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OFFICE OF THE STATE AUDITOR

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Thomas E. Clifford, PhD
Cabinet Secretary
Department of Finance and Administration
407 Galisteo Street, Room 180
Santa Fe, NM 87501

Via USPS and Email: tom.clifford@state.nm.us

Re: FY2014 CAFR

Dear Secretary Clifford:

The Office of the State Auditor (OSA) has received the audit of the State of New Mexico's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2014. We are pleased to review this report on behalf of New Mexico's taxpayers in accordance with the constitutional obligations of this office.

The CAFR received fourteen disclaimed opinions from the Independent Public Accountant (IPA). These disclaimed opinions include Governmental Activities, Business Type Activities, all Major Governmental Funds and all Agency Funds. The disclaimed opinions relate to three material weakness findings from last year, fiscal year 2013, and one new one in fiscal year 2014.

The most important material weakness and unresolved issue from last year is finding 2013-001. This relates to a \$100 million loss provision regarding unreconciled historic differences in the Book-to-Bank Reconciliation, which prevents the State from knowing its actual cash balance. Note 17 of the CAFR states: "Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount." Please provide us with a best current estimate of the total loss and your plan to investigate and mitigate such losses.

The new material weakness finding 2014-001 relates to "Financial Reporting of the Educational Institutions." We are also aware that some agencies and component units, including those on our "at-risk" list, have not been audited and that Public Education Department-chartered Charter Schools are included based on the audits for fiscal year 2013, one year behind.

With other material weakness findings from last year, 2013-002 and 2013-005, the IPA writes: "The State is unable to provide sufficient appropriate audit evidence to support the accuracy, classification, completeness, existence and occurrence of all the State's interfund, internal, intra-entity activity and balances The State lacks adequate controls and processes to properly consolidate all of the financial information." At least one component unit of the State was excluded from the financial statements.

The lack of controls identified by the IPA is reflected in a number of errors that the State identified and corrected related to the prior year as disclosed in Note 9. D.3. Examples in the Government-wide statements include duplicated liabilities exceeding \$82 million which were removed from the books and loans payable exceeding \$154 million which were added to the liabilities for FY 2013. There were also unrecorded loans payable exceeding \$38 million related to the New Mexico Finance Authority which required a correction to the Business-type Activities of Educational Institutions.

The IPA observes, in Finding 2013-005, that there were improvements in financial reporting processes and that further changes to completely address the remaining problems will be “gradual and evolutionary” in nature. We are pleased to read that management secured funding “to enhance the timeliness and integrity” of the financial information reported in the State’s financial statements. Based on our knowledge and experience we consider that re-implementing SHARE is one such step.

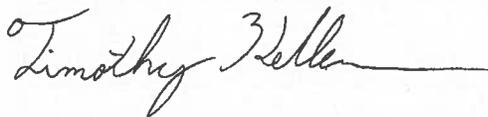
We appreciate that management agrees with all the findings and took some corrective actions in fiscal year 2014 which brought about the resolution of two findings, 2013-003 and 2013-004. Further, eight non-major enterprise funds and three trust funds did not receive disclaimed opinions, which is an improvement over last year.

We are dedicated to improving accountability for the quality, reliability and timeliness of the State’s CAFR and bring to your attention the new Audit Rule deadline of February 15, 2016 for the 2015 CAFR. We received the State’s initial 2014 CAFR on June 30, 2015, and the final on July 21, 2015. While appreciating your Department’s initiation of the audited CAFR only two years ago, we expect earlier completion next year by your Department and continued improvement with respect to corrective actions regarding the material weaknesses that will ultimately lead to the possibility of the IPA being able give a non-disclaimed opinion.

The timely completion of the CAFR and the ability of the State to present its financial position in a reliable manner is key to providing New Mexicans with accountability regarding the use of their tax dollars. The State needs to be able to balance its checkbook on an ongoing basis to be able to provide an accurate presentation of the State’s financial health. Overall, we remain deeply troubled by a slow pace of progress in addressing material weaknesses and disclaimed opinions. Please provide a written response regarding the status of your ongoing corrective action plan.

If you have any questions about this letter, please contact Sanjay Bhakta, CPA, CGFM, CFE, CGMA, Deputy State Auditor, at sanjay.bhakta@osa.state.nm.us or (505) 476-3800.

Sincerely,



Timothy M. Keller
State Auditor