

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 2/9/09

SPONSOR Sapien LAST UPDATED _____ HB _____

SHORT TITLE Create Audit Grant Fund SB 357

ANALYST Archuleta

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	\$50.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$50.0	\$50.0	Recurring	Audit Grant Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to Senate Bill 336

SOURCES OF INFORMATION

LFC Files

Responses Received From

State Auditor (OSA)

Pubic Education Department (PED)

SUMMARY

Synopsis of Bill

Senate Bill 358 creates the Audit Grant Fund as part of the Audit Act to be administered by the State Auditor. Money in the fund will used to make grants to assist political subdivisions of the state in order to comply with the Audit Act if they have demonstrated that compliance will cause financial hardship. The bill provides the State Auditor with the authority to promulgate rules for determining eligibility for grants from and how grantees may expend those funds to come into compliance with the Audit Act. In promulgating the rules, the State Auditor is required to give special consideration to political subdivisions that have been unable to obtain prior year audits required by the audit act.

FISCAL IMPLICATIONS

This bill would serve to subsidize the cost of performing a financial audit of political subdivisions that are eligible for and obtain a grant from the Audit Grant Fund. According to OSA an annual audit of the smallest government entity can cost between \$5,000 and \$20,000 or more. The Audit Grant Fund is designed to assist those political subdivisions who are most in need.

Fifty thousand dollars (\$50,000) is appropriated from the general fund to the audit grant fund for expenditure in fiscal year 2010 and subsequent fiscal years to carry out the purpose of the fund. Any unexpended or unencumbered balance remaining at the end of a fiscal year shall not revert to the general fund.

Continuing Appropriations

This bill creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities

SIGNIFICANT ISSUES

According to OSA, New Mexico's annual audit requirement is one of the most stringent and far-reaching in the nation and unfairly applies the same auditing requirements to all government entities. Many small, rural political subdivisions of the state are unable to comply with the annual audit requirement because of the significant costs of a financial and compliance audit. At a minimum, a financial and compliance audit costs between \$5,000 and \$20,000 or more. Those costs can dwarf the budgets of New Mexico's rural political subdivisions. For example, the budgets of certain special districts, such as acequias, often consist only of the user fees paid by their members that are used for small improvements or renting machinery. The Audit Grant Fund will assist political subdivisions that have demonstrated financial hardship in complying with the financial reporting requirements of the Audit Act.

Finally, many political subdivisions have struggled to keep current with their annual audits or have not conducted audits for many years. To assist these entities, the State Auditor is required to promulgate rules for the fund that give special consideration to political subdivisions of the state that have been unable to obtain prior year audits required by the Audit Act.

PERFORMANCE IMPLICATIONS

According to OSA, the State Auditor will be able to more effectively track and provide information to the Legislature, the public, and other interested parties regarding the financial information of political subdivisions of the state if those political subdivisions are able to shoulder the costs of audits. Currently, the financial information of many political subdivisions of the state is unavailable because certain entities cannot afford an annual audit.

ADMINISTRATIVE IMPLICATIONS

The State Auditor will be required to promulgate rules establishing eligibility for grants and how grantees expend the funds.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to Senate Bill 336 establishes a tiered system of financial reporting requirements under the Audit Act for incorporated municipalities, mutual domestic water associations, land grants and special districts.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Many of New Mexico’s political subdivisions will continue to struggle or fail to comply with the annual audit requirement according to the Audit Act. Failure to maintain a current audit under the law may jeopardize a political subdivision’s ability to secure funding for their communities.

DA/mc