

LFC Requester:

A. Ortega

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

AgencyAnalysis.nmlegis.gov and email to billanalysis@dfa.nm.gov*(Analysis must be uploaded as a PDF)***SECTION I: GENERAL INFORMATION***{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}*Date Prepared: 2/13/25

Check all that apply:

Bill Number: HB 386Original Correction Amendment Substitute Sponsor: Joseph Franklin Hernandez

Agency Name

and Code

OSA - 308

Number:

Short Title: GOVERNMENTALPerson Writing David CraigTitle: ACCOUNTING CLASS &Phone: 505-469-9911 Email David.Craig@osa.nm.**SECTION II: FISCAL IMPACT****APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
	\$500.0	Non-recurring	General Fund OSA

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
	\$500.0		Non-recurring	General Fund

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$500.0			Nonrecurring	GF

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Hose Bill 386 (HB386) appropriates \$500,000 from the General Fund to the Office of the State Auditor (OSA) for use in FYs 2026 through 2028 (FY26 to FY28) to provide funding for a class and compensation study distinct to the OSA's governmental audit and accounting procedures.

FISCAL IMPLICATIONS

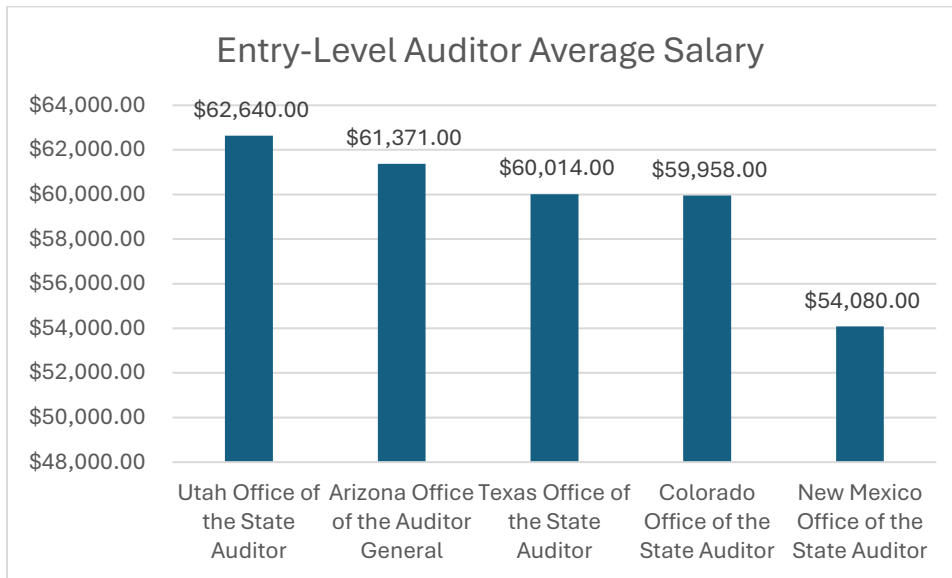
Requests in recent legislative sessions to expand personnel services and benefits appropriations to allow OSA to hire competitively in an increasingly competitive labor market have not resulted in appropriation increases. Policymakers have pointed to the joint Legislative Finance Committee, Department of Finance and Administration and State Personnel Office's (SPO's) Salary Structure Analysis as being a solution for the difficulties OSA faces in hiring qualified staff. However, as discussed further in the performance implications section, the salary structure analysis did not include OSA's audit staff. OSA needs a study to ensure that it captures the true breadth of the need to reform its compensation and classification structure to ensure it is competitive in the labor market.

Among the items HB386 will pay for are the following:

- a study to discuss funding initiatives to modernize classification and compensation for public accountants both within the agency and across state government;
- supporting targeted workforce development programs for OSA in partnership with local educational institutions; and
- creating internships, apprenticeships, and career pathways into public sector accounting with OSA, especially for candidates from rural and frontier communities.

SIGNIFICANT ISSUES

With the ongoing accountant shortage in both the state and nation, OSA is falling behind on its ability to compete with our own in-state, private sector accounting firms for new hires. Indeed, OSA is not competitive with other neighbor states for entry level positions as shown in the graph below that uses 2023 salary data as OSA reported to the National Association of State Auditors, Comptrollers and Treasurers (NASACT).



OSA also cannot stay competitive against other state agencies. Because OSA performs financial audit services the same as any other public accounting firm, it has to maintain all of the same requirements for personnel and the standards of practices as an independent public accounting firm (see 61-28B-17 B. NMSA 1978). This includes requirements for our accountants/auditors to have minimum amounts of credit hours in accounting and years of experience or have a Certified Public Accountant certification in order to comply with standards set by the American Institute of Certified Public Accountants (AICPA), Generally Accepted Government Auditing Standards (“Yellowbook”), etc. and cannot advance without certification. These requirements mirror those of other public accountancy firms and is required as an industry standard.

As described further under performance implications below, anyone seeking an accountant/auditor position with OSA can generally apply for positions at similar classification levels and pay at other state agencies while having to meet less minimum requirements for knowledge, skills and experience and perform less rigorously reviewed work.

PERFORMANCE IMPLICATIONS

The Deloitte Comp & Class Study just completed by NM SPO only benchmarked five of OSA’s positions, all of which were non-auditor positions. Most of our auditor positions have mandatory specifications that are unique to the Agency.

For example, our staff auditor position requires a Bachelor’s Degree in Business Administration, Accounting, Finance and/or a related degree and at least eighteen (18) credit hours in accounting and one (1) year of experience conducting financial audits and attestation engagements of government agencies for a classification 60.

SPO has classified the OSA accountant/auditors (sometimes using alternative pay bands) similar to other state accountant/auditors in the state without these requirements allowing individuals to apply for accountant/auditor positions that do not perform work comparable to OSA’s financial audit work. For example, OSA’s State Auditor Coordinator (Staff Audit Manager) is required to have a Bachelor’s degree in Business Administration, Accounting, Finance and/or a related degree, eighteen (18) semester hours of accounting or auditing, (six (6) semester hours in finance or business law may substitute for up to six (6) semester hours of accounting or auditing) and four

(4) years of experience conducting financial audits and attestation engagements of government agencies, or possession of an active New Mexico license as a Certified Public Accountant (CPA). Despite these increased requirements, this position is placed in alternative pay band 85. That pay band is used across state government for management positions with far less rigorous work expectations and that do not contain as rigorous certification requirements. According to the draft salary standardization study, after 2024 this position would revert to pay band 80 meaning OSA would be forced to pay CPA's less in 2025 than if they were hired in 2024. To OSA, this is moving in the wrong direction.

ADMINISTRATIVE IMPLICATIONS

None of the discussions on competitive pay addresses OSA's ongoing internal issues with wage compression and appropriate placement from paybands for classification being adjusted through time upward but not providing funds necessary to bring previously hired staff up to parity with newly hired staff. If OSA is able to hire competitively it still needs to retain similarly situated staff with the same or similar qualifications that are hired under older, less well compensated criteria. However, bringing in new staff at competitive amounts would at least get OSA closer to having fewer vacancies and allow the agency to better function to meet performance requirements.

HB 386 aligns with national solutions to address accounting shortages. The National Pipeline Advisory Group (NPAG) has identified key strategies to rebuild the accounting pipeline. The funding from HB386 will allow OSA to implement best practices, including the following:

- HB 386 addresses education costs by expanding pathways to CPA licensure through work experience.
- HB386 will increase access to accounting through rural outreach and community college partnerships.
- HB386 seeks to enhance OSA employee experience with improved salary structures and professional development opportunities.
- HB386 promotes OSA accounting careers as essential public service roles supporting fiscal accountability.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

The approved independent public accountants that the state uses to audit its government entities through the contracting out process our state uses evolved as a way to not expand OSA human resources but provide services to all state governments that the Audit Act mandates have a financial audit. If the ongoing accountant shortage intensifies or increases such that OSA cannot find contractors (an increasingly frequent occurrence), the OSA will be required to take those audits and perform them in-house under the Audit Act. If the OSA cannot hire qualified staff due to an inability to compete in the labor market, then the required financial audits of the state governments

could start becoming backlogged. The OSA must be able to have qualified staff to fulfill its statutory mission.

HB386 is part of the OSA's approach to the accounting pipeline shortage. It helps meet OSA's strategic goals of:

- conducting a comprehensive review of public accounting compensation and classification, including the need to bring OSA auditor classifications in line with Public Accounting to create a parity for OSA auditors with their Public Accounting peers;
- building strategic partnerships with educational institutions and local governments to create sustainable accounting career pathways with OSA; and
- corrects OSA falling further behind neighboring states for government audit compensation, avoids losing talent to more competitive markets at entry-level and ensures the OSA is not leaving critical public sector positions vacant.

ALTERNATIVES

If the state continues to minimize the ongoing accountant shortage impacts to OSA human resources by not appropriating expansion requests in personnel services and benefits, instead referring to statewide studies that don't provide goodness of fit to our staff, then the OSA may explore options for reclassifying audit staff from the SPO classified service to governor-exempt positions. This would allow the OSA to pay competitive salaries, recruit and retain high quality employees and provide management with at-will employees.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS