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FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/17

SPONSOR Rue LAST UPDATED _____ HB _____

SHORT TITLE State Agency Post-Contract Audits SB 107

ANALYST Romero

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19		
\$0.0	Indeterminate	Indeterminate	Recurring	OSA Operating

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$0.0	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

Senate Bill 107 amends Section 13-1-160 NMSA 1978, the procurement code, to require close-out audits of state agency contracts of \$10 million or more. The audit will occur at the termination of the contracts, it would entail a review of the books and records of the contractor and the state agency for the purpose of ensuring that the terms of the contracts were met, that the payments for performance were appropriate, and that applicable laws and rules were complied with.

Furthermore, consistent with the Section 12-6-3 NMSA 1978 Audit Act, the audit would be performed by the state auditor, personnel of the state auditor's office designated by the state auditor, or independent auditors approved by the state auditor, and would be conducted in accordance with generally accepted auditing standards and the Audit Rule.

The reasonable costs of the audit would be paid by the audited contractor.

The new audit requirement would apply prospectively to contracts entered into beginning July 1, 2017.

FISCAL IMPLICATIONS

Under the legislation, the reasonable costs of the audit would be covered by the contractor. It is anticipated that for a \$10 million contract, an audit could be conducted for a cost ranging from \$10,000 to \$20,000. Prices may vary based on the complexities and size of the contract. As part of the contracting process, some of these costs could be embedded into the contract price, which might result in a slight cost shift to state agencies.

As post-contract audits are completed and submitted to the OSA, additional staff time would be required to review each audit. The OSA anticipates that any additional administrative burden would be adequately handled within existing staffing and budget resources.

SIGNIFICANT ISSUES

Requiring independent audits of large state agency contracts of \$10 million or more would be a prudent investment in terms of identifying noncompliance with contract terms. If problems are identified, such as overpayments or deliverables were not met, having an independent audit will increase the ability of an agency to recover what it is owed and take steps to remedy the situation. Moreover, the fact that audits will be required at the termination of the contract will also serve as a deterrent to wrongdoing and foster more thorough oversight during the term of the contract.

PERFORMANCE IMPLICATIONS

Fees generated from conducting these audits can contribute to achieving OSA's annual performance measure requirement in audit fee revenue generated.

IR/jle