

New Mexico Office of the State Auditor

Presentation to NM Legislative
Finance Committee



October 23, 2024

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State of the Accounting Industry:

- **The accounting profession is facing a significant talent shortage.**
- ***A perfect storm:***
 - **Retirement of Baby Boomer accountants (75% by 2020);**
 - **Voluntary resignations (3-5 yrs of employment);**
 - **Lack of work/life balance;**
 - **Lower compensation vs finance and technology fields;**
 - **A lack of interest by young people due to misconceptions; and**
 - **150-hour requirement of college instruction is an issue for CPA eligibility.**
- **In 2018, percentage of accounting graduates, Bachelor's and Master's, that were first-time CPA exam candidates dropped below 50%.**



State of the Accounting Industry:

- **The New Mexico industry shortages:**
 - **Affects number of qualified candidates for OSA & other agency positions**
 - **20% increase in late audits from '22 to '23**
 - **Increased reductions in licensed CPAs**
 - **Increased reductions in the number of OSA-approved IPAs**
 - **Increased exemption requests to the Auditor Rotation Rule**
 - **Exposes OSA's lack of resources to conduct more audits**



State of the Accounting Industry:

- **Key National Pipeline Advisory Group's & AICPA/NASACT Report Recommendations:**
 - Make academic experience more engaging.
 - Enhance the employee experience by evolving business models and cultures (e.g., competitive starting salaries, manageable workloads, etc.).
 - Prioritize strategies to expand access for the underrepresented at every stage.
 - Provide better support to CPA Exam candidates.
 - Address resource and funding constraints to offer competitive salaries and competitive fees to CPA firms auditing governments.
 - Benchmark government salaries.
- **NM Response:**
 - NM Society of CPAs' Work group & collaboration with Accountancy Board.
 - Possible legislation to amend 150-hour rule.
 - Consider more targeted HED endowment funding.



OSA STATUTORY OVERVIEW

§ 12-6-1, *et seq.* NMSA 1978), the Audit Rule (2.2.2.1-16 NMAC), and the Uniform Probate Code (§ 45-5-409 NMSA 1978)



Ensures thorough examination and auditing of financial affairs for every agency and local public bodies conducted annually by the state auditor, personnel of the state auditor's office designated by the state auditor or independent auditors approved by the state auditor;



The State Auditor office shall examine all reports of audits of agencies and local public bodies made pursuant to contract;



Authorizes the audit of an agency's financial affairs and transactions, in whole or in part, under Section 12-6-3, NMSA 1978, which grants the State Auditor the authority to conduct both financial and special audits;



Oversee Independent Public Accountants or IPAs (2.2.2.8 NMAC); and



To review, and audit if necessary, the annual reports of Conservators in conservatorship cases.



Review of Conservatorship Annual Reports An Unfunded Mandate

HB 236

- **A 2021 bill amending the Probate Code**
- **Mandating the OSA review all annual Conservatorship Reports for the Courts and determine whether they be corrected, resubmitted, or audited.**
- **Impacts:**
 - **Precedent-setting augmentation of OSA's mission by adding the review of private financial information to the already existing review of public financial information;**
 - **Redirects an estimated annual budgetary personnel costs at \$596,533 (excludes overhead + other costs) to oversee the review of private financial information;**
 - **Limits the office budget and the number of FTEs that can be staffed in the mission-critical Financial Audit Division; and**
 - **Uses 50% of limited resources in our Office of General Counsel.**
- **Recommendation:**
 - **Relocate to the Department of Justice or Administrative Office of the Courts.**



OSA FY'26 Budget Request

General Fund Budget – 200 Category, Personnel Services

- To meet its statutory mandates, the OSA is respectfully requesting for an overall increase in the 200 Category (Personnel Services) of 15.8% for a total of \$5,063,900.00.
- This will provide the agency the ability to offer competitive salaries and appropriately place staff that have not yet received salary adjustments.

Please note:

- The PRF projection for FY26 was for a 17.8% at \$5,152,970. Our request is \$89,070.00 less than the PRF projection.
- The Deloitte Comp & Class Study just completed by NM SPO only benchmarked five of the OSA's positions (all non-auditor positions) and most of our auditor positions have mandatory specifications that are unique to the Agency.
 - An agency-specific comp and class study is needed.

General Fund Budget - 300 Category, Contractual Services



- The OSA requests maintaining its FY25 funding levels at \$197,900.00.
- This allows the Agency to support the following essential activities/priorities:
 - \$25,000 for professional services to support staff in strategic planning activities regarding industry contraction.
 - \$40,000 to support the OSA's fraud, waste, and abuse reporting hotline and case management support system/services.
 - \$15,800 for annual external audit services of the Agency.
 - \$10,000 for ongoing annual webhosting and maintenance fees for the Agency website.
 - \$30,000 for IT backup and disaster recovery solution services.
 - \$50,000 for web page update and redesign to increase user ease and accessibility.

**OSA
FY'26
Budget
Request**

General Fund Budget - 400 Category, Other Expenses



OSA FY'26 Budget Request

- The Agency is requesting a prudent and modest increase of \$40,100 or 7% to support the following essential activities/priorities:
 - \$600 increase for GSD leases for two passenger vehicles.
 - \$1,100 increase for required legal reporting/records filings.
 - \$1,700 increase in DoIT ISD and HCM fees.
 - \$2,800 for increase in the OSA office lease fees.
 - \$10,600 increase in DoIT Telecom expenses.
 - \$5,000 increase in dues and subscriptions fees per FY24 actuals.
 - \$7,900 increase in educational fees for *required* CPE/CPU for staff to maintain credentials.
 - \$5,400 increase for legal settlements.

FY'26 - Special Appropriation Requests for OSA



OSA FY26 Budget Request

- (ID 61168) - \$1M to Audit Fund to conduct or contract with IPAs to conduct special examinations as legislative agency referrals.
- (ID 61170) - \$200K for implementation of a singular audit of state agencies and other entities that comprise the New Mexico Annual Comprehensive Financial Report (ACFR).
- (ID 61174) - \$500K for services for small local public bodies (sLPB) in preparation for Tier certifications/AUPs.
- (ID 61175) - \$500K for sLPB funding to keep entities in compliance for Tier certification/AUPS.



Status of Small Local Public Body (sLPB) Assistance Program

Achievements (FY23-24):

- **Entities Brought into Compliance:** 154
- **Withheld Capital Outlay Released:** \$3.1 million
- **Financial Certifications Delivered:** 464
- **Outreach and Education:** Conducted workshops and conferences for sLPBs.

Future Plans (FY25):

- **Additional Appropriation:** \$1 million to support sLPBs in reaching compliance.
- **Expansion of OSA Connect:** Improve the database for better reporting and assistance.
- **Increased Support:** Expand direct assistance and continue direct outreach and training.

Challenges:

- **Non-Compliance:** 318 sLPBs are non-compliant with about 1,700 financial certifications in arrears.
- **IPA Availability:** Limited availability of Independent Public Accountants (IPAs) to perform certifications.



State Agency Deficiency Appropriation Requests Report – Overview & Key Findings

After the Legislature expressed concerns about increasing state agency deficiency appropriation requests, the OSA GAO staff released a transparency report on the topic.

Key Findings

- State agency deficiency requests have increased by \$137.5 million from 2014-2024.
- Justifications for deficiency requests were not always available.
- Where justifications were available, they were partially attributed to over-expenditure of funds, improper adherence to budget authority, and prior year unpaid expenditures, among other reasons.

Select Recommendations

- The state should improve transparency for budgeting deficiency appropriations via additional hearings and making related documents public.
- LFC and the Executive may wish to stop funding deficiency appropriations requests or increase the rigor of review of such requests.
- The Legislature and Executive should separate deficiency appropriations from supplemental appropriations requests in the budget process.
- The Legislature and Executive may consider revising elements of state law regarding penalties for violating budget authority.



Thank you!

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