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FISCAL IMPACT REPORT

ORIGINAL DATE 1/21/08

SPONSOR Smith LAST UPDATED _____ HB _____

SHORT TITLE Small Cities Assistance For Audit Compliance SB 171

ANALYST Propst

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	FY09		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)
Office of the State Auditor

SUMMARY

Synopsis of Bill

Senate Bill 171 amends the Small Cities Assistance Fund Distribution to require affected municipalities to commit the first use of these funds towards compliance of all requirements of the Audit Act in a timely manner.

SIGNIFICANT ISSUES

In October 2007, the State Auditor reported that six counties and 32 municipalities had yet to complete their 2006 audits. Some municipalities are as many as three and four years delinquent in completing audits. Counties and municipalities note the lack of budget to pay for audits. SB 171 would make audits a priority prior to receiving funding from the Small Cities Assistance Fund. Without audits it is virtually impossible to determine the financial status of local public bodies.

DFA notes that dedicating funds as directed in SB 171 could impact smaller NM municipalities that are experiencing high audit costs by possibly limiting their ability to pay for other recurring operation costs.

DFA currently distributes the revenue to qualifying municipalities without any stipulations other than being placed in the general fund of the municipality. As this bill stands it makes completion of the statutorily required audits a priority condition for continuing to receive State funding and places a priority on local public bodies being compliant with the Audit Act.

The Local Government Division (LGD) of DFA is currently trying to address this issue of local governments' compliance with the Audit Act with a proposed "Budget Certification Rule". A public hearing is scheduled for February 18, 2008 in Santa Fe to address this new rule. This proposed rule, developed by the LGD in conjunction with the State Auditor's Office, stipulates steps in which the LGD will address local governments' lack of compliance to the Audit Act. The rule is intended to address the issue of past due audits by working with local governments to be current with their annual audits.

PERFORMANCE IMPLICATIONS

DFA also notes that requiring first use of these funds towards timely compliance with the Audit Act might result in more fiscally responsible municipalities. Small municipalities with limited funding sources might need to find other funds from the Legislature or possibly the State Board of Finance in order to avoid a deficit in their general fund.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Local public bodies will continue to be delinquent in producing audit reports. Without such reports it is impossible to determine the financial stability and integrity of local public bodies.

WEP/bb