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FISCAL IMPACT REPORT

ORIGINAL DATE 1/31/17

SPONSOR Stefanics LAST UPDATED _____ HB _____

SHORT TITLE Small Agency Audit Hardship Assistance SB 186

ANALYST Romero

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NIF	Indeterminate	Indeterminate	Indeterminate	Recurring	OSA - Operating

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
State Auditor (OSA)

SUMMARY

Synopsis of Bill

SB 186 amends the Audit Act to require the Office of the State Auditor to provide a hardship assistance application process and criteria for selection of hardship assistance to an agencies with less than \$25 thousand annual budget. If the state auditor grants hardship assistance it shall conduct or pay for the agency’s annual audit for the applicable year.

FISCAL IMPLICATIONS

No funding is provided in the bill and the number of audits that would need to be performed is unknown at this point. The OSA is required to generate \$450,000 in audit fees each year and the same employees responsible for this revenue generation would have to be reassigned to perform audits at no cost. Performing no-cost audits would have a negative fiscal impact on OSA.

SIGNIFICANT ISSUES

Since SB 186 requires the OSA to pay for or complete audits of entities with an annual budget of less than \$25,000, and because agencies at this budget level would already fall under Tier 1 and Tier 2, the bill provides no additional relief that does not already exist under current law. SB 186 creates a new threshold of annual “budget” as it pertains to the “hardship” program. In most

circumstances, agencies within this category would not need an audit or agreed-upon procedures (AUP) report.

Tier 1: Less than \$10,000 in revenue and did not expend at least 50% of, or the remainder of, a capital outlay. Entities file a one-page self-certification stating their revenue and that they did not expend 50% of capital outlay or the remainder of a capital outlay. They are exempt from submitting a financial report to the OSA and do not have to procure an Independent Public Accountant (IPA).

Tier 2: Revenue is \$10,000 or more but less than \$50,000. Entities file a one-page self-certification stating their revenue and that they did not expend 50% of capital outlay or the remainder of a capital outlay. They are exempt from submitting a financial report to the OSA and do not have to procure an IPA. Entities are required to comply with DFA Local Government Division quarterly and final budget reporting requirements.

Tier 3. Revenue is less than \$50,000 and expended at least 50% of, or remainder of, a capital outlay. Entities are required to procure an IPA for agreed-upon procedures tailored to tier 3. This includes testing state-appropriated capital outlay expenditures. The average cost to comply with these procedures is about \$1,100.

Tier 4. Revenue is \$50,000 or more but less than \$250,000. Entities are required to procure an IPA for an AUP tailored to tier 4. This includes financial test procedures and a budget comparison. The average cost to comply with these procedures is about \$3,400.

Tier 5. Revenue is \$50,000 or more but less than \$250,000 and expended any capital outlay funds. Entities are required to procure an IPA for an AUP tailored to tier 5. This includes a combination of tier 3 and 4 procedures. The average cost to comply with these procedures is about \$3,400.

Tier 6. Revenue is \$250,000 or more but less than \$500,000. Entities are required to procure an IPA for an AUP tailored to tier 6. This includes procedures similar to tier 4 and 5 along with a financial statement compilation. The average cost to comply with these procedures is about \$6,600.

PERFORMANCE IMPLICATIONS

The Office of the State Auditor is responsible for overseeing the financial reports of about 1,000 agencies throughout the state, from acequias associations to large state agencies. OSA has a performance measure requiring 90% of audit reports to be reviewed within 10 days of submission. Additionally, as previously mentioned, OSA is required to generate \$450 thousand in audit fees annually. The agency's performance targets may be inhibited if operating budget is required to perform audits of these small entities.

RELATIONSHIP

Relates to Appropriation in the General Appropriation Act: For the last three fiscal years, the General Appropriations Act has included funding for the OSA to assist small political subdivisions in financial need with covering auditing costs.

TECHNICAL ISSUES

In the Audit Act, financial thresholds are based on “revenue” as opposed to “budget.” This inconsistency could create confusion among agencies.

ALTERNATIVES

The Legislature could appropriate funding in the FY18 General Appropriations Act to enable the OSA to provide financial assistance to small political subdivisions (SPS). Under the existing SPS program, over the last three years the OSA has awarded a total of \$420,000 to about 60 small entities in 20 counties throughout the state.

IR/jle