

Progress Report: Office of Inspector General and Internal Audit Functions



October 20, 2026

Legislative Finance Committee

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TOP TAKEAWAY

New Mexico lacks statewide requirements governing internal audit and inspector general functions in state agencies, and key weaknesses identified in LFC's 2022 review persist. Internal audit and inspector general budgeted FTE positions have declined, while estimated spending on internal audit and inspector general functions has increased, and formal work planning, professional standards, independence safeguards, recommendation follow-up, and public transparency remain inconsistent across agencies.

THE ISSUE

When structured correctly, agency internal audit functions can help ensure financial accuracy, efficiency, and transparency. New Mexico does not require state agencies to follow common statewide standards for internal audit and inspector general functions. Agencies continue to determine their own structures, resources, governance, work planning, professional standards, and reporting practices. LFC's 2022 review recommended stronger safeguards and greater consistency, but those recommendations have not been implemented. Based on a 2026 survey of ten state agencies, this report continues to find significant variation in independence, planning, professional practices, and transparency.

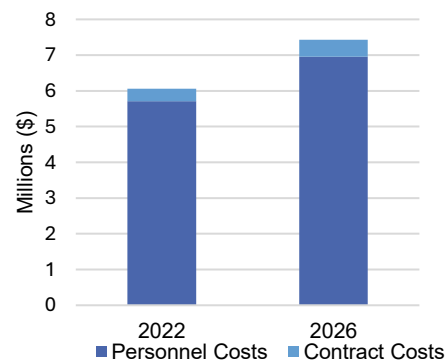
RECOMMENDATIONS

- The Legislature should consider establishing minimum statewide requirements for agency internal audit and inspector general functions. Requirements could address independence, audit charters and written policies, work planning, professional standards, and public reporting, where appropriate.
- The Legislature should consider requiring audit reports and work plans be publicly available where appropriate, while protecting confidential or otherwise restricted information.

KEY FINDINGS

- Internal audit and inspector general budgeted FTE declined at several agencies with comparable 2022 and 2026 data, while AOC and PED no longer report a dedicated function.
- Key internal audit and Inspector General practices remain inconsistent, including formal work planning, risk-based project selection, independence safeguards, professional standards, recommendation follow-up, and public transparency.
- Financial recoveries remain limited across reviewed oversight functions, and return on investment cannot be determined for several agencies.

Chart 1. Internal Audit and Inspector Costs, 2022 and 2026



Source: LFC Analysis of SHARE and SPO Data

Background

Internal audit and inspector general functions provide a layer of oversight within state government by evaluating agency operations, internal controls, compliance, and the use of public resources. However, the structure, authority, and responsibilities of these functions can vary considerably across agencies. New Mexico law does not generally require agencies to maintain an internal audit function or establish a statewide inspector general, although some agencies are subject to federal program requirements that establish audit, oversight, or program-integrity responsibilities, for example related to Medicaid and federal child welfare funding. Other states have used statutory frameworks to establish inspector general functions. LFC's 2022 review identified at least 12 states and the District of Columbia with stand-alone state inspector general offices and found that the majority of those offices were established by statute. Meanwhile, several states, such as North Carolina, Texas, and Illinois mandate internal audit functions for executive branch agencies that meet specific budgetary or employee thresholds, while other states establish internal audit functions for select departments. The 2022 LFC review shows that inconsistencies remain in structure, independence, and transparency among agency internal audit and inspector general functions.

This progress report follows up on a 2022 LFC policy spotlight examining internal audit and inspector general functions in state government. The report recommended the Legislature consider institutionalizing such standards across state government and identified centralization as one possible approach for doing so.

Internal audit functions assess agency controls and operations, while inspectors general investigate fraud, waste, and abuse.

An internal audit office is a review function that helps management assess whether an organization's internal controls, operations, and procedures are working as intended. Internal auditors can strengthen accountability by assessing internal controls, identifying weaknesses, conducting performance audits, and undertaking special investigations or studies. In this role, internal audit provides an additional layer of oversight that can strengthen the government's overall control environment.

Internal audit and inspector general functions provide forms of internal oversight. Internal audit focuses on evaluating and improving agency operations, internal controls, governance, and risk management. Inspector general functions generally emphasize independent oversight and

2022 LFC Report Findings

The 2022 LFC Report found state agencies varied in the structure and practices of their oversight functions and called for standards governing independence, authority, work planning, reporting, and other elements of effective oversight.

Internal Audit Complements External Audit

Internal audit complements external audit by providing ongoing review of agency operations and controls. Unlike periodic external audits, internal audit operates within an agency's governance structure and may be performed by agency staff, contractors, or both. Professional standards encourage coordination with external assurance providers to reduce duplication and improve overall audit coverage.

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the prevention and detection of fraud, waste, corruption, illegal acts, and abuse. Both functions help agency leadership assess whether organizational units are carrying out their responsibilities and are safeguarding public resources.

Internal audit and inspector general functions are guided by professional and organizational frameworks.

Internal audit and inspector general functions are shaped by professional standards and agency governance practices. Their structure, authority, and operating practices are largely determined at the agency level, while professional standards provide a common framework emphasizing clear mandates, sufficient authority, confidentiality, qualified staff, independence, and whistleblower protections.

The Association of Inspectors General's Principles and Standards for Offices of Inspector General set out elements of legal authority for an OIG or internal audit member. The AIG's standards identify seven areas: mandate, authority, powers, confidentiality, qualifications, independence, and whistleblower protection. Together, these standards provide a framework for assessing whether an inspector general function has the authority, independence, and organizational safeguards needed to carry out its oversight responsibilities. The Association of Inspectors General also provides model legislation for establishing offices of inspector general. The model legislation addresses key structural elements including organizational independence, appointment and qualifications of the inspector general, authority, duties, and accountability.

Acronyms

AOC—Administrative Office of the Courts
CYFD—Children, Youth, and Families Division
DOH—Department of Health
DOT—Department of Transportation
ERB—Educational Retirement Board
FTE—Full-Time Employee
HCA—Health Care Authority
NMCD—New Mexico Corrections Department
OIG—Office of Inspector General
PED—Public Education Department
PERA—Public Employees Retirement Association
TRD—Taxation and Revenue Department

Table 1. Principles and Standards for Offices of Inspector General

Mandate	State the office's mission and identify the operations, programs, departments, or agencies within its jurisdiction. The mission should cover fraud, waste, and abuse prevention and detection; efficient and effective use of public resources; and public integrity.
Authority	Authorize the office to audit, inspect, evaluate, review, and investigate activities, records, and individuals; conduct criminal, civil, and administrative investigations; undertake prevention activities; refer matters for further action; conduct joint investigations; issue public reports; and establish policies and procedures.
Powers	Grant the office specific powers and identify any limits on those powers, including subpoena authority; access to records, officials, employees, and relevant testimony or documents; law-enforcement authority where applicable; and authority to require public employees to report suspected fraud, waste, corruption, illegal acts, and abuse.
Confidentiality	Authorize the office to maintain appropriate confidentiality of records and, to the extent practicable, the identities of individuals who provide information, and impose penalties for breaches of confidentiality.
Qualifications	Select the inspector general without regard to political affiliation and based on integrity, leadership, and demonstrated ability in relevant fields. The inspector general should hold or obtain Certified Inspector General certification, and staff should possess appropriate knowledge, skills, experience, training, and professional credentials.
Independence	Include provisions that establish and maintain the independence of the inspector general and the office, including appointment and removal procedures, a fixed term, organizational placement, adequate funding, and access to independent legal counsel.
Whistleblower Protection	Protect complainants from employer retaliation resulting from complaints made to the office.

Source: LFC Files; Association of Inspectors General, *Principles and Standards for Offices of Inspector General*, effective July 1, 2024

New Mexico statute does not require state agencies to maintain internal audit or inspector general functions.

New Mexico law does not prescribe statewide requirements for internal audit and inspector general functions. Agencies that maintain these functions operate under a combination of agency-specific authority and professional standards, while prior legislative proposals to establish broader statutory requirements have not been enacted.

New Mexico lacks a statewide statutory framework for internal audit and inspector general functions. New Mexico law does not currently require state agencies to maintain internal audit functions and does not establish a statewide inspector general. Previous legislative efforts to address these oversight structures have not been enacted. In other states, for example, Florida law establishes an inspector general office within state agencies, while Illinois law establishes internal-control and internal-audit requirements for designated state agencies. In the absence of a statewide statutory framework, the structure, authority, and operating practices of internal audit and inspector general functions are largely determined at the agency level and may also be informed by professional standards.

Previous legislative proposals have considered establishing internal audit or inspector general functions within specified agencies or creating a statewide inspector general. None of the recommendations identified in LFC's 2022 review have been enacted, though several bills have since been introduced. The 2022 report noted that the absence of statewide statutory requirements leaves agencies without a common framework governing internal audit and inspector general functions.

Previous LFC reports identified persistent weaknesses in agency internal audit functions

Previous LFC evaluations found that the effectiveness of internal audit functions varied considerably across state agencies, in part because agencies lacked a consistent framework for how those functions should be structured and operate. In 2006, LFC surveyed 16 agencies and found nine had some form of internal audit function. Many of these functions conducted only limited reviews of internal agency operations, with some concentrating primarily on program or contract compliance rather than evaluating the agency's own controls and operations. LFC also identified substantial variation in the benefits provided by internal audit functions, and concerns about organizational structures that could impair independence and objectivity. Most of the agencies reviewed did not follow recognized audit standards and lacked current written policies, procedures, or audit charters.

State Entities Provide External Oversight of Agency Operations

Legislative Finance Committee. Evaluates the finances and operations of state agencies and programs and recommends changes to improve government effectiveness and efficiency.

Office of the State Auditor. Oversees annual financial audits of state and local government entities and investigations involving the use of public funds.

Office of the Attorney General. Serves as the state's chief legal authority, represents state interests, provides legal counsel to state agencies, and investigates or prosecutes certain civil and criminal matters.

State Ethics Commission. Investigates and adjudicates complaints and enforces state laws governing ethics, governmental conduct, procurement, campaign finance, lobbying, and related requirements.

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LFC found that agency internal audit and OIG functions did not consistently follow recommended professional and governance standards. A 2022 LFC Policy Spotlight found that agencies had made progress since 2006, with most adopting professional audit standards, written policies and procedures, and audit charters. However, some organizational reporting relationships continued to raise concerns about independence and objectivity, and practices remained inconsistent across agencies. The report concluded that the absence of statewide statutory guidance contributed to those inconsistencies.

LFC recommended stronger safeguards and a more consistent framework for internal audit and inspector general functions. The 2022 review recommended stronger safeguards around independence, professional standards, written policies and procedures, audit charters, work planning, and reporting. It also recommended that the Legislature consider establishing criteria for which agencies should maintain internal audit functions or, alternatively, create a centralized statewide inspector general.

Recent legislative proposals have continued to consider changes to New Mexico's oversight framework, including establishing inspector general functions within specified agencies. Previous legislative proposals introduced between 2011 and 2016 generally followed two approaches to strengthening state internal oversight. Some bills proposed creating a statewide inspector general with authority to audit and investigate state agencies and other recipients of state funding, while others proposed establishing independent inspector general offices within selected cabinet departments to conduct internal and compliance audits and investigations. A 2023 proposal to establish inspectors general within specified agencies was estimated to cost approximately \$3.3 million. These proposals concern whether the state should require internal audit or inspector general functions, establish minimum standards governing those functions, or both. Other states have also continued to establish statewide inspector general offices as shown in Appendix B.

Internal audit and inspector general budgeted FTE levels have declined since 2022, while spending on internal audit and OIG functions has increased.

Compared with LFC's 2022 review, the number of budgeted FTE assigned to internal audit and inspector general functions has declined, even as the estimated cost of these functions has increased. Among agencies with comparable data, budgeted FTE declined at five agencies, increased at CYFD, and remained unchanged at NMCD and DOT while AOC and PED no longer reported maintaining dedicated internal audit or inspector general functions. In 2026, estimated salary and contract costs increased approximately 24 percent, driven in part by higher compensation for internal audit employees, whose salaries increased faster than the statewide employee average. Together, these trends indicate fewer personnel resources devoted to internal oversight at several agencies, despite higher overall estimated costs and continued variation in how agencies resource these functions.

Since 2022, reported FTE assigned to internal audit and inspector general functions decreased or remained unchanged among agencies with comparable data.

Compared with 2022, 89 positions have declined to 66 positions at agencies with these functions, but the resources devoted to internal oversight still differ widely. Agencies rely on different mixes of employees and contractors and assign different responsibilities to these functions. Together, these differences show that internal audit and inspector general capacity continues to depend heavily on how each agency chooses to organize and resource its oversight function.

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Two of ten agencies reviewed in 2022 no longer have dedicated internal audit functions. LFC's 2022 analysis included 10 agencies with internal audit or inspector general functions: AOC, TRD, HCA, DOH, CYFD, NMCD, NMDOT, PED, PERA, and ERB. Eight maintained state employee positions associated with these activities, while ERB and PERA relied on contracted internal audit services. The 2026 survey responses indicate that AOC and PED no longer maintain dedicated internal audit or inspector general functions. PED previously maintained a few auditors in their Administrative Services Division to perform teacher and experience index audits at schools. The agency now has a few staff who conduct compliance activities related to school district accreditation but does not consider the function to be internal audit. AOC previously maintained a few internal auditors who conducted audit functions of the magistrate courts related to court processes in collecting fines, fees and other payments. Since the Judiciary consolidated district and magistrate courts these positions have been reclassified to perform data analytics functions. ECECD, which has experienced significant expansion of financial responsibilities and programs in recent years, does not have a dedicated internal audit or inspector general function. LFC evaluations dating back to 2013 have identified areas of potential risk within the child care assistance program.

ERB and PERA use contracted internal audit services, resulting in different cost structures than agencies with in-house audit staff. ERB contracts with REDW for independent internal audit services at \$166 per hour and paid approximately \$170 thousand for those services in FY26, according to SHARE data. PERA contracts with CliftonLarsonAllen, LLP for independent internal audit and consulting services under a fixed annual fee; its FY26 contract amount with a maximum amount of \$225 thousand. The contract establishes an hourly rate of \$196, and SHARE data show approximately \$211 thousand in payments during the fiscal year as shown in Appendix C. Although contracted audit services may have higher hourly rates than state personnel, ERB and PERA incurred lower total annual costs than several agencies maintain larger in-house internal audit or inspector general staff.

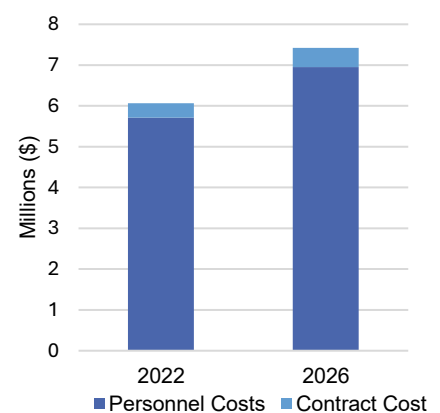
Budgeted FTE for internal audit and inspector declined at several agencies since 2022, while PED and AOC no longer maintain dedicated audit functions. Among agencies with comparable 2022 and 2026 budgeted FTE data, the number of budgeted positions assigned to internal audit and inspector general functions decreased at DOH and TRD, and remained unchanged at NMDOT and NMCD. FTE increased at CYFD. AOC and PED reported they no longer maintained internal audit or inspector general functions in 2026. Costs remained concentrated among a small number of agencies, with NMCD accounting for the largest share of estimated costs. The 2022 LFC report estimated internal audit and inspector general costs at approximately \$4.8 million; however, that estimate did not include employee benefits. For this progress report, LFC recalculated 2022

Table 2. 2026 Status of Agency Internal Audit and Inspector General Functions

Agency	Responded to 2026 Survey	OIG or Internal Audit Function Identified in 2026
DOH	Yes	Yes
NMDOT	Yes	Yes
PERA	Yes	Yes
TRD	Yes	Yes
CYFD	Yes	Yes
ERB	Yes	Yes
HCA	Yes	Yes
PED	Yes	No
AOC	Yes	No
NMCD	Yes	Yes

Source: LFC Files; Survey

Chart 2. Internal Audit and Inspector Costs, 2022 and 2026



Source: LFC Analysis of SHARE and SPO Data

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personnel costs using the same total-compensation methodology applied to 2026 so the two years are comparable.

Chart 3. State Agency Internal Audit and Inspector General FTE by Agency, 2022 and 2026

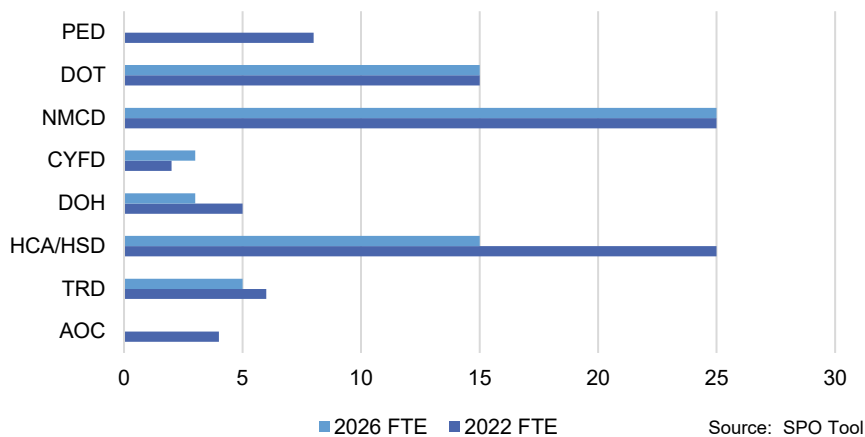
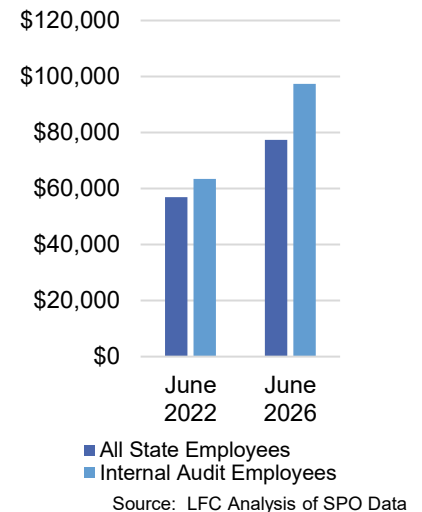


Chart 4. Average State and Internal Audit Salaries, 2022 and 2026



Internal audit salaries increased faster than the statewide employee average. Average salaries increased for both state employees overall and internal audit employees between June 2022 and June 2026. Internal audit employees had higher average salaries in both years and the difference between internal audit salaries and the statewide employee average increased over the four-year period. This indicates that compensation for internal audit positions increased at a faster rate than the statewide employee average over the period and explains how costs increased while the number of positions dedicated to internal audit functions decreased.

FY28 agency budget requests include several changes affecting internal audit and inspector general resources.

HCA's FY28 appropriation request proposes moving five FTE from the Office of Inspector General to the Medical Assistance Division, shifting approximately \$246 thousand in personnel funding from OIG to Medicaid.

TRD's FY28 includes approximately \$1 thousand for training and \$5,400 for office rent in the Office of Internal Oversight;

CYFD's FY28 request includes \$125 thousand in personnel to reduce the vacancy rate in the Office of Inspector General.

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Agency internal oversight functions range from internal audit alone to broader investigative and compliance roles.

Agency oversight functions differ in both scope and organizational structure. Some agencies combine audit, investigative, compliance, and other responsibilities.

The scope of agency oversight functions varies, with some agencies combining audit, investigative, compliance, and other responsibilities. CYFD reported internal audit, inspector general, quality assurance or improvement, and compliance or program integrity functions, while NMCD reported internal audit, an Office of Inspector General, and quality assurance or quality improvement functions. DOH and NMDOT reported both internal audit and inspector general functions. TRD reported internal audit along with an Office of Internal Oversight focused on governance, risk, and compliance, while PERA and ERB reported internal audit functions without the same broader mix of oversight responsibilities. AOC and PED did not report any internal audit or inspector general functions in the 2026 survey.

Survey Methodology

LFC surveyed 10 agencies with current or previously identified internal audit, inspector general, or related oversight functions. Ten agencies responded. The survey addressed organizational structure, FTE, governance, professional standards, work planning, investigative activity, reporting, and recommendation follow-up. Survey responses were supplemented with agency records, SPO and SHARE data, prior LFC evaluations, and other available information. For HCA, LFC also incorporated relevant findings and data from its June 2026 SNAP Administration and Performance evaluation, including information on OIG investigative activity and fraud referrals.

HCA, an agency with the largest potential volumes of financial recoveries, reported limited amounts.

Agency oversight functions differ in both the responsibilities they perform and the volume of work they handle. Most responding agencies acted on roughly the same volume of matters they received, although HCA receives substantially more referrals than matters acted upon, and their financial recoveries were limited and not consistently tracked.

HCA investigates a small fraction of tips and referrals received. HCA receives the highest volumes of tips, referrals, allegations, or investigation requests, while TRD's Internal Investigations Bureau also handled a substantial caseload in FY24 and FY25 before reported volumes declined in FY26. Other responding agencies reported much lower levels of investigative activity, while NMCD and DOH reported that these workload

Table 3. Reported Tips, Referrals, Allegations, and Investigation Requests, FY24–FY26

Agency	FY24	FY25	FY26
DOH	Not Tracked	Not Tracked	Not Tracked
HCA	>500	>500	>500
CYFD	26–100	26–100	26–100
TRD	584	348	89
NMDOT	1–25	26–100	26–100
PERA	0	1–25	0
ERB	0	0	0
NMCD	Not Tracked	Not Tracked	Not Tracked

Source: LFC
Survey and Files

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measures are not tracked. HCA's survey responses show a gap between matters received and acted upon, while LFC's June 2026 SNAP evaluation found a similar pattern at HCA OIG, where completed SNAP investigation reports represented about 3 percent of fraud tips received since 2018. Other responding agencies generally reported acting on roughly the same range of matters they received.

Financial recoveries remain limited across reviewed oversight functions, and return on investment cannot be determined for several agencies. LFC's 2022 *Medicaid Fraud, Waste, and Abuse Controls* report and an earlier LFC evaluation on the topic found the state's Medicaid fraud oversight efforts did not pay for themselves, while also identifying opportunities for HCA's OIG and the Medicaid Fraud Recovery Unit (MFCU) at the Attorney General's Office to increase recoveries. The 2022 LFC report on Medicaid fraud recovery noted improper payment recoveries made by the HCA OIG declined since FFY17 and were less than \$3 million in FFY21. A 2026 LFC report about SNAP administration found identified amounts of fraudulent SNAP payments were substantially less than annual OIG operating costs, where only 23 cents of SNAP fraud were found for every dollar spent on OIG operations, though HCA did not report Medicaid-related recoveries. In contrast, the ROI of (MFCU) has improved since, and the office collected a total of \$4.9 million in FY26. In LFC's survey for this report, CYFD, DOH, and ERB reported no monetary recoveries, while NMCD, NMDOT and PERA did not report recovery amounts. TRD reported approximately \$128 thousand to \$549 thousand annually in adjudicated restitution associated with its Tax Fraud Investigations and Forensic Audit bureaus. Not all internal audit and inspector general functions focus on investigations or cases expected to result in monetary recoveries, limiting comparisons across agencies.

Table 4. Reported Matters Received and Acted Upon, FY24–FY26

Agency	FY24 Received / Acted Upon	FY25 Received / Acted Upon	FY26 Received / Acted Upon
DOH	Not Tracked / Not Tracked	Not Tracked/ Not Tracked	Not Tracked/ Not Tracked
CYFD	26–100 / 26–100	26–100 / 26–100	26–100 / 26–100
TRD	26–100 / 26–100	26–100 / 26–100	26–100 / 26–100
NMDOT	1–25 / 1– 25	26–100 / 26–100	26–100 / 26–100
ERB	0 / 0	0 / 0	0 / 0
PERA	0 / 0	0 / 0	0 / 0
HCA*	>500 / 101–250	>500 / 251–500	>500 / 26– 100
NMCD	Not Tracked / Not Tracked	Not Tracked / Not Tracked	Not Tracked / Not Tracked

* LFC's June 2026 SNAP evaluation found HCA OIG completed 312 SNAP investigation reports from 9,953 fraud tips and referrals received from 2018 through 2025, or about 3 percent. These data cover a different period and measure and are not directly comparable to the received/acted-upon data reported by other agencies.

Source:
LFC Survey

Key Internal Audit and Inspector General Best Practices Remain Inconsistent, Showing Limited Progress Since 2022

Compared with 2022, some key weaknesses in internal audit and inspector general practices remain. Responding agencies generally report direct access to agency leadership and the use of written policies, risk considerations, and formal reporting processes, but gaps persist in work planning, independence safeguards, recommendation follow-up, and public transparency. Formal work plans are still not consistently maintained, with CYFD reporting no work plan. Risk-based planning is also unevenly demonstrated, and public access to oversight work remains limited, providing little evidence of meaningful improvement in transparency since 2022.

Formal work planning remains inconsistent, and formal risk-based project selection is not consistently implemented across reviewed agencies.

Formal planning practices differ across agencies. Seven of eight responding agencies with current internal audit or OIG functions reported maintaining a work plan, but the extent to which those plans incorporate risk, scheduling, staffing, and other resource considerations differs. Agencies report using a range of risk considerations to prioritize oversight work, but those approaches are not applied consistently.

Formal work plans are not always maintained across internal audit and inspector general functions. The Institute of Internal Auditors' standards require internal audit plans to be based on a documented assessment of organizational objectives and risks, identify needed human, financial, and technological resources, and be updated as risks and conditions change. HCA, DOH, NMDOT, NMCD, PERA, TRD, and ERB reported maintaining work plans, while CYFD reported no work plan. DOH uses a fiscal-year risk-based audit plan according to their audit plan, NMDOT identifies planned audits and management reviews in its annual performance audit plan, and TRD uses a flexible annual audit plan reviewed by its Audit Committee.

Institute of Internal Auditors Risk-Based Work Planning Standard

The Institute of Internal Auditors' standards require internal audit plans to be based on a documented assessment of organizational objectives and risks, identify needed human, financial, and technological resources, and be updated as risks and conditions change.

Work Plan Practices Vary

Agency work plans differ in their level of detail, timing, and allocation of oversight resources. DOH, NMDOT, and TRD address staffing, available resources, scope, and scheduling in different ways, illustrating the lack of a consistent approach across agencies.

Table 5. Audit Charters and Work Plans Among Responding Agencies, 2026

Agency	Audit charter	Work plan
DOH	Yes	Yes
NMDOT	Yes	Yes
PERA	Yes	Yes
TRD	Yes	Yes
CYFD	Yes	No
NMCD	Yes	Yes
ERB	No	Yes
HCA	Yes	Yes

Source: LFC Files; 2026 LFC Survey

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Work plans differ in their level of detail, timing, and allocation of oversight resources. DOH, NMDOT, and TRD provide examples of work plans that address resources in different ways. DOH considers staffing, vacancies, qualifications, available time, and outside expertise; NMDOT separates planned work from projects dependent on available resources; and TRD incorporates scope, staffing, and timing into an audit committee review of the annual plan. The amount of detail devoted to resource allocation and scheduling varies among the agencies.

Formal risk-based project selection is not consistently implemented across reviewed agencies. NMDOT, HCA, PERA and TRD reported using formal risk-based approaches to prioritize oversight work. NMCD reported using other project-selection criteria but not a formal risk assessment. However, LFC's June 2026 SNAP evaluation also found HCA OIG did not consistently use available fraud-risk analytics to prioritize investigations, with 60 percent of SNAP investigation reports prompted by hotline calls or emails. These findings indicated that, although HCA reported formal risk assessment as a project-selection criterion, it investigative workload was driven largely by incoming complaints and referrals rather than systematic, risk-based targeting.

Professional qualifications and certifications among internal audit and inspector general staff vary across agencies. The Association of Inspectors General *Principles and Standards* state that inspector general staff should possess appropriate knowledge, skills, experience, training, and professional credentials. Agencies reported differences in both the number of staff assigned to oversight functions and the prevalence of professional credentials. Some functions reported employees with CPA, CIA, CFE, or related credentials, while others reported having no certified staff or employees working toward certification. Contracted audit functions also reported having professionally credentialed personnel.

All responding agencies formally report oversight results to agency leadership or oversight bodies, but public availability of those results appears limited.

Written policies and procedures and formal planning practices—a best practice—remain in place at many agencies, but concerns persist regarding independence and consistent implementation of these practices. Public reporting and transparency remain among the clearest areas where progress since 2022 has been limited.

Agencies use different methods to communicate audit and investigative results. Methods to communicate oversight results include written reports, management briefings, entrance and exit conferences, committee reporting, and periodic status updates. CYFD, DOH, NMDOT, HCA, NMCD, PERA, and TRD document formal mechanisms for communicating results to agency leadership or oversight bodies; however, the methods, frequency, and recipients of these communications are not standardized across agencies.

Public transparency into agency oversight activities remains limited. The 2022 LFC review found that most agencies did not make internal audit work products publicly available and recommended making reports, audits, and work plans public whenever feasible, while recognizing that some information may need to remain confidential. Although reviewed agencies generally maintain formal channels for reporting results to agency

Table 6. Use of Risk Considerations in Oversight Planning, 2026

Agency	Use of Considerations
NMDOT	Uses risk and defined project-selection criteria
HCA	Reports using formal risk assessment; LFC SNAP evaluation found fraud-risk analytics were not consistently used to prioritize investigations.
TRD	Uses formal risk-based planning to develop and prioritize its annual audit plan

Source: 2026 LFC Survey; LFC June 2026 SNAP Administration and Performance Evaluation.

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leadership, governing bodies, or audit committees, available supporting documents provide limited evidence that audit reports, work plans, findings, or recommendation follow-up are routinely available to the public. PERA reported that its internal audit work plan, risk assessment, and audit reports are publicly available through its online Audit and Budget Committee meeting packets. Nevertheless, public visibility into the activities and results of these oversight functions therefore remains limited, much as it was in 2022.

Most responding internal audit and inspector general functions have direct access to agency leadership, but independence safeguards remain uneven.

Among agencies that responded to the survey, internal audit and inspector general functions generally have direct access to senior agency leadership and operate without approval from program management, but independence safeguards remain uneven. Agency executives typically retain appointment and removal authority over function leaders, concentrating key personnel decisions within agency leadership. In addition, proposed developments at HCA raise concerns about whether organizational structure and resource decisions could weaken OIG independence and capacity. HCA's FY28 request proposes transferring five OIG FTE to the Medical Assistance Division, while federal reviewers have also identified deficiencies in the quantity and quality of fraud referrals and in cooperation with the Attorney General's Medicaid Fraud Control Unit.

LFC 2022 Findings on HSD Oversight

"While HSD's OIG now reports directly to the cabinet secretary to reduce potential conflict of interest, the position has not been codified in statute."

"MFCU should improve collaboration with sister agencies and federal partners to increase the quantity and quality of referrals."

Source: *LFC, Medicaid Fraud, Waste, and Abuse Controls*, July 2022, pp. 5 and 9.

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Most responding agencies reported operating without prior program-management approval, but operational independence is not uniform across agencies. LFC's 2022 review found that agencies should report directly to an audit committee, cabinet secretary, or senior management supports greater independence and objectivity, and identified reporting to an audit committee or board as the most desirable reporting structure. Most responding agencies reported that their internal audit or inspector general functions can proceed independently without prior approval from program or operational management. NMCD likewise reported that prior approval is not required for selecting work, determining scope, obtaining records, communication findings, or issuing final reports. The one notable exception was CYFD, which reported a restriction related to communicating findings or conclusions, indicating that operational independence is generally present among respondents but is not uniform across agencies.

Reporting structures vary across agencies, with some agencies using stronger governance safeguards than others. Professional guidance cited in LFC's 2022 review recommends reporting to an audit committee or board and the highest level of management, with audit committee or board reporting identified as the most desirable structure for supporting independence. CYFD, HCA, NMCD, and NMDOT reported that the person leading the function reports directly to the agency head or cabinet secretary, while ERB and PERA reported to audit committees. DOH reports to the deputy cabinet secretary/chief operating officer (COO). TRD reported to a deputy cabinet secretary and also reported access to an audit committee.

Recent federal findings raise additional concerns about HCA's Office of Inspector General at the same time the agency is proposing moving OIG staffing. HCA's OIG officially reports directly to the agency head or cabinet secretary, a positive practice identified in the 2022 LFC Progress Report on Medicaid Fraud Recovery. HCA regulations describe the OIG as responsible for conducting independent audits, reviews, and investigations and provide the office access to agency leadership.

However, concerns with the functioning of the office remain. In September 2026, the U.S. Department of Health and Human Services Office of Inspector General conditionally recertified New Mexico's Medicaid Fraud Control Unit, located within the Attorney General's Office, and found that it receives an inadequate quantity and quality of fraud referrals from HCA's Medicaid Program Integrity Unit within the HCA OIG; in FY25, the Medicaid Fraud Control Unit received only one referral from HCA's OIG and did not open an investigation. The federal review also found ineffective cooperation associated with the HCA OIG's referral process. These concerns echo issues identified in LFC's 2022 Medicaid fraud progress report, which emphasized the importance of collaboration between HCA OIG and the Attorney General's Medicaid Fraud Control Unit, and noted that moving OIG to report directly to the cabinet secretary had reduced

Table 7. Primary Reporting Relationships for Internal Audit and Inspector General Functions, 2026

Agency	Primary Reporting Relationship
CYFD	Agency head or cabinet secretary
DOH	Deputy cabinet secretary/COO
NMDOT	Agency head or cabinet secretary
ERB	Audit committee
PERA	Audit committee
TRD	Deputy cabinet secretary
NMCD	Cabinet secretary
HCA	Agency head or cabinet secretary

Source: LFC Survey

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potential conflicts of interest. Against this backdrop, HCA's FY28 request to reallocate five FTE from OIG personnel to the Medical Assistance Division would move OIG resources by approximately \$246 thousand and raise concerns about whether the office will have sufficient capacity and independence to strengthen fraud referrals and Medicaid program integrity.

Table 8. Governance Practices for Internal Audit and Inspector General Leadership, 2026

Agency	Direct Access to Agency Head or Cabinet Secretary	Direct Access to Governing Body or Audit Committee	Appointment Authority	Removal Authority
CYFD	✓	—	Agency head/cabinet secretary	Agency head/cabinet secretary
DOH	✓	—	Deputy Secretary/COO	Deputy Secretary/COO
NMDOT	✓	—	Agency head/cabinet secretary	Agency head/cabinet secretary
ERB	✓	—	Agency head/cabinet secretary	Agency head/cabinet secretary
TRD	✓	✓	Deputy cabinet secretary	Agency head/cabinet secretary
PERA	✓	✓	Audit committee	Audit committee
HCA	✓	—	Agency head/cabinet secretary	Agency head/cabinet secretary
NMCD	✓	—	Agency head/cabinet secretary	Agency head/cabinet secretary

Note: ✓ indicates the agency reported the practice; — indicates the agency did not report the additional access shown in that column.

Source: LFC 2026 survey; LFC files.

Written policies and procedures are inconsistently implemented across internal audit and inspector general functions.

Written policies and procedures are more consistently reported than formal planning and follow-up practices, but implementation remains uneven across agencies. Agencies generally reported written guidance addressing independence, access, documentation, communication of results, and recommendation follow-up, although the availability of those policies for review differs. Several agencies reported using risk-based project selection, but other evidence shows it is not consistently implemented across reviewed agencies.

In 2026, seven of eight responding functions reported written guidance addressing independence, objectivity, and conflicts of interest, while six of eight reported documented authority to access agency records, systems, personnel, and other information needed to perform their work. Audit charters and written policies and procedures are recommended best practices for establishing an internal audit function's authority, responsibilities, reporting relationships, and operating requirements. LFC's 2022 review found most agencies had adopted these practices, an improvement from earlier reviews.

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Table 9. Written Policies and Procedures for Internal Audit and Inspector General Functions, 2026

Agency	Independence, Objectivity, and Conflicts	Access to Records, Systems, and Personnel	Documentation of Work	Procedures for Communicating and Reporting Results	Recommendation Follow-Up
CYFD	Yes	Yes	Yes	Yes	Yes
DOH	Yes	Yes	Yes	Yes	Yes
NMDOT	Yes	Yes	Yes	Yes	Yes
ERB	Yes	No	Yes	Yes	Yes
PERA	Yes	No	No	No	No
TRD	Yes	Yes	Yes	Yes	Yes
HCA	Yes	Yes	Yes	Yes	Yes
NMCD	No	Yes	Yes	Yes	Yes
AOC	N/A — no current function	N/A	N/A	N/A	N/A
PED	N/A — no current function	N/A	N/A	N/A	N/A

Note: "Yes" and "No" indicate whether the agency reported written policies or procedures addressing the listed area. AOC and PED reported no current internal audit or inspector general function.

Source: LFC 2026 Survey; LFC files.

Recommendation follow-up practices remain inconsistent, particularly in tracking items to closure and independently verifying implementation. IIA Standard 15.2, Confirming the Implementation of Recommendations or Action Plans, requires internal auditors to confirm that management has implemented recommendations or action plans using an established methodology that includes monitoring progress, performing risk-based follow-up assessments, and updating the status of management actions in a tracking system. DOH, NMDOT, ERB, NMCD, TRD and PERA reported requiring management to provide a corrective action or implementation response, but practices varied in how recommendations were monitored after that point. Every agency tracked recommendations through completion or closure. HCA did not confirm that follow-up reviews or audits are conducted to verify implementation. CYFD's responses were unclear, preventing LFC from determining whether these practices were in place.

Table 10. Recommended Follow-Up Practices by Agency, 2026

Agency	Corrective Action Required	Tracks Items to Closure	Confirms Completion
DOH	Yes	Yes	Yes
NMDOT	Yes	Yes	Yes
ERB	Yes	Yes	Yes
PERA	Yes	Yes	Yes
NMCD	Yes	Yes	Yes
TRD	Yes	Yes	Yes
HCA	Yes	Yes	No
CYFD	Unclear	Unclear	Unclear

Source: LFC 2026 Survey.

Next Steps

This 2026 review found that key practices identified in LFC's 2022 review remain inconsistently implemented across internal audit and inspector general offices. While several agencies reported audit charters, written policies and procedures, work plans, professional standards, and formal reporting processes, gaps remain in formal work planning, independence safeguards, recommendation follow-up, and public transparency. Public availability of oversight work remains limited, and the state has not implemented the broader statewide governance recommendations identified in LFC's 2022 review.

The Legislature should consider establishing minimum statewide requirements for agency internal audit and inspector general functions while maintaining the state's agency-based oversight model. Such a framework could:

- Require audit charters, written policies and procedures, and formal work plans where applicable.
- Require audit reports and work plans to be made publicly available where appropriate, while protecting confidential or otherwise restricted information
- Establish organizational safeguards to support the independence and objectivity of internal audit and inspector general functions.
- Require internal audit functions to follow recognized professional auditing standards.

Appendix A. Progress on Past Recommendations

Finding

LFC's 2022 review found substantial variation in the scope, structure, and effectiveness of state agency internal audit functions and identified the absence of consistent statewide requirements governing these functions.

2022 Recommendation	Status	Comments
The Legislature should consider enacting legislation to institutionalize internal auditing wherever feasible and establish guidance based on best practices, including independence and objectivity, audit charters, written policies and procedures, work plans, professional audit standards, and public reporting.	No Action	The current review found that many responding agencies use audit charters, written policies, risk-based planning, and formal reporting processes, but these practices remain inconsistent across agencies. Professional standards, formal work planning, independence safeguards, and public availability of audit work also continue to vary.
The Legislature should consider developing criteria for which agencies should be required to establish, maintain, and support an internal audit function.	No Action	Agencies continue to determine individually whether and how to maintain internal audit or inspector general functions.
The Legislature should consider creating a stand-alone Office of Inspector General to audit and investigate executive branch agencies.	No Action	The state continues to rely primarily on agency-based internal audit and inspector general functions and other existing external oversight entities.

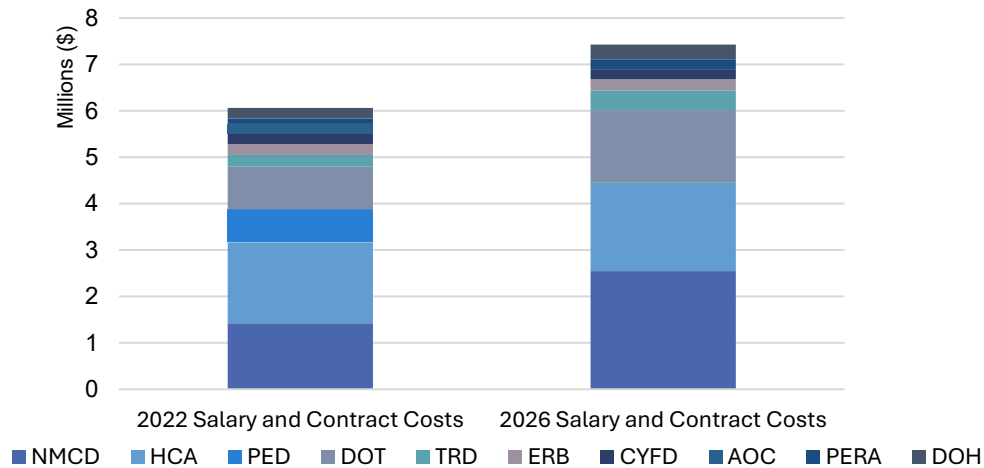
Appendix B. Statewide Inspector General Offices Established by Statute in Peer States Since 2022

State	Office	Year	Primary Role and Scope
Delaware	Office of the Inspector General	2025	Independent, nonpartisan office created to investigate and prevent fraud, waste, mismanagement, corruption, abuse of government resources, and related misconduct.
Minnesota	Office of the Inspector General	2026	Independent executive-branch office created to prevent and investigate fraud and misuse of public funds, coordinate agency program-integrity efforts, and oversee agency-based inspectors general; phased implementation continues through 2027.
Rhode Island	Office of Inspector General	2026	Independent office with jurisdiction over executive-branch agencies, quasi-public entities, and certain municipal uses of state funds; the state began recruiting its first inspector general in 2026.

Source: LFC files; state statutes, and inspector general/state oversight office websites. Updated August 2026.

Appendix C. Internal Audit Salary and Contract Costs by Agency, 2022 and 2026

Chart 5. Internal Audit Salary and Contract Costs by Agency, 2022 and 2026



Source: LFC Analysis of SPO Tool and SHARE Data