

LFC Requester: _____

AGENCY BILL ANALYSIS - 2026 REGULAR SESSION
WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO
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(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: 1/26/2026 *Check all that apply:*
Bill Number: S145 Original Correction
 Amendment Substitute

Sponsor: Sen. Muñoz **Agency Name and Code Number:** DFA-341
AUDIT CHANGES **Person Writing Analysis:** George Hypolite
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY26	FY27		

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	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			\$1,800	\$1,800	Both	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

Senate Bill 145 (SB145) aims to enhance the transparency, accountability, and efficiency of the auditing process for state agencies and local public bodies in New Mexico. SB145 proposes several amendments to the Audit Act. The key changes and provisions in the bill are as follows:

- **Definitions and Scope:**
 - SB145 expands the definition of "agency" to include various state departments, political subdivisions, and entities receiving public money.
 - SB145 updates the definition of "local public body" to include mutual domestic water consumer associations, land grants, incorporated municipalities, and special districts.
- **Audit Requirements:**
 - SB145 mandates annual audits for all agencies by the state auditor or approved independent auditors.
 - SB145 introduces a requirement for an annual statewide federal single audit starting in fiscal year 2028 to comply with federal laws and regulations.
- **Local Public Body Audit Thresholds:**
 - SB145 adjusts the revenue threshold for local public bodies from \$50,000 to \$100,000 to exempt them from specific reporting requirements.
 - SB145 specifies different audit and reporting requirements based on local public bodies' revenue and federal fund expenditures.
- **Audit Fund:**
 - SB145 establishes the "audit fund" as a non-reverting fund in the state treasury, consisting of various revenue sources, to cover the costs of audits.
 - SB145 allows the state auditor to determine fees and costs to recover expenses for performing audits.
- **Contract Audits:**
 - SB145 requires agencies and local public bodies to contract with independent auditors, with approval from the state auditor.
 - SB145 allows the state auditor to select an auditor if an agency or local public

body fails to do so within 60 days of notification.

- SB145 ensures that payments to independent auditors are made only after the state auditor approves the contract and verifies the audit's competence.
- Reporting and Compliance:
 - SB145 mandates detailed reporting of audit findings, including any violations of law or good accounting practices.
 - SB145 requires the state auditor to notify relevant legislative and executive bodies if an agency or local public body fails to submit required audit reports within specified timeframes.
- Special Provisions:
 - SB145 allows public housing authorities to be audited separately from their local primary government entity if they choose to do so.
 - SB145 provides for the state auditor to conduct additional audits as necessary.

FISCAL IMPLICATIONS

Under amendments in SB145, the Department of Finance and Administration (DFA) believes the Financial Control Division's ACFR unit will handle the single federal audit. While DFA anticipates administrative costs for implementing and managing the single federal audit, it also expects net cost savings from reduced state agency audit costs, an improved credit rating, federal indirect cost recovery, and improved federal grant compliance. DFA expects the following fiscal impacts from SB145:

- Local Public Bodies: SB145 raises the threshold for mandatory audits and financial reporting for local public bodies. This will likely reduce costs for smaller local public bodies with annual revenue below \$100,000.
- Statewide Single Audits: Beginning in fiscal year 2028, the requirement for an annual statewide federal single audit may result in additional costs for the state to ensure compliance with federal laws and regulations.
 - To facilitate the preparation of a single federal audit, before FY28, DFA would need the following resources to establish a Federal Compliance and Reporting Bureau:
 - SHARE Development and Integrations - \$500,000 (Centralized system of compilation and reporting)
 - Professional Services - \$500,000 (Development and implementation of a statewide plan to consolidate records of federal financial assistance into a single system and to provide technical assistance to state agencies).

- Audit Fund: The creation of a non-reverting audit fund and the stipulation that fees and costs be set to recover all expenses of the state auditor may lead to higher fees for audited agencies.
- Administrative Costs: DFA anticipates additional staffing and administrative costs to implement and oversee the new audit requirements and thresholds.
 - Bureau Chief: (Pay Band 90) \$200,000 (Salary and Benefits)
 - This position would lead the Federal Reporting and Compliance Bureau, oversee day-to-day compliance with federal funding, and lead the statewide federal single audit consolidation and preparation.
 - Senior Accountants: Qty. 2 (Pay Band 85) \$350,000 (\$175,000 x 2 = Salary and Benefits)
 - These positions would be responsible for daily reconciliation and review of statewide federal funding transactions, grant compliance reviews, and federal reporting support. They would also take a lead role in developing the federal, statewide single audit under the direction of the bureau chief.
 - Staff Accountants: Qty. 2 (Pay Band 75) \$250,000 (\$125,000 x 2 =Salary and Benefits)
 - These positions would provide lower-level accounting support to all state agencies to ensure proper daily recording of transactions. These positions would also provide technical support to the senior accountants during the development of the statewide federal single audit.
 - Office Support Expenses: \$50,000 (Miscellaneous office supplies, staff support, employee training, equipment, etc.).
- Cost Savings: By implementing a single federal audit, the state can achieve significant cost savings through reduced redundancy, centralized processes, and improved efficiency, while ensuring compliance with federal standards. DFA anticipates a cost savings of between \$1,200,000 and \$1,400,000 per fiscal year. Potential cost savings include:
 - Elimination of Redundant Audits: By consolidating multiple audits into a single federal audit for a state agency, the state can reduce duplication of efforts at 43 state agencies and streamline the auditing process, saving time and resources.
 - Centralized Audit Administration: By FCD conducting the federal single audit for state agencies, the need for individual agencies to hire separate federal auditors or internal federal auditing staff. This centralization will lead to lower administrative costs and improved efficiency in federal compliance, drawdowns, and reporting.
 - Economies of Scale: Conducting a single federal single audit for all agencies allows the state to leverage economies of scale, potentially reducing the overall

cost of auditing services for state agencies.

- Improved Compliance and Reduced Penalties: A standardized federal single audit process ensures compliance with federal regulations, reducing the risk of penalties or loss of federal funding due to non-compliance.

SIGNIFICANT ISSUES

- Responsible Entity: While SB145 requires DFA's FCD to perform the federal single audit, SB145 does not update § 6-5-4.1, NMSA 1978, to include the federal single audit requirement in DFA's current annual comprehensive financial report for the state.
 - Updating § 6-5-4.1, NMSA 1978, to correspond with the changes in § 12-6-3, NMSA 1978, will identify DFA as the state entity responsible for compiling and preparing a statewide federal single audit.

PERFORMANCE IMPLICATIONS

Overall, SB145 is designed to improve the efficiency, transparency, and accountability of New Mexico's auditing processes, thereby improving financial management, reducing waste, and increasing public trust in government operations.

- Improved Compliance with Federal Standards: The requirement for annual federal single audits ensures that agencies comply with the Federal Single Audit Act and related regulations, reducing the risk of non-compliance, penalties, or loss of federal funding.
- Enhanced Financial Oversight: SB145 strengthens oversight by requiring thorough annual audits of agencies and local public bodies with significant revenue or expenditures. This ensures greater accountability and transparency in the use of public funds.
- Streamlined Audit Processes: Consolidating multiple state agency federal single audits into one single federal audit simplifies the process, reduces administrative burdens, and allows agencies to focus on their core functions rather than managing multiple audits.

ADMINISTRATIVE IMPLICATIONS

SB145 will likely increase the administrative workload for the state auditor's office and the Department of Finance and Administration, requiring additional resources and potentially more staff to manage the expanded scope of audits and financial examinations. The administrative implications of SB145 include:

- Expanded Definition of "Agency": The bill expands the definition of "agency" to include additional entities, which will require the state auditor to oversee a larger number of audits.
- Increased Audit Oversight: The state auditor will need to manage the increased number of audits and financial examinations.

- **New Reporting Requirements:** Local public bodies with varying revenue and federal expenditure levels will have different reporting and audit requirements, necessitating more detailed tracking and management by the state auditor's office.
- **Audit Fund Management:** The creation of a non-reverting audit fund will require the state auditor to administer and manage it, including collecting fees and costs from audited agencies.
- **Federal Single Audit:** DFA will likely be required to compile, prepare, and submit a new requirement for an annual statewide federal single audit.
- **Specialized Expertise:** DFA and the state auditor will need to engage contractors with specialized expertise to develop and implement a statewide plan to consolidate records of federal financial assistance and to prepare a single audit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

N/A.

TECHNICAL ISSUES

- **Local Public Body's Inclusion:** Section 2 of SB145 amends § 12-6-3 (D) to make local public bodies that are required to be examined and audited pursuant to Subsection A ineligible for the reporting requirements in paragraphs (1) through (4) of Subsection B.
 - Under SB145's proposed amendments, the definition of "local public body" includes mutual domestic water consumers associations, land grants, incorporated municipalities, acequias, and special districts.
 - Under SB145's proposed amendments, it is unclear how a local public body would be required to be examined under Subsection A, § 12-6-3, NMSA 1978.
 - DFA recommends that SB145 be clarified to identify which local public bodies are subject to examination or audit pursuant to Subsection A, or that Subsection D be deleted.

OTHER SUBSTANTIVE ISSUES

Accidental Inclusion of Political Subdivisions and Component Entities:

- Based on the definition of "agency," the current drafting of SB145 would require any political subdivision of the state, created under either a general or a special act, that receives or expends public money, including counties, county institutions, boards, bureaus or commissions, and school districts.
 - With over 600 political subdivisions in the state and no authority for FCD to compel them to follow the state's model accounting practices or to report information on federal awards, it would be logistically improbable for FCD to include political subdivisions in the federal single audit.

- DFA recommends amending SB145 to include only state agencies, excluding political subdivisions.

ALTERNATIVES

N/A.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Failing to enact SB145 would perpetuate inefficiencies, increase costs, and reduce accountability in New Mexico's auditing processes, while also perpetuating the risk of non-compliance with federal standards and missing opportunities for modernization and improved financial oversight. If SB145 is not enacted, several negative consequences could arise, including:

- **Continued Inefficiencies in Auditing Processes:** Without the consolidation into a single federal audit, agencies may continue to face redundant and fragmented audits, leading to higher administrative costs and inefficiencies.
- **Increased Risk of Non-Compliance:** The absence of a standardized federal single audit process could increase the risk of non-compliance with federal regulations, potentially resulting in penalties or loss of federal funding.
- **Burden on Smaller Local Public Bodies:** Smaller entities may continue to face disproportionate reporting and auditing requirements, diverting resources from their core functions and creating unnecessary administrative burdens.
- **Missed Opportunity for Cost Savings:** The state would lose the chance to achieve cost savings through streamlined audit processes, centralized administration, and economies of scale.
- **Reduced Accountability for Capital Outlay Funds:** Without tailored reporting requirements for local public bodies that expend capital outlay funds, there may be less oversight and transparency in how these funds are used, increasing the risk of mismanagement.
- **Continued Fragmentation in Reporting:** Agencies and local public bodies may continue to submit audit reports inconsistently, leading to delays in financial oversight and decision-making.

AMENDMENTS

N/A.