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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 145/aSFC

SHORT TITLE: Audit Changes

SPONSOR: Reps. Herndon and Borrego/Sen. Muñoz

LAST ORIGINAL
UPDATE: 2/11/2026 **DATE:** 2/1/2026 **ANALYST:** Francis

APPROPRIATION* (dollars in thousands)

FY26	FY27	Recurring or Nonrecurring	Fund Affected
	50.0	Nonrecurring	General Fund

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
DFA			\$1,000.0		Nonrecurring	General Fund
DFA			\$850.0		Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis on original bill

Department of Finance and Administration

Office of the State Auditor

SUMMARY

Synopsis of SFC Amendment to Senate Bill 145

The Senate Finance Committee (SFC) amendment to Senate Bill 145 removes entities that support post-secondary education institutions from the definition of “agency”, effectively removing the requirement that these entities be part of the federal single audit. The SFC amendment also clarifies that only agencies that are included in the annual comprehensive financial report (ACFR) are part of the federal single audit and that the Department of Finance and Administration (DFA) is not required to conduct the audit but can engage an audit to be done.

Additionally, the amendment explicitly provides that reports by the Office of the State Auditor (OSA) on agency audits that may include details about audit violations are to be kept

confidential until released by OSA. Finally, the amendment removes “gifts” and “donations” from the type of revenue that the audit fund can receive.

Synopsis of Senate Bill 145

Senate Bill 145 (SB145) amends the Audit Act, modifying the entities that will be subject to state audit and the thresholds required for different levels of reporting. Beginning in 2028, the Financial Control Division of the Department of Finance and Administration (DFA) would be responsible for preparing a statewide federal single audit, an audit of federal grants required by the Federal Single Audit Act (31 U.S.C. 7501 through 7507). Finally, SB145 clarifies the authority and uses of the audit fund.

SB145 appropriates \$50 thousand from the general fund to the Office of the State Auditor (OSA) for the purpose of computer software to administer statewide federal single audits.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, which is May 20, 2026.

FISCAL IMPLICATIONS

The appropriation of \$50 thousand contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY27 shall revert to the general fund. The SFC amendment does not change the fiscal impact.

DFA reports the agency will need at least \$1.85 million to compile the statewide federal single audit.

- \$1 million nonrecurring for upgrades to the state’s SHARE financial accounting system and consulting to establish a “Federal Compliance and Reporting Bureau,” necessary for the federal single audit.
- \$850 thousand recurring for accounting staff and support.

DFA reports that compiling a statewide federal single audit will result in cost savings over time of between \$1.2 million and \$1.4 million: “By implementing a federal single audit, the state can achieve significant cost savings through reduced redundancy, centralized processes, and improved efficiency, while ensuring compliance with federal standards.”

SIGNIFICANT ISSUES

There are three main components of SB145 as amended. First, SB145 modifies the current six-tier system of financial reporting by “local public bodies” to a three-tier system that may provide more flexibility, particularly for smaller entities. Local public bodies must have a current audit to be eligible for state capital outlay funds. Second, as OSA reports, SB145 “aligns New Mexico” with other states by centralizing the federal single audit, a report required of all entities that receive federal grants of more than \$1 million.¹ Only agencies that are reported in the ACFR.

¹¹ [eCFR :: 2 CFR Part 200 Subpart F -- Audit Requirements](#)

Finally, SB145 changes the “audit fund” that OSA can use to collect fees and appropriations by entities OSA supports. The audit fund is a non-reverting fund. The SFA amendment makes it clear that gifts and donations are not revenues allowed to go to the audit fund.

The SFC amendment to SB 145 would remove organizations that support post-secondary institutions from the definition of agency. The SFC amendment also limits the inclusion in the federal single audit to agencies that are reported in the ACFR. This appears to address DFAs concern on the original bill about including potential hundreds of local public bodies in the federal single audit.

Both DFA and OSA report significant efficiencies will be achieved by SB145. The change to the tiers for financial reporting will streamline the process and reduce burdens on smaller public bodies, while the requirement that DFA prepare a statewide federal single audit will increase compliance, reduce the risk of noncompliance, and improve transparency and accountability.

Per OSA, SB145 modifies the current six-tier system to:

- Tier I – Exempt from financial reporting requirements. Revenue is less than \$100 thousand, and the entity did not directly spend at least 50 percent 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 thousand, and the entity spent at least 50 percent of 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 thousand and \$1 million.
- Not in the tiered system, submit a full financial audit. Revenue is at least \$1 million.

OSA reports that SB145 will improve consistency and efficiency in state agency and local public body financial accounting and—by coordinating the auditing of federal grants distributed across the state and preparing a statewide report, as is done in almost every other state—will greatly improve New Mexico’s financial profile. This could lead to better bond ratings by “strengthening confidence among taxpayers, investors, and creditors.”

From OSA:

Transitioning to a statewide federal single audit for state departments will:

- **Align New Mexico with National Norms:** Every state except New Mexico completes a statewide federal single audit for state agencies. 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 [annual comprehensive financial report] 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 and 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 outweighed by long-term benefits. For instance, centralized procurement

and shared systems will ultimately cut redundant audit costs and free up agency staff.

OSA presented findings from a report it commissioned from the University of New Mexico Bureau of Business and Economic Research on streamlining and improving the federal single audit process in New Mexico. To summarize from the minutes of the January 20, 2025² LFC meeting at which the report was submitted:

While most states have streamlined their audits into a single report, New Mexico still conducts 130 individual audits annually, resulting in inefficiencies, delays in reporting (with the state's comprehensive report often exceeding the six-month completion deadline), and inconsistent audit practices. This past year, the Office of the State Auditor (OSA) used internal funds to commission the BBER study, which recommended transitioning to a statewide singular audit, starting with a federal single audit across approximately 60 agencies, followed by broader integration—potentially incorporating universities and component units into the state's financial system (SHARE). A statewide singular audit would improve oversight, efficiency, cost savings, and consistency.

PERFORMANCE IMPLICATIONS

OSA reports that transforming the current six-tier financial reporting system for local public bodies to a more streamlined three tier -system 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.”

From OSA:

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.

OSA notes the current definitions of agencies and local public bodies are confusing and duplicative and summarizes the definitional changes made by SB 45 to the agencies and local public bodies. 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).

TECHNICAL ISSUES

The SFC amendment to SB 145 addresses an issue raised by OSA regarding the inclusion of gifts and donations as allowable revenues in the audit fund by deleting those references.

²² [Grey Modern Professional Business Project Presentation; ALFCminJan20.25.pdf](#)

From DFA on the original bill:

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 [the Financial Control Division] 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.

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