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# FISCAL IMPACT REPORT

**LAST UPDATED** \_\_\_\_\_

**SPONSOR** Campos **ORIGINAL DATE** 2/27/2025

**BILL**

**SHORT TITLE** Audit Act Changes **NUMBER** Senate Bill 511

**ANALYST** Ortega

## ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT\*

(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>OSA</b>	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Recurring	<b>General Fund</b>

Parentheses ( ) indicate expenditure decreases.  
 \*Amounts reflect most recent analysis of this legislation.

### Sources of Information

LFC Files

Agency Analysis Received From  
 State Auditor (OSA)

Agency Analysis was Solicited but Not Received From  
 Department of Finance and Administration (DFA)  
 Tax and Revenue Department (TRD)  
 New Mexico Municipal League (NMML)  
 New Mexico Counties

## SUMMARY

### Synopsis of Senate Bill 511

Senate Bill 511 (SB511) amends the Audit Act to restructure audit requirements for state agencies and small local public bodies.

Key provisions include:

- Expanding the definition of "agency" to include additional entities such as organizations supporting public post-secondary institutions.
- Replacing the current tiered system of agreed-upon procedures (AUPs) for entities that do not require a full financial audit, such as small local public bodies.
- Establishing a requirement for a statewide federal single audit beginning in FY28.
- Updating terminology and modifying provisions related to the audit fund.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

## **FISCAL IMPLICATIONS**

Senate Bill 511 does not include an appropriation for its implementation but may result in administrative and compliance adjustments related to changes in audit requirements. For example, the transition to a statewide federal single audit beginning in FY28 may lead to increased contracting costs for the State Auditor (OSA). However, the bill states “funding for the statewide federal single audit shall be allocated to federal programs based on a methodology that is in accordance with federal compliance requirements.” According to this, OSA believes the bill will allow the state agency responsible for procuring the statewide federal single audit to have the authority to determine how to collect the necessary funds, as long as the methodology is in accordance with federal compliance requirements.

Additionally, SB511 repeals and replaces the current tiered agreed-upon-procedures (AUPs) for small local public bodies by consolidating tiers and raising the financial reporting threshold. According to OSA, 32 entities previously subject to higher-tier AUPs in FY23 would have been reassigned to lower tiers, potentially reducing their audit costs and allowing quicker access to capital outlay funds. SB511 also modifies provisions related to the Audit Fund, clarifying that the fund is non-reverting and may be used to support OSA in carrying out the Audit Act. Because no new revenue changes are proposed, it is assumed that existing funding mechanisms will continue to support OSA’s operations. The overall fiscal impact will depend on the number of entities affected, implementation costs, and potential adjustments to audit contract pricing. At this time, the fiscal impact to OSA is indeterminate but likely minimal.

## **SIGNIFICANT ISSUES**

OSA states SB511 includes post-secondary foundations and similar organizations under the Audit Act. According to the agency, this could address concerns regarding access to and oversight of foundation finances. OSA states the bill also raises the financial reporting threshold for full financial audits to \$1 million, aligning state audit requirements with the federal single audit threshold set to take effect on October 1, 2025. OSA also states that the bill updates the allowable uses of the Audit Fund providing the Auditor with more flexibility to support agency operations and clarifies it is a non-reverting fund. The agency notes that current statutory limitations on the use of the Audit Fund restrict the OSA’s ability to scale resources in response to audit demands.

AO/hj/SL2/rl