NEW MEXICO STATE AUDITOR

The Audit Act’s Tiered System of Financial Reporting
Overview

The Audit Act’s Tiered System of Financial Reporting

Contracting for Services Under the Tiered System

- OSA-Connect

Small Political Subdivision (SPS) Funding
Overview
Executive Order 2013-006

- Failure to account for public funds can jeopardize a government agency’s ability to receive grants and appropriations. Deficiencies in the agency’s handling of public funds can also impact eligibility.

- Under Executive Order 2013-006, a government agency may be deemed “ineligible” to receive capital outlay funds if:
  
  - The agency fails to submit the required reports or certifications under the Audit Act and Audit Rule; or
  
  - The agency’s audit report or special audit report contains “material weaknesses” or “significant deficiencies;” or
  
  - The agency’s agreed-upon procedures report has findings related to accounting methods or procedures to expend grants.

- These funding decisions are made by granting agencies (either federal or state), NOT the State Auditor.
Potential Waiver of Audit Act Requirements for Certain Years

A local public body not in compliance with the Audit Act prior to July 1, 2010 is waived for those years if the local public body qualifies for and complies with the tiered system for the first reporting year during which the tiered system became effective (July 1, 2010).
Tips for Audit Act Compliance

- Ensure reporting requirements have been met
  - Determine reporting requirements; accurately complete the “Form for Determining Type of Reporting Requirements”
  - Verify all Tier Certifications turned in previously are complete and accurate
- Before submitting a contract for an engagement
  - Contact OSA to verify all prior year reporting requirements have been met
  - Compliance with all fiscal years beginning with 2010 is required (or later if later inception date)
- Confirm the Department of Finance & Administration - Local Government Division and other oversight bodies (ISC, NMFA, DOT etc.) have a copy of all approved Tier Certifications
The Audit Act’s Tiered System of Financial Reporting
The tiered system applies to “local public bodies” with certain annual revenues. A “local public body” is a land grant, acequia, mutual domestic water consumer association, special district or incorporated municipality.

- Does not apply to Schools, Higher Education, State Agencies, Counties, etc.

- The tiered system is based on annual revenues on a cash basis, excluding capital outlay appropriations and federal/private grants (2.2.2.16(A) NMAC).

- For the purpose of the tiered system, “capital outlay” is funding provided through capital appropriations of the New Mexico legislature.

- For the purpose of the tiered system, “private grant” means funding provided by a non-governmental entity.
Seven Tiers of Financial Reporting

- Tier 1 - Less than $10,000 in revenue
- Tier 2 - > $10,000 < $50,000 in revenue
- Tier 3 - < $50,000 in revenue and spends 50% or the remainder of a capital outlay award
- Tier 4 - > $50,000 < $250,000 in revenue and no capital outlay expenditures
- Tier 5 - > $50,000 < $250,000 in revenue plus any capital outlay expenditures
- Tier 6 - > $250,000 < $500,000 in revenue
- Tier 7 - > $500,000 in revenue (Tier System does not apply)
### Tier 1 Calculation Example

#### Example 1:
Local Public Body (LPB)

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Amount</th>
<th>Revenue Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Fees</td>
<td>$8,500</td>
<td>Water Fees</td>
<td>$8,500</td>
</tr>
<tr>
<td>Interest Income</td>
<td>685</td>
<td>Interest Income</td>
<td>685</td>
</tr>
<tr>
<td>Capital Outlay Revenue</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>$34,185</strong></td>
<td><strong>Total Revenue</strong></td>
<td><strong>$9,185</strong></td>
</tr>
</tbody>
</table>

LPB did not have capital outlay expenditures

LPB falls under Tier 1
(LPB has less than 10K in revenue and no qualifying capital outlay expenditures)

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Must submit a certification which includes the LPB’s revenue and check the box “did not spend 50% or the remainder of any capital outlay award.”
**Tier 2 Calculation Example**

Example 2:
Local Public Body (LPB)

<table>
<thead>
<tr>
<th>Total Cash Basis Revenue of LPB</th>
<th>Total Cash Basis Revenue used for determining Tier Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasing Fees</td>
<td>Leasing Fees</td>
</tr>
<tr>
<td>Interest Income</td>
<td>Interest Income</td>
</tr>
<tr>
<td>Federal Grant Revenue</td>
<td>Federal Grant Revenue</td>
</tr>
<tr>
<td></td>
<td>$ 16,000</td>
</tr>
<tr>
<td></td>
<td>$ 2,900</td>
</tr>
<tr>
<td>$ 120,000</td>
<td>$ 120,000</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>Total Revenue</strong></td>
</tr>
<tr>
<td>$ 138,900</td>
<td>$ 18,900</td>
</tr>
</tbody>
</table>

LPB did not have capital outlay expenditures

LPB falls under Tier 2
(LPB has 10K to 50K in revenue and no qualifying capital outlay expenditures)

Must submit a certification which includes the LPB’s revenue and check the box “has not received capital outlay award appropriated by the New Mexico Legislature.”
An engagement for the performance of Tier 3 Agreed-Upon Procedure (AUP) is required.
### Tier 4 Calculation Example

**Example 4:**
Local Public Body (LPB)

<table>
<thead>
<tr>
<th>Total Cash Basis Revenue of LPB</th>
<th>Total Cash Basis Revenue used for determining Tier Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for Services $185,000</td>
<td>Charges for Services $185,000</td>
</tr>
<tr>
<td>Interest Income 2,980</td>
<td>Interest Income 2,980</td>
</tr>
<tr>
<td>Sale of Asset 1,000</td>
<td>Sale of Asset 1,000</td>
</tr>
<tr>
<td>Capital Outlay Revenue 20,000</td>
<td></td>
</tr>
<tr>
<td>Federal Grant Revenue 85,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue $293,980</strong></td>
<td><strong>Total Revenue $188,980</strong></td>
</tr>
</tbody>
</table>

LPB did not have capital outlay expenditures

LPB falls under Tier 4
(LPB has more than 50K but less than 250K in revenue and no qualifying capital outlay expenditures)

At a minimum, an engagement to perform Tier 4 Agreed-Upon Procedures (AUP) is a requirement.
At a minimum, an engagement to perform a Tier 5 Agreed-Upon Procedure (AUP) is required.
Tier 6 Calculation Example

Example 6:
Local Public Body (LPB)

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Amount</th>
<th>Source of Revenue</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for Services</td>
<td>$350,000</td>
<td>Charges for Services</td>
<td>$350,000</td>
</tr>
<tr>
<td>Interest Income</td>
<td>$5,000</td>
<td>Interest Income</td>
<td>$5,000</td>
</tr>
<tr>
<td>Other</td>
<td>$1,000</td>
<td>Other</td>
<td>$1,000</td>
</tr>
<tr>
<td>Federal Grant Revenue</td>
<td>$250,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Cash Basis Revenue of LPB: $606,000

Total Cash Basis Revenue used for determining Tier Level: $356,000

LPB falls under Tier 6
(LPB has more than 250K but less than 500K in revenue)

At a minimum, an engagement to perform Tier 6 Agreed-Upon Procedures (AUP) and a compilation.
## Tier 7 Calculation Example

Example 7:
Local Public Body (LPB)

<table>
<thead>
<tr>
<th>Total Cash Basis Revenue of LPB</th>
<th>Total Cash Basis Revenue used for determining Tier Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Fees</td>
<td>$ 499,000</td>
</tr>
<tr>
<td>Sewer Fees</td>
<td>$ 52,448</td>
</tr>
<tr>
<td>Capital Outlay Revenue</td>
<td>150,000</td>
</tr>
<tr>
<td>Federal Grant Revenue</td>
<td>250,000</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>$ 951,448</strong></td>
</tr>
<tr>
<td><strong>Water Fees</strong></td>
<td><strong>$ 499,000</strong></td>
</tr>
<tr>
<td><strong>Sewer Fees</strong></td>
<td><strong>$ 52,448</strong></td>
</tr>
<tr>
<td><strong>Capital Outlay Revenue</strong></td>
<td><strong>150,000</strong></td>
</tr>
<tr>
<td><strong>Federal Grant Revenue</strong></td>
<td><strong>250,000</strong></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>$ 551,448</strong></td>
</tr>
</tbody>
</table>

LPB falls under Tier 7; financial and compliance audit is required (LPB has more than 500K in revenue)

A full financial and compliance audit is required, the Tier system does not apply.
Tier Certification Form (OSA-Connect)

- All tier certifications are submitted using OSA-Connect for fiscal year 2010 and onward.
  - Require internet access and an e-mail address
- Ensure the form is complete and funds are properly included or excluded in calculation
  - Include a year end date on each form
    - 12/31/20XX for calendar year end
    - 6/30/20XX for fiscal year end
- Include any state grants received and expended in the revenue calculation
  - Certain funds are of mixed composure
    Example: Water Trust Board Funds, FIMA, 90-10 ISC Grant - Contact the funding entity to identify what funds you have received and whether they should be included in the revenue calculation or excluded (loans, grants, etc)
State of New Mexico - Office of the State Auditor

Certification Form for Tier 1 and Tier 2

Name of Local Public Body:

Address of Local Public Body:

City: State: Zip Code:

Phone #: Fax #:

Local Public Body Contact Name:

E-Mail Address:

LPB Head:

Based on its total annual revenue and/or capital outlay expenditures, my local public body had the following total annual revenue for the fiscal year ended

Total annual revenue of my local public body, calculated on a cash basis, excluding capital outlay funds, federal and private grants is:

My local public body also:

. Did not expend 50% or the remainder of any capital outlay award appropriated by the New Mexico Legislature during the fiscal year

. Has not received a capital outlay award appropriated by the New Mexico Legislature.

Therefore, in accordance with the requirements of Section 12-6-3(B) NMSA 1978 and 2.2.2.16(C) NMAC, the local public body hereby certifies that it falls under the following tier for purposes of financial reporting to the State Auditor and it is not required to procure agreed upon procedures services pursuant to Section 12-6-3(B) NMSA 1978 and 2.2.2.16 NMAC:

. Tier 1 . Tier 2

The information above has been calculated in accordance with Section 12-6-3(B) NMSA 1978 and 2.2.2.16 NMAC, and is true and correct to the best of my knowledge and belief. I also hereby attest that I have the authority to certify the information submitted in this certification form on behalf of the local public body.

SIGNATURE

PRINTED NAME:

TITLE:

DATE:

Please return this form to:
Office of the State Auditor - 2540 Camino Edward Ciriza, Suite A, Santa Fe, NM 87507
The purpose of this form is for mutual domestic water consumer associations, land grants, incorporated municipalities and special districts to determine what type of audit services they need under the law.

2010 through 2018 Agreed-Upon Procedures for Tiers 3 through 6

- Tier 3 Agreed-Upon Procedure
- Tier 4 Agreed-Upon Procedure
- Tier 5 Agreed-Upon Procedure
- Tier 6 Agreed-Upon Procedure

Note: All Agreed-Upon Procedures for Tiers 3 through 6 are included in each agency’s contract through the OSA-Connect Portal. Please refer to the last pages of the contract.

The procedures for all agreed-upon procedure engagements have changed as a result of changes that the AICPA made to attestation standards. These new standards are effective for all reports issued on or after May 1, 2017, regardless of the fiscal year being reviewed. Because these are changes to the standards, they are mandatory and cannot be waived or altered by the Office of the State Auditor.

The Office of the State Auditor is not requiring contract amendments for AUP contracts already in place that are affected by this change to standards, but all IPAs must perform and issue reports in accordance with the new procedures regardless of which procedures were attached to the contract. Any agency or IPA that wishes to amend a contract to reflect the changes in procedures may use this form of amendment, which should attach the appropriate set of procedures from above.

Tiers 3 through 6 Amendment Template

- Tier Procedures Amendment

Certification Form for Tiers 1 and 2

Note: All Certifications for Tier 1 and 2 will be completed on-line. Please contact our office for login information.
Delivery of AUP Reports to OSA

- 2.2.2.16(G)(1) - Report & Certification Due Dates

<table>
<thead>
<tr>
<th>LPB’s Fiscal Year End</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2019</td>
<td>December 15, 2019</td>
</tr>
<tr>
<td>Other year end than June 30</td>
<td>Due 5 months after LPB’s fiscal year end</td>
</tr>
</tbody>
</table>

- Contracts are due July 30 (June 30 fiscal year end) or 30 days after end of fiscal year (other than June 30 fiscal year end)

- If the due date falls on a weekend or holiday or our office is closed due to weather, due date will be the next business day by 5 p.m.

- Mailed reports must be postmarked no later than due date to be considered received timely.
  
  - If the due date falls on a weekend or holiday, the audit report should be postmarked by the following business day.

- The State Auditor cannot grant extensions of the regulatory due date.
Confidentiality
2.2.2.16(G)(3) NMAC

- State law requires certain information related to the engagement be kept confidential.
- Local public body personnel shall not release information to the public relating to the agreed upon procedures engagement until the report is released and has become a public record pursuant to the Audit Act (Section 12-6-5 NMSA 1978).
- At all times during the engagement and after the agreed upon procedures report becomes a public record, the IPA shall follow applicable standards and 2.2.2 NMAC regarding the release of any information relating to the agreed upon procedures engagement.
The State Auditor still retains authority under the Audit Act to audit the financial affairs and transactions of a local public body in whole or in part, regardless of whether the local public body qualifies for the tiered system of financial reporting.

The State Auditor may perform the audit or designate the local public body for audit or other type of engagement.

Oversight agencies and external obligations (debt covenants, etc.) may require the local public body to receive an audit.
**Federal Audit Requirements - Single Audit 2.2.2.16(B)(8) NMAC**

- If the local public body expended $750,000 or more of federal funds for fiscal years ending FY16 and after, the agency is subject to a federal single audit during the fiscal year and must procure a Single Audit in accordance with 2.2.2.8 NMAC.
  - December 26, 2014 the Federal guidance changed to the Uniform Grant Guidance
  - The threshold is $500,000 or more of federal funds for fiscal years ending FY15 and earlier
- This requirement applies regardless of the amount of the local public body’s annual revenue under the Tier System.
- Make sure and check the source of all funding your local public body receives in order to ensure compliance with all financial reporting requirements applicable to that funding source.
Auditor Independence 2.2.2.16(J) and 2.2.2.8(L)(1) NMAC

- IPAs that perform AUP engagements under the Tiered System must maintain independence in mind and appearance in all matters relating to the engagement.

- An IPA who performs the local public body’s AUP engagement shall not enter into any special audit or non-audit service contract with that local public body without the prior written approval of the State Auditor.
The IPA will hold an entrance conference and an exit conference with the local public body unless the IPA has submitted a written request to the Office for an exemption from this requirement and has obtained written approval of the exemption from the Office.
Contracting for Services Under the Tiered System
1. Agency gets quotes or goes through RFP process.
2. Agency enters all information in OSA-Connect.
3. Agency reviews and sends draft contract to OSA through OSA-Connect.
   - Do not obtain signatures before OSA approval.
   - Do not send hard copy contracts to OSA.
4. Draft contract goes through a three step review and approval process.
Basic Overview of the Contract Approval Process (Cont.)

5. If contract is approved, OSA sends Agency a letter of approval by email.
   - OSA will not sign contracts.

6. If contract is rejected, OSA sends Agency a letter of rejection by email, and Agency must start a new contract on OSA-Connect.

7. After OSA approval, Agency gets signatures, any DFA or oversight approval, and sends PDF of final, signed contract to OSA by email.
   - OSA will not send contract to DFA.
   - Agencies requiring DFA approval must send OSA approval letter with contract.
   - Do not send paper contracts to OSA.
OSA-Connect Login Screen
www.osa-app.org
Small Political Subdivision (SPS) Funding
SPS Funding - Criteria

- Financial assistance granted by OSA to help with reporting requirements under the Audit Act 12-6-1 through 12-6-14 NMSA 1978.
  - Agreed-upon Procedures (AUPs)
  - Full Financial and Compliance Audits
- Who Qualifies?
  - Acequias
  - Mutual Domestic Water Consumer Associations
  - Land Grants
  - Certain Municipalities and Special Districts
  - Water and Sanitation Districts
SPS Funding - Criteria

- Financial Assistance Determination
  - Financial need or hardship associated with completing either an audit report or AUP report.
  - Whether noncompliance with the financial reporting requirements adversely impacts funding eligibility.
SPS Funding - Dates

- Priority deadline September 3 in FY20
  - Advertised on OSA Website

- NOTE
  - Not all entities that apply receive assistance
  - Budget Constraints
    - Funding available for FY 19 was $20,000
    - Funding available for FY 20 is $100,000
  - If awarded funding please make sure and complete the procurement process as soon as possible
Contact Information

Chantal.Montano@osa.state.nm.us

Phone: 505-476-3833