

LFC Requester:

Norton Francis

AGENCY BILL ANALYSIS - 2026 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: 02/12/2026

Check all that apply:

Bill Number: SB145Original Correction Amendment Substitute

		Agency Name and Code Number:	
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Short Title:	<u>Audit Act Changes</u>	Person Writing Analysis:	<u>David Stephens, Director of Government Accountability</u>
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SECTION II: FISCAL IMPACT**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY26	FY27		
	50		

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or	Fund Affected
FY26	FY27	FY28		

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(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

Analysis of Amendments (proposed by the Senate Finance Committee)

- **Section 1(A)(4) – page 2:** Removes addition of “any organization subject to the requirements of Section 6-5A-1 NMSA 1978 that supports a public post-secondary educational institution” from the definition of “agency.” This removal helps clarify that 501(c) organizations (such as university foundations) which are subject to audit requirements under 6-5A-1 NMSA 1978, are not governmental entities.
- **Section 2(A) – page 4:** Replaces ‘conduct’ with ‘engage’ to clarify that the Department of Finance and Administration (DFA) will not perform the annual agency federal single audit itself. This clarifies that DFA will follow the Audit Act and contract with an independent public accounting firm to conduct the audit unless the Office of the State Auditor elects to do so.
- **Section 3(A) – page 11:** Clarifies that audit reports provided to the secretary of DFA must remain confidential until public release by the state auditor.
- **Section 3(B) – page 11:** Clarifies that the state auditor provides to the secretary of DFA copies of audit reports for agencies reported in the state’s annual comprehensive financial report, i.e. not reports for other public entities, such as counties and higher education institutions.
- **Section 3(C) – page 12:** Replaces incorrect reference to ‘agency auditor’ with ‘agency audited’ to clarify a public entity’s management responsibility to notify the state auditor of any errors in the report.
- **Section 4(A) – page 12:** Strikes ‘gifts’ and ‘donations’ from the definition of the audit fund to ensure state auditor independence.
- Throughout, subsections renumbered and relettered in accordance with the amendments.

Synopsis:

Senate Bill 145 (SB145) amends the Audit Act to:

- Update definitions for “agency” and “local public body” to clarify which entities fall under the Act.
- Implement statewide federal single audit requirements for state agencies that are reported in the state’s annual comprehensive financial report (ACFR) beginning in FY2028.
- Raise audit/reporting thresholds for local public bodies.
- Clarifies language in the Audit Fund particularly relating to recovering of fees and costs when OSA performs audits of other entities.

Includes an appropriation of \$50,000 to OSA for software upgrades needed to administer statewide federal single audits.

The bill does not include an effective date, and as a result, would go into effect 90 days after the session. However, the effective date for implementation of the federal single audit for state agencies that are reported in the ACFR is FY 2028.

FISCAL IMPLICATIONS

One Federal Single Audit for State Agencies that are reported in the state's ACFR: Necessary short-term transition activities will incur additional costs for the state, such as modifying processes in the centralized accounting system (SHARE) to be able to produce a compiled schedule of Expenditures of Federal Awards. However, these costs will be outweighed by long-term benefits. For instance, centralized procurement and shared systems may ultimately cut redundant audit costs and free up agency staff.

Tier System Changes: OSA will incur additional costs to perform necessary IT upgrades to support implementation of the revised tier system. These one-time upgrades are estimated at \$50,000 and are required to update tier logic, reporting thresholds, and related system processes. However, these costs will be outweighed by long-term benefits, as SLPBs will be able to more easily complete their own reporting and navigate a streamlined contracting process, minimizing the risk of errors.

SIGNIFICANT ISSUES

Tier System Changes

OSA consistently hears concerns from small local public bodies (SLPBs) about the Audit Act's current six-tier system used to determine financial reporting requirements. While originally designed to scale compliance based on an entity's size, the framework has become outdated, overly complex, confusing, and burdensome—especially for the small entities it was meant to help. The current framework's six tiers define revenue thresholds for increasingly complex financial reporting based on revenue and capital outlay spending. This can result in higher administrative burden and costs for smaller entities (such as acequias, land grants, mutual domestic water consumer associations, and other special districts) to hire an independent public accounting firm and comply with financial reporting requirements.

As a result, OSA seeks to repeal the current tiered system and replace it with a more streamlined, transparent structure. SB145 establishes this new structure and streamlines compliance while retaining accountability by:

- Reducing the number of financial reporting tiers from 6 to 3 by consolidating requirements for similar entities and raising the reporting threshold from \$50,000 to \$100,000.
- Raising the revenue threshold for a full financial audit from \$500,000 to \$1,000,000, aligning state audit requirements with the federal single audit threshold.

These changes will:

- Reduce the overall number of entities that need to submit an agreed-upon procedures (AUP) engagement report or a full audit, reducing or eliminating their audit costs.
- Remove barriers to compliance by simplifying reporting requirements, enabling quicker access to capital outlay funds or other public funding requiring Audit Act compliance.
- Preserve important financial reporting and appropriate safeguards around capital outlay and federal funds.

SB145 modifies the current six-tier system to:

- Tier I – Exempt from financial reporting requirements. Revenue is less than \$100,000 and did not directly spend at least 50% or the remainder of a single capital outlay award.
- Tier II – Submit a cost-effective financial report focused solely on spent capital outlay funds. Revenue is less than \$100,000 and spent at least 50% or the remainder of a capital outlay award.

- Tier III - Submit a cost-effective, narrowly tailored financial report that includes a schedule of cash basis comparison and a test sample of any capital outlay funds spent. Revenue is between \$100,000 and \$1,000,000.
- Not in the tiered system, submit a full financial audit. Revenue is at least \$1,000,000.

One Federal Single Audit for State Agencies that are reported in the state's ACFR

New Mexico currently conducts individual federal single audits of agencies as applicable. The results of these audits are incorporated into each agency's annual financial and compliance audit. Materiality thresholds are established based on expenditures incurred at the agency level. Each single audit report is submitted separately to the Federal Audit Clearinghouse.

Almost all other states utilize the statewide federal single audit model (with variation in the number of agencies included and in who conducts the audit), which covers a group of agencies in one report, rather than each agency completing individual audits. Under this system, auditors would follow federal requirements for using a risk-based approach to determine which federal programs are included in the consolidated federal single audit.¹ Overall, this model can improve consistency, make information about federal expenditures more accessible, and speed up reporting.

Transitioning to a statewide federal single audit will align New Mexico with established national practices, enhance oversight efficiency, and expedite ACFR reporting, strengthening confidence among taxpayers, investors, and creditors.

In 2024, OSA contracted the University of New Mexico's Bureau of Business and Economic Research (BBER) to conduct a study of other states' financial reporting and audit strategies and practices with a goal of finding ways to streamline and accelerate the production of the state's ACFR. BBER estimated that it is "likely that the entire process will be sped up by moving the bulk of the [federal] single audit work to a group or statewide [federal] single audit."

PERFORMANCE IMPLICATIONS

One Federal Single Audit for State Agencies that are reported in the state's ACFR

Today, federal grant oversight across New Mexico is dispersed: agencies, local governments, and higher education institutions use different systems, standards, and timetables, making it harder to identify risk, fraud, or noncompliance early. This fragmentation increases the risk of Federal penalties, disallowances, or paybacks on Medicaid and other high dollar programs. In addition, it can contribute to inconsistent accountability between agencies and subrecipients, which undermines legislative oversight. Transitioning to a statewide federal single audit for state departments will:

- **Align New Mexico with National Norms:** Almost every state utilizes the statewide Federal Single Audit model. New Mexico still completes hundreds of separate audits of federal expenditures. This adds time to a complex process and has contributed to the state's ACFR being consistently produced late, which can affect bond ratings and other matters of the state.
- **Simplify Federal Oversight:** One consolidated report is easier for taxpayers, legislators, investors, and federal agencies to review.
- **Improve Consistency & Quality:** A single auditor applying uniform standards across all agencies will result in better risk assessment and audit quality.
- **Save Money Over Time:** Short-term challenges (such as modifying SHARE), will be

¹ [2 CFR Part 200 Subpart F](#)

outweighed by long-term benefits. For instance, centralized procurement and shared systems will ultimately cut redundant audit costs and free up agency staff.

Tier System Changes

The Audit Act's tiered system of financial reporting is outdated and disproportionately impacts New Mexico's smallest public entities, particularly small local public bodies. SB145's simplified framework will ease the burden on New Mexico's smallest public entities, lower costs, and make it easier to access capital outlay funds and other public funding while retaining accountability.

Raising the Tier Certification reporting threshold to \$100,000 would enable entities to more easily access withheld capital outlay funds without a significant increase in risk to the state. For example, at least 32 local public bodies that were subject to Tier IV or V reporting requirements in FY 2023 would be subject to Tier I or II requirements under OSA's proposed changes, allowing them quicker access to capital outlay funds and more cost-effective AUP when reporting is necessary. In addition, at least 56 SLPBs would no longer need a full financial audit and instead require a tailored AUP engagement, reducing administrative and cost burdens for these entities, especially for local public bodies with annual revenue between \$500,000 and \$1 million who struggle with the cost of a full financial audit.

In addition, raising financial reporting thresholds would also improve the effectiveness of the Small Local Public Body Assistance Program. Under the program, entities that require full financial audits are not eligible for Tier Certification or AUP services, and the program has limited resources to fund full audits for small entities. With the changes in SB145, many entities that previously needed a full financial audit will now be able to benefit from the SLPB assistance program because they will no longer be required to undergo a full audit.

ADMINISTRATIVE IMPLICATIONS

Updated Definitions

- Strikes outdated definitions of "agency" and replaces them with broader language that includes more political subdivisions, districts, and state-supported organizations.
- Expands "local public body" to include additional district types (e.g., zoning, utility, transit, communications districts).
- The current definitions are confusing and duplicative. This amendment would clarify the difference between "agencies" and "local public bodies."

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

1. Will need clarifying amendment relating to DFA engagement for ACFR reporting state agencies, and compliance with the Audit Act.
2. Will need clarifying language deleting "gifts" and "donations" from the Audit Fund.

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS