the IPA submits an audit to the OSA for review, it also submits a summary of findings report. Staff from the OSA's Financial Audit Division (FAD) compile these reports into a master findings summary sheet and provide preliminary data validation work steps. The spreadsheet is transferred to the GAO for further validation and data analysis, and this report reflects the results of that analysis. Regrettably, there are always entities for whom an audit is submitted late. As such, entities without a FY23 audit submission as of October 31, 2024 are identified in the report and their findings are omitted from any analysis. The FY23 Findings Report includes data from 530 full financial audits and 96 agreed-upon-procedures attestations which are for entities that require less than a financial audit according to the statutory tiered system of reporting (see Appendix A). In the report, we also analyze categories of findings for subgroups of governments to find trends that allow these government subgroups to better refine their financial operations.

Fiscal Year 2022-2023 Introduction

In audits of financial statements, the government management asserts that the financial statements are fairly stated in accordance with GAAP and GAGAS. The OSA approved auditor will issue an opinion on whether or not the statements are fairly stated in accordance with GAAP and GAGAS. With regard to the state of New Mexico's governments in FY23, the vast majority of state audits have no issues as demonstrated by 98 percent of all the state's 530 government audits being presented fairly (i.e., with an unmodified opinion). After adding in the 96 agreed-upon-procedures (AUP's) attestations, over forty percent of all audits and AUP's had no findings whatsoever.

Note Bene:

In past OSA findings reports, unmodified opinions have been sometimes given "clean bills of health" by the OSA. Auditors provide an assurance on management's preparation of financial statements from a single historical point in time. It does not detect or prevent all instances of fraud, waste or abuse in an entity, nor does it provide a comprehensive, exhaustive test of all transactions or funds. Many entities without findings or an unmodified opinion in an audit report from prior years may have many financial issues currently or going undetected. The state auditor expresses caution with overemphasizing financial health of government agencies that have an unmodified opinion or a lack of audit findings in any given year. <u>As such, an unmodified opinion is not a "clean" audit.</u> However, the public should have confidence that the majority of government leaders and management were conducting their financial affairs in FY23 in a sufficiently effective manner. Additionally, this level of governmental performance has stayed relatively consistent across over at least the last six years, with the level of unmodified opinions staying at this high level.

THE OSA AND GAO

Office of the State Auditor (OSA)

The OSA is a constitutionally established, separately elected office in the Executive branch of state government. The State Auditor maintains independence from both the Governor and the Legislature while examining and auditing the financial affairs of state and local entities.

When the state's leaders prepared the New Mexico Constitution in 1911, they created a strong, independent Office of the State Auditor to oversee how government officials spend taxpayers' dollars. As the New Mexico Supreme Court stated in 1968, “the Office of State Auditor was created and exists for the basic purpose of having a completely independent representative of the people, accountable to no one else, with the power, duty and authority to examine and pass upon the activities of state officers and agencies who, by law, receive and expend public moneys.” *Thompson v. Legislative Audit Commission*, 79 NM. 693, 448 P.2d 779 (1968).

Included in the OSA’s statutory mandate is the requirement that the financial affairs of every agency be thoroughly examined and audited each year by the State Auditor, personnel of the OSA designated by the State Auditor, or Independent Public Accountants (IPAs) approved by the OSA. The OSA also has the authority to cause the financial affairs and transactions of an agency to be audited in whole or in part. These two statutory provisions grant the OSA the authority to conduct both annual financial audits and special audits. The Audit Act (New Mexico Statutes Annotated 1978, Sections 12-6-1 to 12-6-14), and the Audit Rule, (NMAC 2.2.2 1978), are the office’s primary operating laws and regulations.

Government Accountability Office (GAO)

The OSA’s Government Accountability Office (GAO) informs and reports on statewide issues relating to the use of public funds and government financial operations. The GAO is a key lever in fulfilling the OSA’s mission, and it ensures the public’s trust in the use of public funds by bringing transparency and accountability to the use of public funds. As part of the OSA, the GAO is uniquely positioned to analyze audit data in a way that is accessible and useful to government stakeholders. In addition to yearly reports, the GAO releases various issue-specific GAO reports (such as the annual findings and operations reports), risk reviews (communicating financial issues of concern to those charged with governance of state and local government), risk advisories (giving notice of concerns that the OSA has discovered regarding transparency, accountability or compliance), bulletins (which are used to promote and support content areas related to accounting and audit areas for stakeholders) and transparency reports (which discuss specific issues of interest related to how our public dollars are managed and spent). Through these transparency and accountability reports, the GAO promotes excellence in government finances.

OSA’s Mission

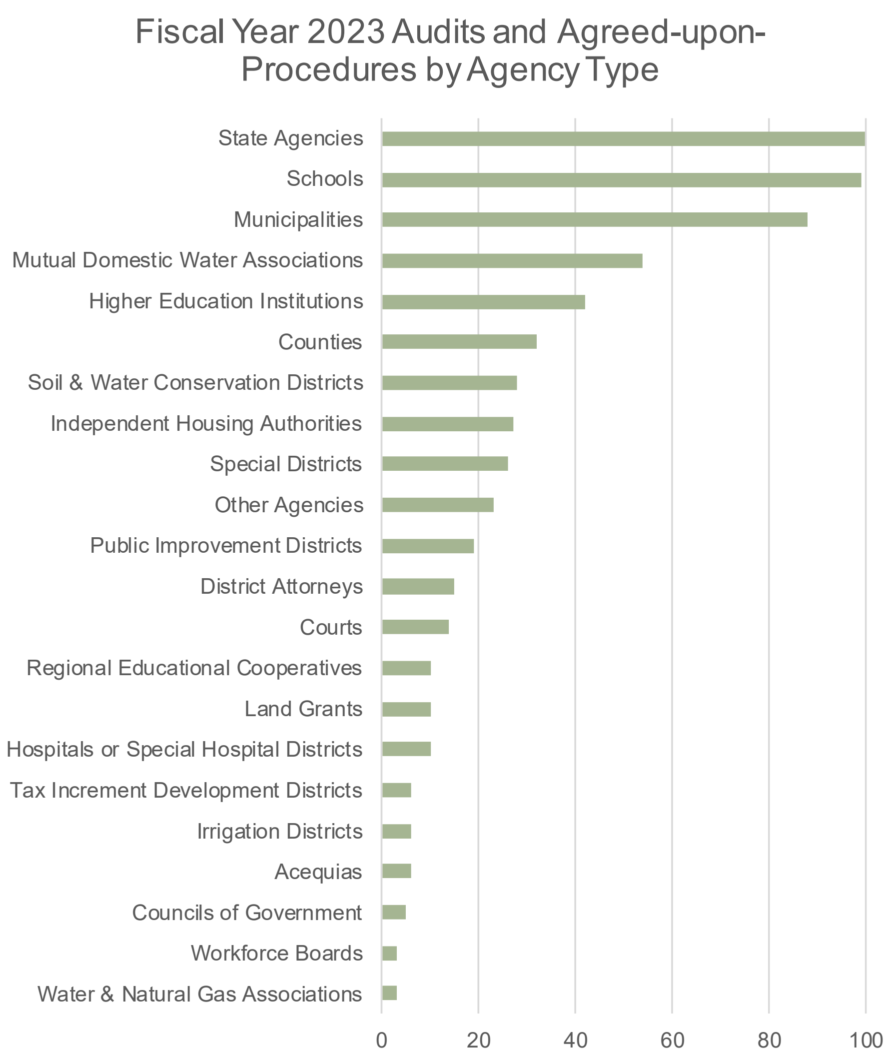
“Establish and maintain the public’s trust in the use of public funds through an office free from external influence and entrusted with the authority to scrutinize the undertakings of state officials and entities.”

FISCAL YEAR 2023 OVERVIEW

High Level Overview of Audits/Agreed-upon-procedures: Opinions and Findings

Audits and Agreed-Upon-Procedures (AUPs)

Information presented in this report draws on the financial audits and agreed-upon-procedures (AUPs) from the 626 agencies submitting reports for review in FY23. The determination for whether an entity receives a full audit or an AUP is based upon the statutory tiered system of reporting, which is outlined in Appendix A. Though the OSA staff has the authority to audit any government agency, the vast majority of government audits were conducted by Independent Public Accountants (IPAs) that are approved and overseen by the OSA. Due to a lack of OSA staffing and the long-standing contracting-out model, the IPAs conduct the majority of the state's government audits and OSA evaluates the IPA's through an approval process and reviews the work performed by the IPA to ensure it meets professional standards. For FY23, the OSA tracked 22 agency types, which are consolidated for purposes of this report's agency type breakouts into nine subgroups based on similarities in operations. For FY23 regional education cooperatives were grouped with other government instead of the schools on the basis of similarity.



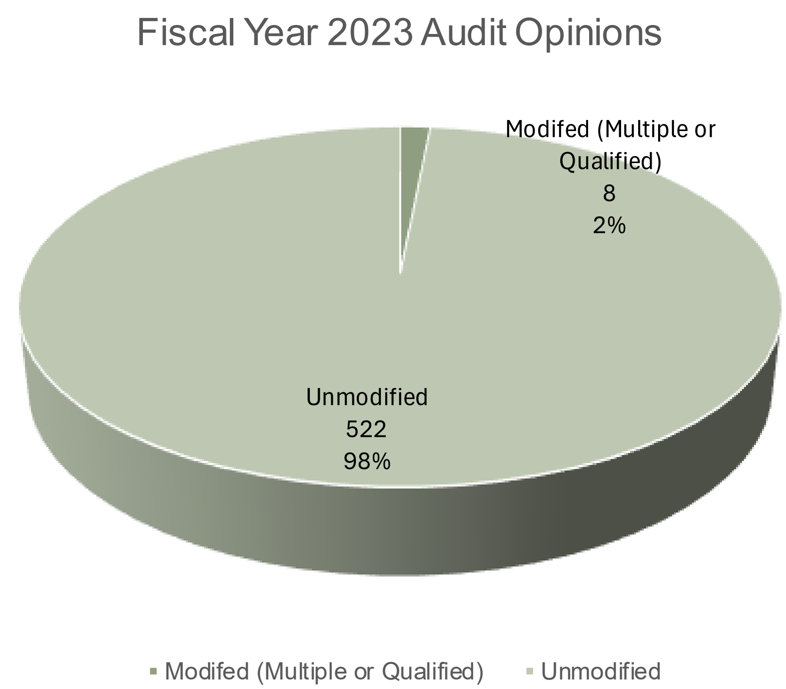
Audit Review Process

In FY23 the OSA oversaw required financial reporting for 626 governmental entities, with many backlogged AUPs or late audits. The OSA performs regulatory work in ensuring the audits or AUP's conducted by the IPAs maintain a high level of quality and is in compliance with generally accepted accounting principles (GAAP) and government auditing standards (GAGAS). OSA supplements its audit review with approval and verification of IPAs and limiting contracting to those approved. It also performs workpaper reviews to ensure conclusions are supported. However, the OSA does not determine whether opinions and findings in an audit conducted by an IPA are correct - reviews are limited to quality control and assurance. The views expressed in any government audit conducted by an IPA are based on the IPA's professional judgment. As the IPA industry contracts, the state faces challenges in continuing the contracting-out model.

Fiscal Year 2023 Unmodified Audit Opinions

As described earlier, when performing a governmental audit, an auditor determines whether the financial statements of the entity are presented fairly by management and in accordance with accounting standards by looking at the underlying information and processes that went into preparing the financial statements. The auditor also examines the entity's internal control framework. As part of their field work, the auditor selects a sample of the records and tests those records to see if they support the information presented in the financial statements. After concluding field work, the auditor provides an opinion about the information presented by management and whether the financial statements are in conformity with the applicable reporting framework. Audit reports indicate an opinion as to whether there is reasonable assurance that the financial statements are free from material misstatements, but they are not intended to identify every financial challenge in an organization's finances. In AUP's, an auditor expresses no opinion.

In FY23, 98 percent of the 530 entities receiving a full financial audit received an unmodified audit opinion, reflecting that there is reasonable assurance the financial statements are free from material misstatement. The 96 AUP's do not express an opinion. When the majority of our state's government entities have unmodified opinions, the public can rely on the financial information as presented.



Unmodified Opinions

The auditor concludes that the financial statements of a given entity are presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Fiscal Year 2023 Modified or Multiple Audit Opinions

For the four percent of entities that did have modified or multiple opinions, risks to relying on management's presentation of the financial statements increases. When an entity receives a modified opinion, more than public scrutiny is implicated. Modified opinions can impact many other financial activities of the recipient government agency. Downgraded bond ratings, decreased access to direct capital outlay appropriations, increased scrutiny from federal grantee agencies and increased turnover of high level financial staff in an already stressed labor market for accounting and finance professionals are all common occurrences. It behooves all state government finance stakeholders to seek financial improvement for entities with modified or multiple opinions. Among other negative state impacts, often bonding debt will be impacted when backed with the full faith and credit of the state, direct legislative appropriations may go unspent, the state may be asked to backfill withdrawn federal grants or the state may have to step in and operate a government entity's finances if the underlying issues related to the modified opinion cannot be resolved.

Fiscal Year 2023 Agencies with Multiple or Modified Opinions
Multiple
Bernalillo Public School District
New Mexico General Services Department
New Mexico Higher Education Department
New Mexico Public Education Department
Village of Columbus
Qualified
Catron County
City of Eunice
Southeast New Mexico College
Village of Tularosa
Adverse/Disclaimer
None for 2023

Qualified Opinions

An auditor concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements, or the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinions

An auditor concludes that misstatements, individually or when grouped with other misstatements, are both material and pervasive to the financial statements.

Disclaimer of Opinion

The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Modified Opinion

A broad term used to group a series of increasingly severe audit opinions including: qualified, adverse or disclaimer of opinion.

Multiple Opinions

An auditor expresses different opinions on various aspects of the financial statements. For example, an auditor may express an unmodified opinion on general fund activities, but the federal activities may be qualified.

Fiscal Year 2023 Late and Missing Audits

Many entities do not adhere to legal deadlines for financial audit or AUPs completion and submission to the OSA for review. In these instances, the OSA and other state financial stakeholders have no information or confidence in the financial operations of these select government entities. In instances where a financial audit or AUP review is late, the OSA negotiates between the engaged IPA and the government entity with the late review to attempt to assist with reaching timely reporting. In extreme instances, the OSA may contact appropriate oversight entities referencing the published late audit list to inform decisions the oversight entity makes regarding withholding funds until such time as the financial audits become current. The entities listed below did not have a FY23 financial audit that had finished the OSA review process and was published on the OSA website by October 31, 2024.

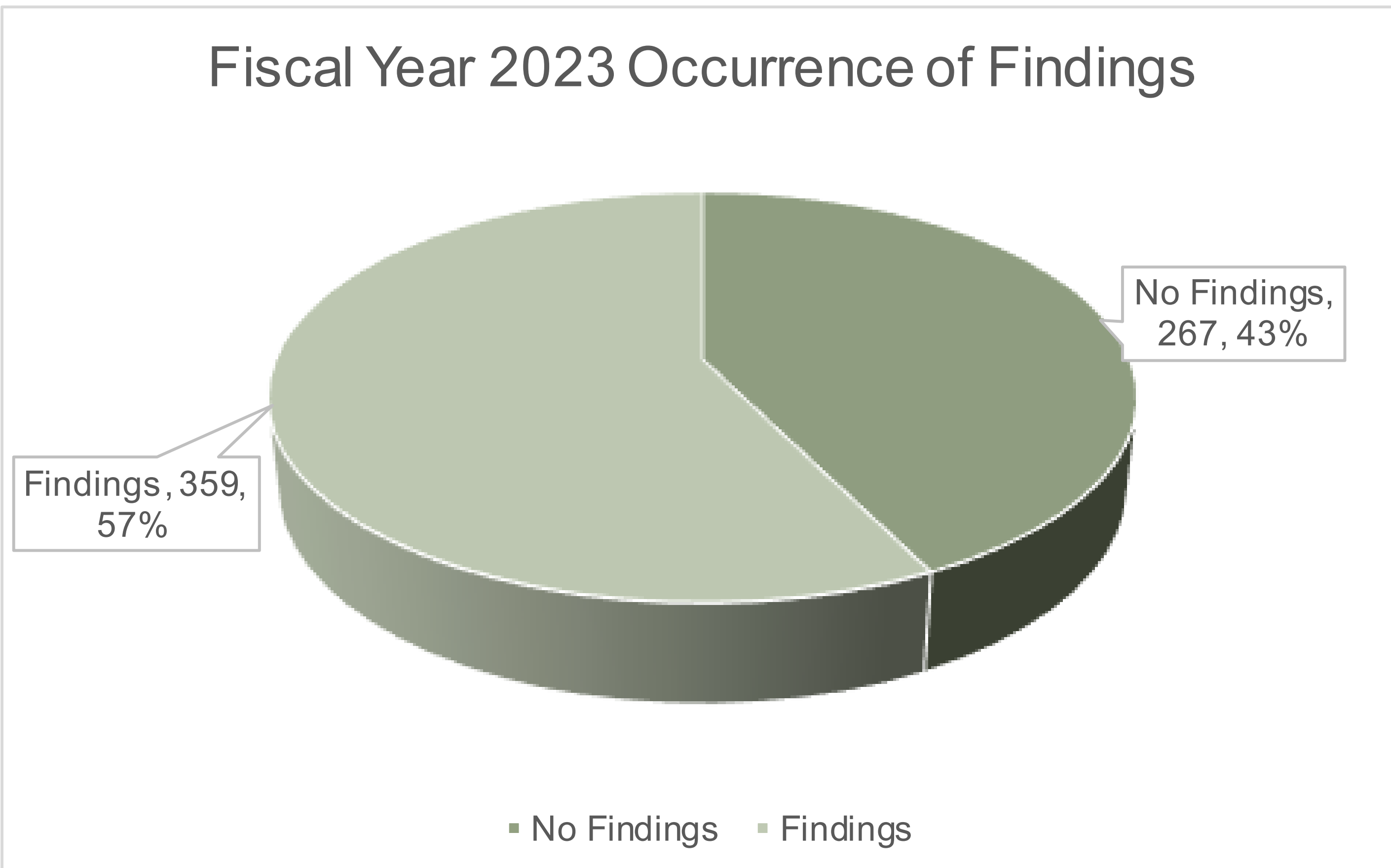
Government Entities with Findings Data Omitted from the FY23 Findings Report

Agency Name	Agency Name
Southwest NM Council of Governments	City of Lordsburg
Northern New Mexico College Eagle Corporation	City of Moriarty
Mesalands Community College	Housing Authority of the City of Raton
Luna Community College	City of Ruidoso Downs
Southeast New Mexico College	City of Santa Rosa
Eastern Area Workforce Development Board	City of Texico
Ferran Community Ditch Association	City of Tucumcari
Jal Hospital District	Town of Vaughn
Buena Vista Mutual Domestic Water Association	Village of Willard
East Pecos Mutual Domestic Water Consumers Association	Cobre Consolidated Schools
Penasco Mutual Domestic Water Consumers Association	Espanola Public Schools
Tecolotito MDWCA	Penasco Independent School District
Twin Forks Mutual Domestic Water Consumers Association	Coronado Soil & Water Conservation District
White Cliffs Mutual Domestic Water Consumers Assoc.	Grant Soil & Water Conservation District
El Creston MDWCA	McKinley Soil & Water Conservation District
Casa Adobes Mutual Domestic Water Consumers Association	Northern Regional Housing Authority
Abiquiu (Mercedes Del Pueblo Abiquiu) Land Grant	Ute Lake Ranch Public Improvement District No. 2
Santa Fe Solid Waste Management Agency	Winrock Town Center TIDD District 1
Regional Coalition of LANL Communities (RCLC)	Winrock Town Center TIDD 2
REDI Net	La Merced del Pueblo de Cebolleta
San Miguel County	Acequia de La Cienega
City of Alamogordo	Acequia de los Herreras
Village of Capitan	Acequias de Chamisal y Ojito (Acequia de la Savadilla)
Santa Clara Housing Authority	Acequia Madre de Las Vegas
Village of Cloudcroft	Archibeque Ditch Association
City of Deming	La Bajada Community Ditch & Mutual Domestic Water Association
Village of Des Moines	La Mesilla Community Ditch
Town of Dexter	La Acequia del Llano (Dixon)
Village of Eagle Nest	Las Palomas Community Ditch Association
City of Elephant Butte	Eledge Ditch
City of Espanola	Rancho Grande Water Association, Inc.
Town of Edgewood	Ancon del Gato Acequia
Village of Jemez Springs	

Fiscal Year 2023 Audit and AUP Findings

In addition to the opinion, a financial audit report contains findings that the auditor observes during their fieldwork reviewing support for financial statements. Though AUPs do not contain an opinion, they do document findings. A finding presents a deficiency or an issue of non-compliance that auditors find when analyzing the procedures of an entity or conducting audit test work. Audit findings are how auditors discuss errors, omissions, exceptions, or deficiencies as a result of analyzing the procedures of the agency or looking at audit support provided by the government entity and samples. Findings include a condition or problem documented, the criteria against which they determined the problem exists, the cause of the problem identified (in the opinion of the auditor), and the effect of the condition on the entity's operations. Auditors then also document recommendations to resolve the problem discussed in the finding, and are designed to inform continuous quality improvements by management. Findings also conclude with management's response to the problem and document plans to take corrective action to improve the condition.

In FY23, a little under half of the 96 AUPs and 530 financial audits had no findings. The majority of entities in the state conduct their operations in a manner that public stakeholders can be confident that management financial operations are effective.



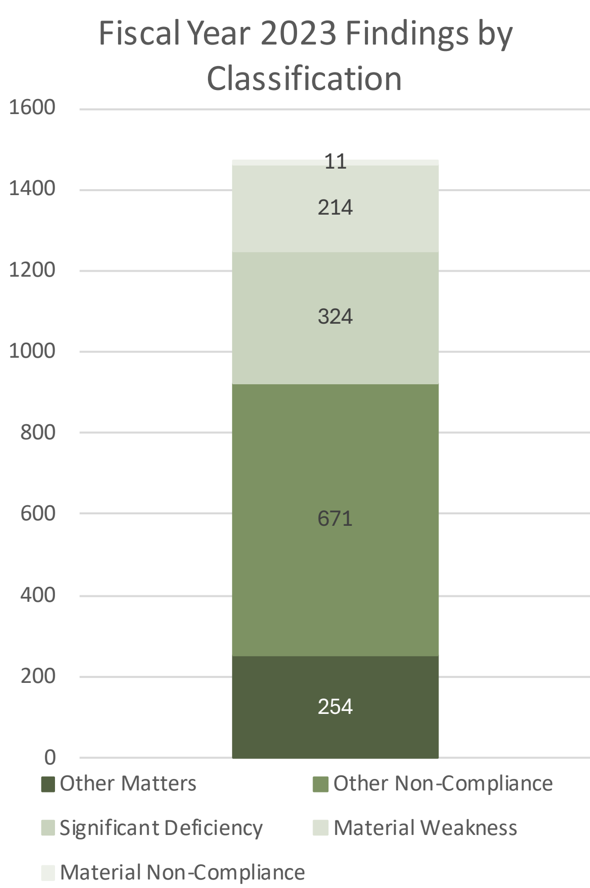
Audit Findings

An written observation from evaluation of audit evidence when compared to legal or principled criteria. Documents a nonconformity to the criteria by describing the condition, cause and effect and makes a recommendation for remediation. Findings also include management's response and proposed corrective action.

Fiscal Year 2023 Audit and AUP Findings Classifications

Each audit finding can be grouped into a specific classification, based upon the severity of the problem leading to the auditor reporting the finding and the potential risk that the financial statements are misstated. Classifications can illustrate whether the problems are the result of internal control deficiencies, noncompliance with state laws or other deviations that impact the potential for financial statements to be misstated. The five finding classifications by increasing severity are: other matters, other noncompliance, significant deficiency, material weakness and material non-compliance. Findings do not exist in a vacuum and must be considered in concert with the audit opinion, other audit findings, past financial audits and management's responses and proposed corrective actions. Material non-compliance and material weaknesses both discuss impacts to materiality of financial statements presented, with the difference being that the former is the result from being non-compliant with laws, regulations, contracts and/or grants and the latter often the result of internal controls deficiencies but not rising to the level of violating any laws, regulations, contracts and/or grants.

One cannot judge an entity's financial health through a count of findings alone. For example, one audit with an unmodified opinion may have multiple other audit findings, none of which impact the materiality or presentation of the financial statements. Alternatively, another financial audit may have a disclaimer of opinion resulting from one material non-compliance finding for misspending a federal grant that removes any ability to produce a trial balance and therefore accurate financial statements. Though an unlikely example, in these instances the financial audit with more audit findings is actually *less* financially risky than the audit with fewer findings. However, when taken in concert with other elements of the audit or compared with findings of other similarly situated governments, the frequency of audit findings can provide information on trends of government audit risk. The overall frequency of audit finding risk classifications for FY23 is demonstrated below.



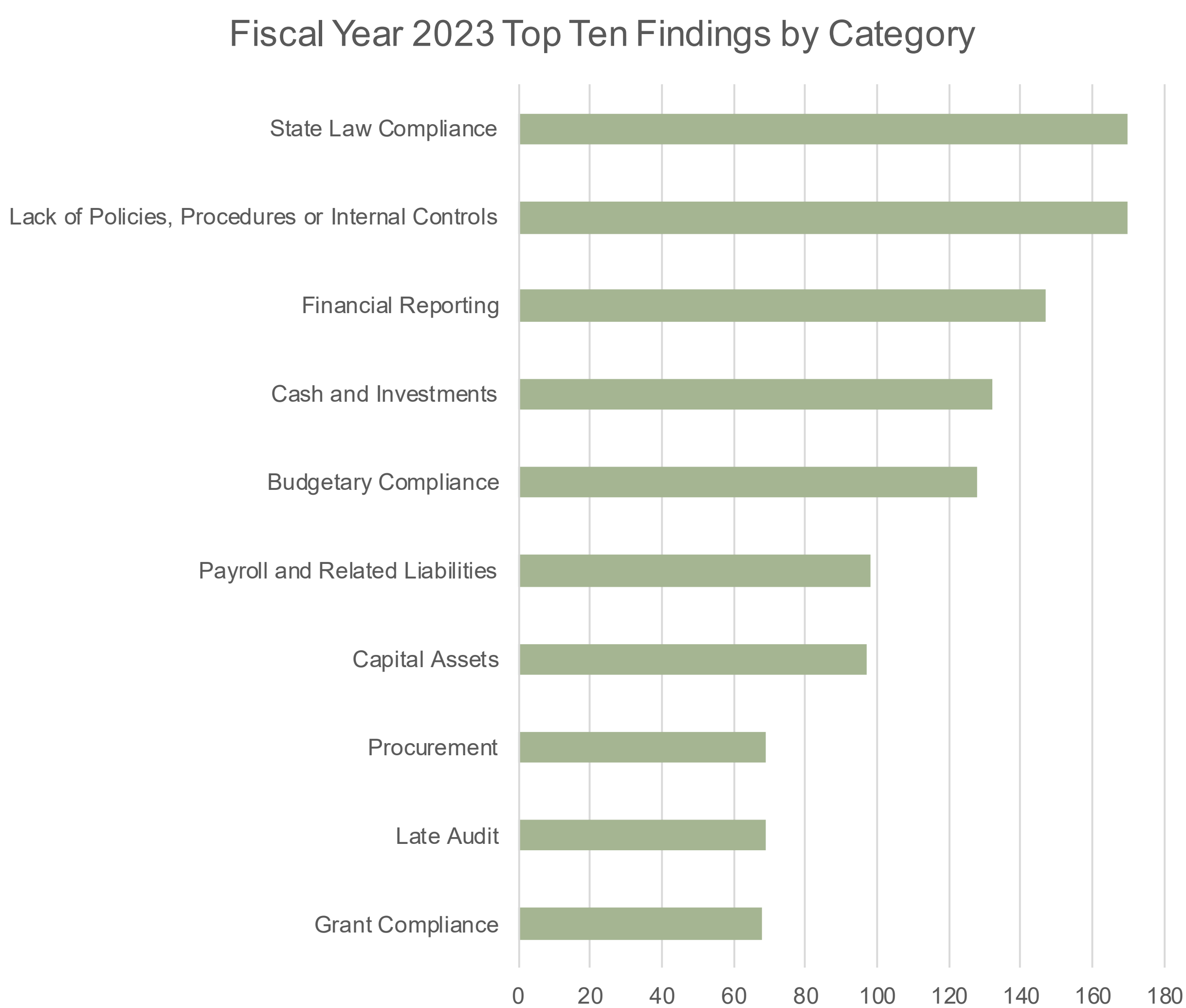
Material Non-Compliance	A failure to comply with laws, regulations, contracts or grant agreements that is quantitativelyor qualitatively material, either individually or when aggregated with other non-compliance, to the compliance requirement as a whole, or at the individual program level.
Material Weakness	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the agency's financial statements will not be prevented, or detected and corrected on a timely basis.
Significant Deficiency	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Other Non-Compliance	A failure to comply with laws, regulations, contracts, or grant agreements that may affect the financial statements as a whole, or at the individual fund or program level.
Other Matters	A finding that is any violation of law or good accounting practices found by the audit, that does not rise to the level of a significant deficiency.

Fiscal Year 2023 Common Audit and AUP Findings

The frequency of audit findings can also help illuminate trends in government audit risk. The purpose of audit findings are to identify areas of improvement for government management as well as identifying to stakeholders areas of risk in the governmental entity. Government management should be using the information in their entity's audit findings to engage in continuous quality improvement efforts. However, government entities should also be analyzing trends in the state's overall government audit findings to see where similarities exist between their government's audit findings and the state's audit findings in aggregate.

The overall statewide frequency of audit finding categories is demonstrated below and the definitions for categories of findings in FY23 are available in Appendix B. The top three categories presented below were almost exactly 33 percent of all findings state wide. Many state agencies have at least one of the top three categories for the state in the top findings categories for their government subgroup, as depicted later in the subgroup breakouts.

After review of trends in why these findings were occurring, state governmental entities may wish to review state legal requirements in general to ensure compliance with state law. OSA recommends paying special attention to requirements for pledged collateral, the requirements for audit submission and accuracy of reporting to oversight or grantee agencies. When reviewing the lack of policies, procedures and internal controls finding, entities should ensure they have accounting, procurement and fiscal year open and close policies and procedures. Entities should continue to perform risk assessments on their internal control framework. For financial reporting, entities should review their accuracy in the closing and opening of the fiscal year's accounting, and their entity's ability to produce a trial balance and schedule of expenditure of federal awards (SEFA) that is accurate and without error.



GOVERNMENT ENTITY SUBGROUPS

Detailed Overview of Audits/Agreed-upon-procedures: Findings and Operational Trends

Government Subgroups Overview

In order to facilitate better and more pertinent trend analyses across subgroups of our state governmental entities, the OSA grouped similarly situated governmental entities into nine broad categories of government to help highlight trends in categories of findings, and provide more valuable guidance in improvements to financial operations within these subgroupings. What follows this overview are detailed breakouts of trends within each entity, and within each classification of finding. This further disaggregates state-level trend data as certain entities may not experience the same state-level trends in findings classification. For example, though state law compliance was the number one finding in the statewide frequency results, within the state agencies government subgroup, grant compliance was the most frequent finding classification. The subgroup breakout sections of the report answer why this is happening and what management efforts may have resulted in less audit findings.

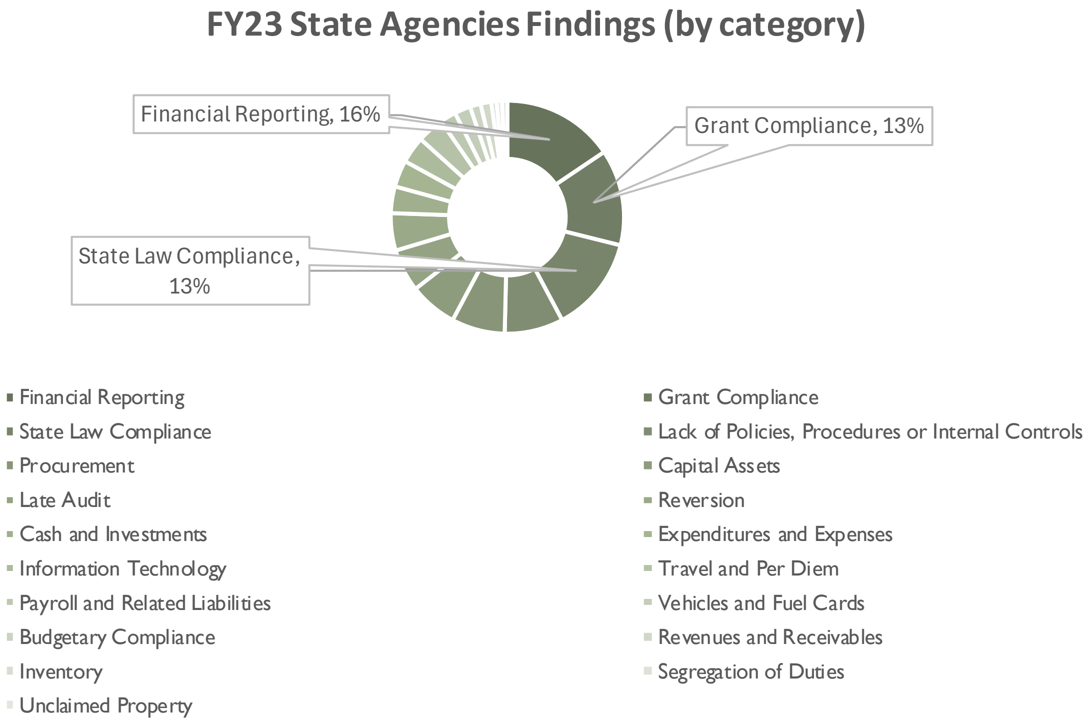
OSA includes entities with AUPs as those reports include findings and some governments that are similarly situated to other entities receive AUPs due to meeting tier requirements while their similarly situated peers receive full financial audits. Descriptive data on the subgroupings of government entities is included below. Information on which traditional OSA database categories are included in the subgroupings are included in the individual breakout sections, as is the most frequent categories of audit findings. For a full list of findings categories modeled, please see Appendix B.

It is important to note that for some entities, that differences in the timeliness of submittal of audits, inclusion of component units or not and changes in AUP or full financial audit that counts of entities in a subgroup may either be above or below traditional numbers of entities. For example, in any given year the State of New Mexico has 89 school districts. But with the addition of state chartered charter schools and the lack of submission of audits from Cobre, Penasco and Espanola school districts by October 31, 2024 the counts of schools entities varies from 89 and varies year by year.

Fiscal Year 2023 Agency Overview

Agency Category Group	AUP - No Opinion	Modified	Unmodified	No Findings	Number of Findings
Counties	0	1	31	8	124
Higher Ed. Institutions	0	0	42	30	56
Hospitals or Special Hospital Dist.	0	0	10	1	27
Judiciary	0	0	29	15	28
Local Public Bodies	91	0	67	81	165
Municipalities	5	3	107	37	293
Other Government	0	0	31	20	27
Public Schools	0	1	108	28	619
State Agencies	0	3	97	47	135
Totals	*96*	*8*	*522*	*267*	*1474*

State Agencies



<u>Subgroup Summary</u>

The state agencies reflect the government entities that constitute state Executive branch agencies, but also includes standing agencies of the Legislature and quasi-governmental entities like the Public Schools Insurance Authority. State agencies have robust administrative services divisions and most often have proven track records of financial performance. Given the accounting infrastructure in state agencies, some entities receiving modified opinions is concerning. OSA has recommended LFC and DFA strengthen budgetary control of state agencies to prevent budget overruns and associated deficiencies.

<u>Top Three Findings Categories</u>

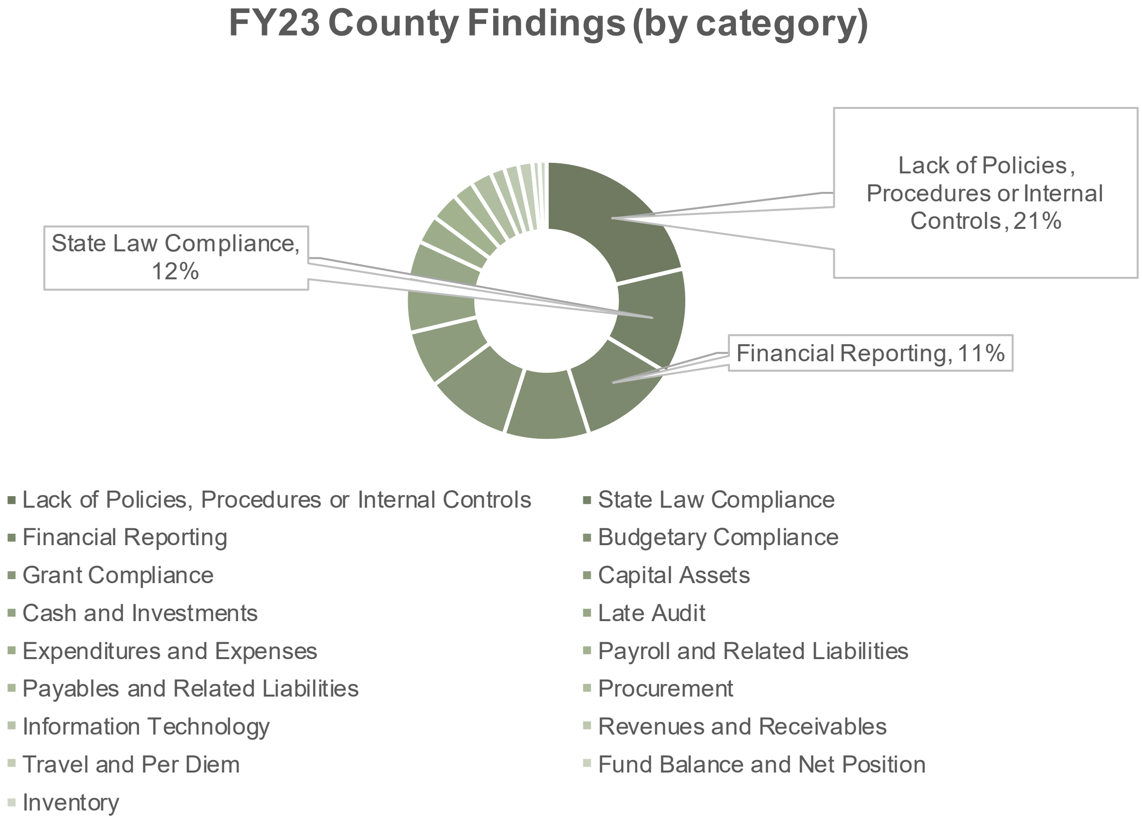
The first most frequent audit finding in state agencies is *financial reporting* findings. These deficiencies are often related to improper reporting and the ability to accurately and timely open and close the fiscal year accounting. State agencies were improperly preparing the SEFA which delays state agency final accounting. In addition to internal controls lacking around the fiscal year accounting close, auditors also identified issues with the need for additional adjusting journal entries, and many material audit adjustments. For more information on required knowledge, skills and experience see: https://www.osa.nm.gov/wp-content/uploads/2025/02/Knowledge-Skills-and-Experience-Bulletin_FINAL.pdf.

Second, state agencies were increasingly found to be out of *state law compliance* in their audit findings. Often these findings were for non-compliance with the twenty-four hour deposit rule, not providing timely notification to the OSA of property disposition or instances of fraud, waste and abuse. In FY23 state agencies also experienced issues with expenditures in excess of available budget or unallowable expenditures.

Lastly, state agencies experienced issues with *grant compliance.* The frequency of this audit finding was often due to charging unallowable costs to grants, a lack of subrecipient monitoring on federal grants and improper reporting requirements to federal oversight entities or grantees. OSA recommends that governments ensure that allowable costs and activities for payroll charged to federal grants is supported with documentation, that proper oversight is being conducted of sub-awardees in accordance with federal subrecipient monitoring requirements, and that all reporting to federal agencies is performed accurately and timely.

State agencies may wish to strengthen their timeliness of audit preparation, federal grant compliance and ensure accurate open and close procedures. Internal controls around financial accounting may also be improved. Entities may wish to ensure that key state agency managers understand key calendar dates on fiscal year operations as well as key operational functions necessary to record and close the fiscal year.

Counties



Subgroup Summary

The majority of counties have their findings report grouping match their grouping in the findings summary—that of counties. There were 35 county government entities analyzed county governments, but also the County Insurance Authority, the Regional Emergency Dispatch Authority and the Bernalillo County Affordable Housing Nonprofit. Counties as a whole are a high performing government subgroup; only one county had multiple opinions which was Taos County's financial statements.

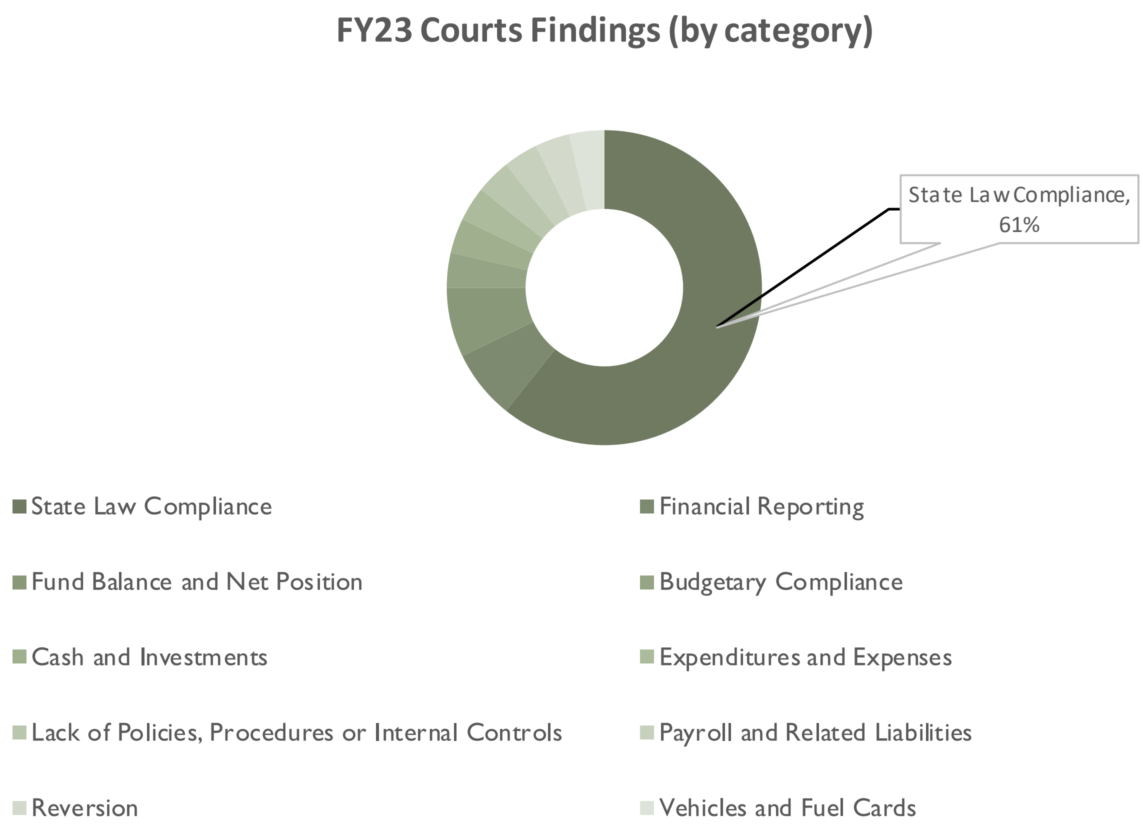
Top Findings Categories

Last year, in FY22, counties experience a high frequency *of internal controls*. This finding category continues to be an issue and often they reference issues with internal control frameworks and counties could seek improvement in this area. When reviewing these finding summaries, counties experienced a lack of monitoring or evidence of monitoring in their internal control framework. This may have taken the form of a lack of supervisory oversight on common accounting items or reconciliations and no proof of review of work product or oversight of submission to deadlines. Counties should continue to look at having two layers of review for accounting work. Counties should ensure they retain supporting documentation for accounting.

Counties again experienced high rates of *state law compliance* findings. These were most frequently in the areas of vouchers/ deposits. Counties should consider processes by which they cancel all stale dated checks once yearly, maintain compliance with the 24 hour deposit rule, and ensure invoices are reviewed and paid within legal timeframes. Like many entities statewide, counties also must ensure compliance with pledged collateral at their local bank. For more guidance on pledged collateral please see the Communications section of the OSA website at https://www.osa.nm.gov/wp-content/uploads/2024/08/2024_OSA-Advisory_Collateral_FINAL.pdf.

Third, counties experienced a high frequency of *financial reporting* findings. These are deficiencies or exceptions in public accounting and reporting activities at the county. When analyzing these findings, many are the result of discrepancies between the county books and general ledger and amounts reported to DFA's local government division. Similar to other entities, counties experienced issues with the closing and opening of the fiscal year and performing the necessary adjusting journal entries to shift from the cash to modified accrual and full accrual basis of presentation. Counties also had issues with preparing the Schedule of Expenditure of Federal Awards.

Courts



<u>Subgroup Summary</u>

The courts consist of the 13 district courts and Offices of the District Attorney, the Bernalillo County Metropolitan Court, and the Administrative Offices of the District Attorney.

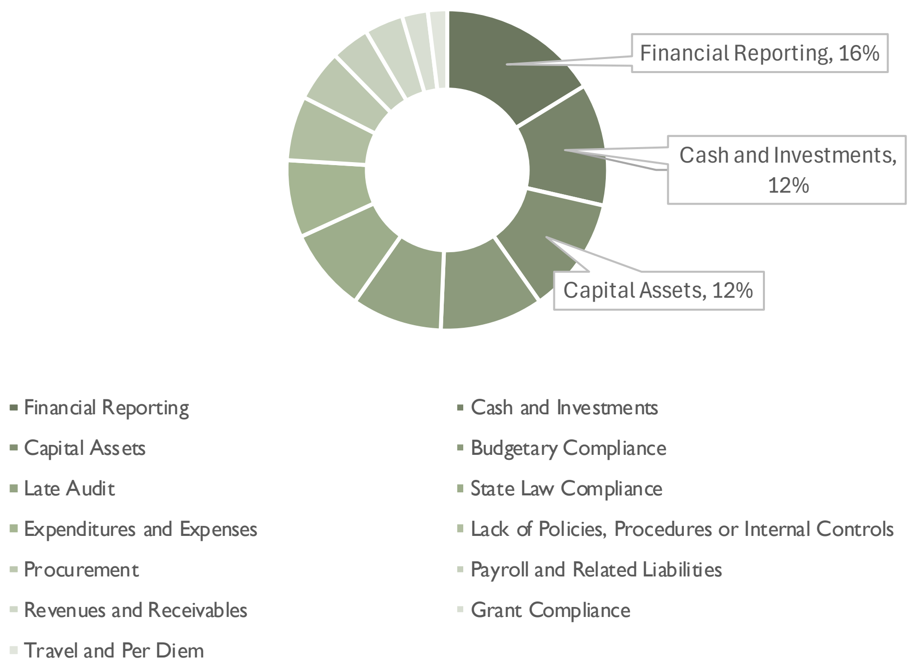
<u>Findings Category Frequency</u>

For the second year running, the courts' highest frequency finding category is state law compliance, again accounting for over half of all findings in the subgroup. All of these findings corresponded to the district courts themselves (as opposed to the district attorneys), and were often directly related to inaccurate reporting around bond payments or failure to pay. Whether inaccurate charging of fees, or missing and inaccurate bond logs, OSA recommends the district courts review their internal controls around revenue collection processes.

Judiciary Subgroup Entities
First Judicial District Court and District Attorney
Second Judicial District Court and District Attorney
Third Judicial District Court and District Attorney
Fourth Judicial District Court and District Attorney
Fifth Judicial District Court and District Attorney
Sixth Judicial District Court and District Attorney
Seventh Judicial District Court and District Attorney
Eighth Judicial District Court and District Attorney
Ninth Judicial District Court and District Attorney
Tenth Judicial District Court and District Attorney
Eleventh Judicial District Court and District Attorney
Twelfth Judicial District Court and District Attorney
Thirteenth Judicial District Court and District Attorney
Bernalillo County Metropolitan Court
Administrative Office of the District Attorneys

Local Public Bodies

FY23 Local Public Bodies Findings (by category)



Subgroup Summary

The Local Public Bodies (LPBs) subgroup captures acequias, irrigation districts, land grants, mutual domestic water associations, public improvement districts, soil and water conservation districts, special districts, tax increment development districts, and water and natural gas associations. LPBs have been a policy focus of the OSA, in terms of both oversight and technical assistance. As explained in Appendix B., the Office (with support from the Governor and Legislature) is continuing its Small Local Public Bodies Initiative. As such, we are capturing more of the state's small governments in our AUP reviews as the local public bodies seek financial review compliance to access capital outlay appropriations.

The small local public bodies are often volunteer, quasi-governmental or community organizations with limited administrative services infrastructure, limited financial and accounting expertise among their personnel, and frequent turnover. These local public bodies face significant challenges with producing financial documentation to receive a required financial review, as reflected in the subgroup' s frequency of findings.

Top Three Findings Category Frequency

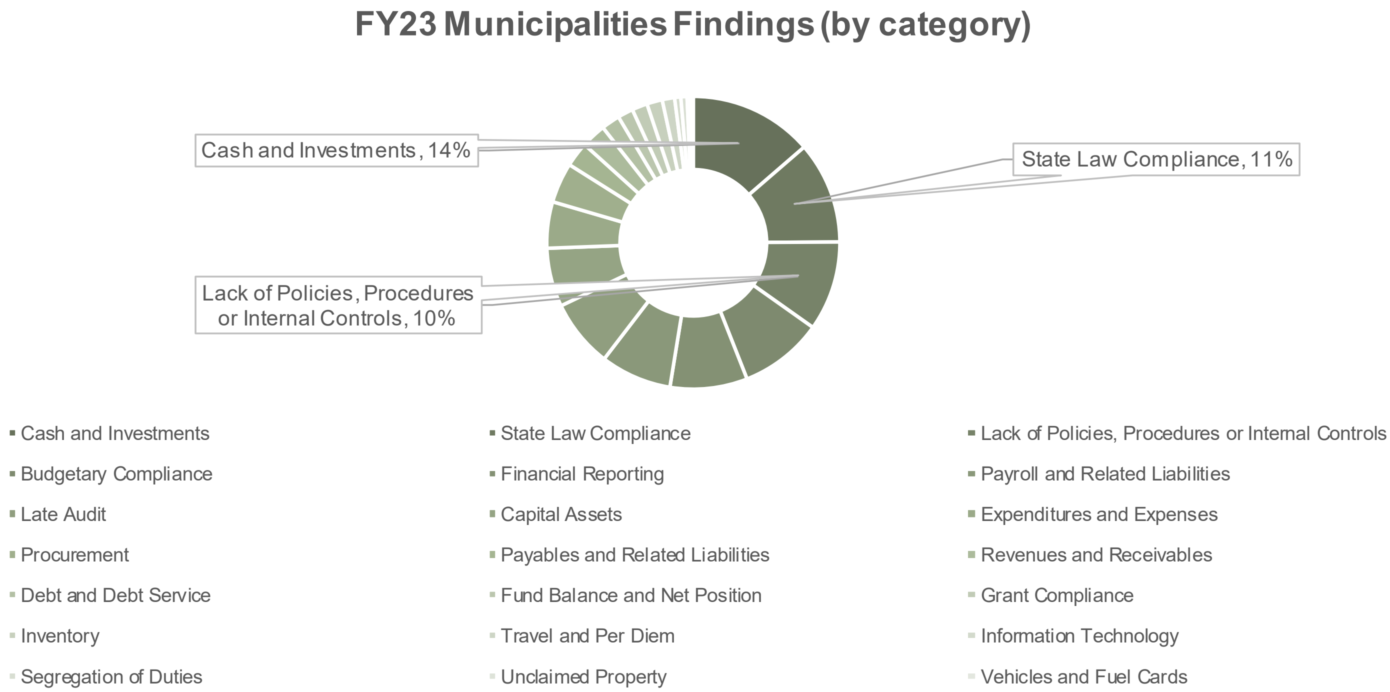
The most frequent findings category is *financial reporting*, which befits organizations with limited accounting and financial expertise. The most frequent reason for the finding was improper reporting, and this often stems from accounting items on the general ledger not matching submissions to DFA for financial reporting. LPBs also should be ensuring review of adjusting journal entities and ensuring that accounting items are being correctly posted.

The same issues around inaccurate accounting impact *cash and investments* findings with LPB's not adequately reconciling cash to investments amounts, not retaining documentation to support fund or cash balances and some of the same issues with regard to pledged collateral for deposits we see other with other entities.

Lastly, LPBs, also had high incidences of a *capital assets* findings. Eleven of the eighteen findings in this area regarded inventory or inventory-related controls for capital assets. Specifically, entities lacked capital assets lists, capital asset inventory lists not having monetary amounts or not routinely updated.

OSA recommends LPBs improve internal controls and review the processes in place for capital asset inventory lists.

Municipalities



Subgroup Summary

Municipalities include many of the towns, villages and cities in our state. The municipalities are among the largest of the government subgroups in both the number of entities within the subgroup and the number of findings. Municipalities also had more diverse opinions with both high and low performing entities, and entities with so little financial activity they qualify for AUPs under the tiered system of reporting. As a large group, this diversity in performance is to be expected, yet municipalities are also one of the subgroups with the most opportunity for improvement in operations.

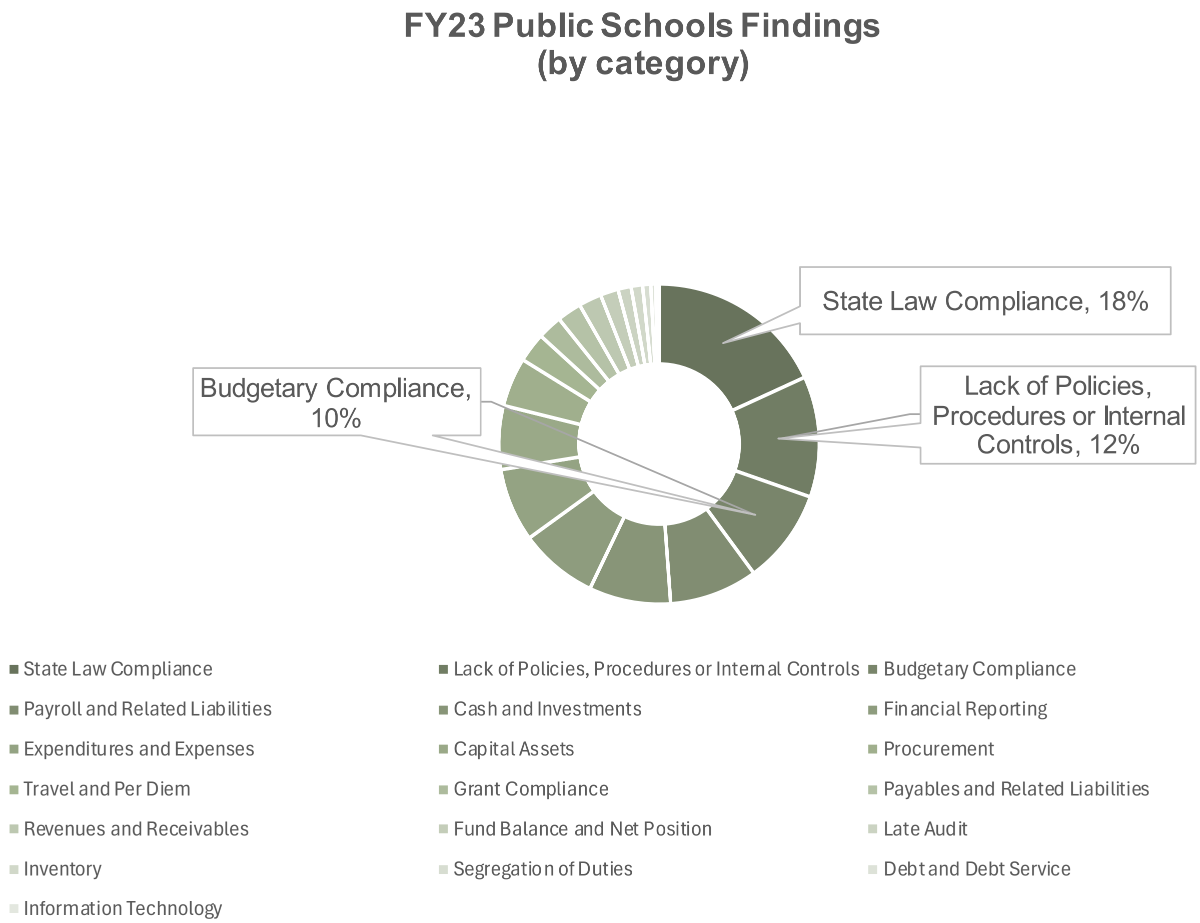
Top Three Findings Categories

Municipalities had a high incidence of findings around *cash and investments*. These were non-adherence to the twenty-four hour deposit rule, under-collateralization of bank accounts and missing or lacking bank reconciliations. OSA recommends revisiting auditor recommendations and reviewing whether controls must be placed that ensure bank reconciliations are performed accurately and timely. Municipalities were not routinely clearing stale dated checks (checks that were written and not cashed and canceled after expiration).

Municipalities also experienced challenges with *state law compliance.* This was often non-compliance with pledged collateral, inaccurate support for various expenditures, inaccurate reports being submitted to DFA, and improper governance to ensure timeliness of audit submission. OSA recommends municipalities review retained supporting documentation for pledged collateral, and for expenditures and accounts payable in general. OSA also recommends review and verification of reports before submittal to DFA.

Municipalities had a high frequency of findings around of *lack of policies, procedures or internal controls findings*. Often these stem from gaps in the larger internal control framework observed by the auditor. Many entities were performing bank reconciliations late or not at all and were missing accounting policies and procedures. Municipalities in FY23 also did not have routing monitoring or oversight of accounting functions like payroll entries or performing adjusting journal entries without review and approval. For a second year in a row, municipalities were also likely to not have supporting documentation for different financial activities, including inventory or personnel evaluations. OSA recommends municipalities improve oversight of common accounting activities, including periodically reconciling bank accounts to cash balances.

Public Schools



<u>Subgroup Summary</u>

School districts are long established governments with both similar and regionally different financial challenges from charter schools which by nature are more temporary in structure. Charter schools operate under a charter and may be renewed or not, usually on a five year basis but depending on authorizer (state or local school district are both options for authorizing entities in New Mexico).

<u>Top Four Findings Categories</u>

Similar to last year, the most frequent audit finding category for school districts was *state law compliance*. The frequency of this finding was most often attributable to issues related to vouchers and deposits. Specifically the schools had issues with retaining sufficient pledged collateral, depositing items in 24 hours and a lack of pre-numbered receipts. Of secondary concern was issues related to inaccurate or late reporting on cash and quarterly reports to the Public Education Department (PED).

School districts also struggled with *lack of policies and procedures findings.* This finding often occurred with a lack of monitoring by management officials. For example, requests for reimbursement of federal funds were submitted without review, deficiencies were noted in oversight of fiscal year close and required adjusting journal entries being posted to the general ledger, and missing accounting for cash receipts or accounts receivable. The schools also experienced challenges with control environment often communicating information to auditors in an untimely fashion, missing controls for foundations at charter schools and a lack of integration of personnel and accounting systems (for example, a contract signed after hire date).

The third most frequent finding for school districts was *budgetary compliance.* OSA recommends school districts either process budget adjustment requests more timely or stop over-expending budget authority. OSA also recommends PED strengthen its oversight of budgetary adherence by school districts, looking to statutory enforcement as necessary.

Hospitals

Subgroup Summary

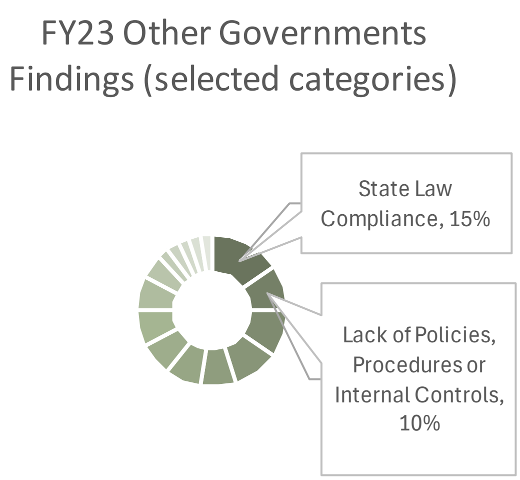
Hospitals and Special Hospital Districts are one of the smaller subgroups with only eleven entities. These entities have overall positive audit opinions, with all receiving unmodified opinions.

Findings Categories Analysis

Hospitals and Special hospital districts did not experience a high frequency of any one finding category in FY23. OSA recommends hospitals continue to review their deposit agreements to ensure they are compliant with pledged collateral requirements in state law. Of secondary concern is to ensure that entities comply with deadlines to submit audit reports.

FY23 Hospitals and Hospital Special Districts
Artesia Special Hospital District
Cibola General Hospital Corporation
Clayton Health Systems d/b/a Union County General Hospital
Eunice Special Hospital District
Gila Regional Medical Center
Guadalupe County Hospital
Nor-Lea Hospital District
Roosevelt County Special Hospital District dba: Roosevelt General Hospita
Sierra Vista Hospital
South Central Colfax County Special Hospital District
Jal Hospital District (Missing/Late)

Other Government



Subgroup Summary

Other governments include workforce boards, councils of government, regional education cooperatives and other agencies. These consisted of government entities that did not easily group into other subgroups. Often these are emergency dispatch authorities, councils of government, flood authorities, and economic development districts, among other governments.

Frequent Findings Categories

Entities in this area had issues with a *late audit* or agreed upon procedures timeliness, and OSA recommends that the these other governments establish internal controls to ensure proper audit preparation and timely submission.

Other governments also experienced a high frequency of *lack of policies procedures, or internal* controls findings. OSA recommends evaluating the policies and procedures for accounting and financial reporting, investments, human resources/personnel, procurement/purchasing, and IT. OSA also recommends reviewing credit card polices as well as controls around custodial funds.

Conclusion and Recommendations

Overall Financial Health of the State

Overall, the financial well-being of FY23 government entities in the State of New Mexico is strong. Ninety-six percent of all entities receiving a full financial audit had an unmodified opinion. Additionally, when adding in those entities without an audit opinion because they receive an AUP financial compliance certification (see page 11), forty-three percent of government entities had no findings. Additionally, every government entity subgroup has both high and low performers when measured by both the number of findings and magnitude of the audit opinions. The data shows that the bulk of the state's governmental entities are performing as good stewards of taxpayer funds.

Government Entity Subgroup Summary

However, as outlined in the breakout sections, some government entity subgroups represent an outsized portion of the negative financial outcomes. Specifically the government entity subgroups with the greatest number of findings were state agencies, municipalities and public schools. It is recommended that all of these entities pay particular attention to state law compliance requirements, especially those related state laws related to reporting fraud waste and abuse, capital outlay disposition, late audit reporting, Open Meetings Act, Public Finances compliance and the procurement code and per diem and travel requirements.

Recommendations for State Government Financial Operations Continuous Quality Improvement

In order to improve state financial operations, the OSA GAO continues its recommendations from FY22 regarding government agencies taking the following proactive steps for every government agency:

- Management should have robust audit preparation steps to ensure the initial trial balances and schedule of expenditure for federal awards (SEFA) are prepared accurately.
- Oversight entities (particularly those that oversee state agencies, municipalities and the public schools such as Department of Finance and Administration (DFA) and the Public Education Department (PED)) should monitor those entities that are struggling to open or close the accounting year or failing to adhere to budgetary authority.
- Government entities must ensure staff possess the necessary knowledge, skills, and experience to perform accounting functions, either through continual professional development, trainings or other statutory interventions.
- The state should consider moving to a singular state audit consolidating all state agency audits under one large audit to ensure uniform reporting, improve the timeliness of the annual consolidated financial report (ACFR) and allow greater transparency of statewide government activities.
- State government entities should engage in more frequent risk assessments to determine weaknesses or potential weaknesses in their internal control framework.
- Government entities should evaluate information technology (IT) vulnerabilities and be proactive in combating vendor fraud, business email compromise and other common hacking schemes.
- Government managers must possess a greater understanding and knowledge of state legal compliance, especially with regards to the Audit Act and rule, the procurement code, travel and per diem, Open Meetings Act, the Public Moneys Act, and capital outlay disposition. Guidance for Opioid Settlement funds is available on the OSA website.
- Government managers must engage in ongoing professional development and training for financial staff as the available of qualified accounting staff is shrinking in the state.
- Non-financial government managers must possess an understanding of budgeting, accounting, federal grants compliance requirements, an internal controls and engage in financial monitoring through the use of financial performance dashboards.
- Government entities should improve revenue and expenditure budgetary projections and adhere to proper budgetary authority so as to not run deficits or run negative fund positions that require supplemental or deficiency funding.

Appendix A: Tiered System of Reporting

The Audit Act does not require a full financial audit for most of our state's small governments but, instead, requires agreed-upon procedures (AUPs) reviews on a tiered basis depending on revenue levels and progress in expending existing capital outlay funding. These tiered reporting requirements provide visibility into whether the public's money is being properly spent by all government entities, balanced against the entity's capability to report.

OSA has seen a recent expansion in a support program targeting small local public bodies (often acequias, irrigation districts, land grants, mutual domestics water associations, soil and water conservation districts, etc.). The program provides supports that help entities reach financial compliance necessary to access capital outlay funding. The Small Local Public Body Initiative, also known as the *Strategic Financial Compliance Strategy for Small Local Public Bodies*, has achieved remarkable success following its initial implementation year of fiscal year 2023. The initiative has strategically focused on community outreach, education, training, and collaboration with IPAs to facilitate the required reporting processes. Additionally, the program seeks to provide small local public bodies with the tools necessary to have adequate and complete financial information in place when examined by IPAs through the program.

The OSA is currently taking lessons learned from the implementation year and reviewing them to see if the balance between government oversight of funds and the small local public body is being achieved, or whether the Legislature and Governor need to reevaluate the tiered system of reporting to ease administrative burdens on entities. Any entity with greater than $500,000 in yearly revenue exits the tiered system and enters the full financial audit process.

Tier I	A local public body's annual revenue is less than $10,000 and it did not expend at least 50% of a capital outlay award.
Tier II	A local public body's annual revenue is less than $10,000 or more but less than $50,000.
Tier III	A local public body's annual revenue is less than $50,000 and it expended at least 50% of a capital outlay award.
Tier IV	A local public body's annual revenue is greater than $50,000 and less than $250,000.
Tier V	A local public body's annual revenue is greater than $50,000 and less than $250,000 and the entity expended any capital outlay award.
Tier VI	A local public body's annual revenue is greater than $250,000 and less than $500,000.

Appendix B: Categories of Findings Definitions

The following are the current definitions for categories of findings within the finding classification system. Determination of where to place a given finding within these categories currently lay with the IPA. During FY22, OSA observed limited instances when different IPAs reported the same issue across two or more categories. The OSA is seeking to revise guidance to IPAs and entities on categories of findings reporting in advance of the FY24 audit season.

DEFINITIONS

Budgetary Compliance: An exception or deficiency wherein the governmental entity did not comply with state or local governmental budget requirements.

Capital Assets: Any violation of statutory requirements relating to the recording, tracking, or disposition of capital assets, or an exception or deficiency in accounting for a governmental entity's capital assets and/or related depreciation, which include land, buildings, infrastructure, equipment (including motor and aircraft fleets), and intellectual property (including software) that have an estimated useful life of one year or more.

Cash and Investments: An exception or deficiency in accounting for the governmental entity's cash, which is money in the form of deposits, including short-term or long-term investments and banking agreements.

Cash Management: An exception or deficiency relating to cash internal controls, petty cash or vouchers and deposits.

Debt and Debt Service: An exception or deficiency relating to debt, generally referring to money owed by one party, the borrower or debtor, to a second party, the lender or creditor. Debt is generally subject to contractual terms regarding the amount and timing of repayments of principal and interest.

Expenditures and Expenses: An exception or deficiency in the overall public spending carried out by the governmental entity, including expenditures in violation of a grant or other agreement, payment for goods or services prior to receipt, expenses not properly authorized, a lack of supporting documentation, and deficiencies related to purchase orders. Includes subcategories of advance payments, lack of documentation, lack of proper authorization, purchase and credit cards and other expenditures and expenses.

Financial Reporting: An exception or deficiency in the governmental entity's processes for producing financial statements that fairly reflect its financial position and activities in accordance with applicable accounting standards.

Fund Balance and Net Position: An exception or deficiency associated with net position and fund balance, which includes improper classification, deficit fund balances and net position, and material restatements.

Grant Compliance: An exception or deficiency wherein the governmental entity failed to comply with state or federal requirements related to a grant agreement.

Gross Receipts Tax: An exception or deficiency related to the calculation, remitting or payment of gross receipts taxes to the Tax and Revenue Department (TRD).

Information Technology: An exception or deficiency in best practices associated with the application of computer and telecommunication equipment to store, retrieve, transmit, and manipulate data.

Internal Controls: An exception or deficiency related to the internal control framework. Includes subcategories of Billing Utilities, Debt and Cash, Revenue and Utility.

Inventory: An exception or deficiency in accounting of inventory of goods and materials that a government agency holds.

Appendix B: Categories of Findings Definitions (Cntd.)

Lack of Policies and Procedures or Internal Controls: An exception or deficiency in the governmental entity's policies and procedures such that the policies and procedures are not sufficient to create a proper internal control environment to ensure accountability and consistency in financial reporting and compliance with applicable laws, regulations, contracts and grant agreements.

Late Audit: An exception or deficiency such that the audit or audit contract was not submitted by the state audit rule deadline.

Payables and Related Liabilities: An exception or deficiency regarding a governmental entity's accounting for its obligations recorded as payables and other liabilities.

Payroll and Related Liabilities: An exception or deficiency associated with amounts owed for payroll-related expenditures that are not yet paid, creating a liability, or any violation of federal, state, or local requirements regarding employment, required forms, or payroll reporting.

Procurement: Any violation of the applicable laws, rules, and regulations governing the procurement of goods and services with public funds.

Revenues and Receivables: An exception or deficiency related to the revenue and/or funds received or to be received by the governmental entity.

Reversion: An exception or deficiency wherein the auditee was either not timely in reverting unspent reverting appropriations at the end of the appropriation period and/or erroneous computation of amounts thereof.

Segregation of Duties: An exception or deficiency when the entity has one person performing more than one financial function which should have been segregated in light of proper internal controls.

State Law Compliance: Any violation of state statutory requirements, including, but not limited to, the Anti-Donation Clause of the New Mexico Constitution, the Governmental Conduct Act, the Open Meetings Act and the Public Money Act. Includes subcategories of Anti-Donation Act, Open Meetings Act, Public Monies Act, Sale of Public Property, and Other State Law Compliance.

Travel and Per Diem: An exception or deficiency from state or local laws, rules and regulations pertaining to governmental travel and per diem. Per diem is the daily allowance for expenses that governmental entities give an individual to cover expenses when traveling for work. Travel expenses are ordinary and necessary expenses incurred in traveling for government business.

Unclaimed Property: An exception or deficiency in which the auditee did not comply with statutory requirements to timely remit unclaimed funds or property to the Taxation and Revenue Department (TRD), or the auditee failed to account for unclaimed funds or property.

Vehicles and Fuel Cards: Any violation of the allowable use of a government vehicle or an exception or deficiency in the use of fuel cards authorized by a governmental entity to purchase fuel for government vehicles.