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State Among 44 New Mexico Governments With Audit Shortcomings

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DALLAS - The New Mexico state government and 43 other government entities there failed to file audited financial statements by the fiscal year 2014 deadline, earning them a place on State Auditor Tim Keller's "[At Risk](#)" report.

Of those listed, 13 taxing entities, including the state, are multiple years behind on their audits, he said.

"The public rightly expects the timely completion of audits to ensure our tax dollars are used appropriately," Keller said in a statement accompanying the report. "The 'At Risk' program helps deliver transparency and accountability when it comes to accounting for our tax dollars."

Annual audits remain a chronic problem for the state.

The independent auditing firm of CliftonLarsonAllen could offer no opinion on the state's comprehensive annual financial report for fiscal year 2013. The fiscal year 2012 CAFR was not audited at all, according to CliftonLarsonAllen's letter attached to the 2013 CAFR.

The fiscal year 2014 CAFR was released late and did not receive a clean audit, with several deficiencies listed.

The auditors listed eight issues for FY 2013 that prevented an opinion on the financial statement, including the finding that "the State lacks adequate controls and processes to properly consolidate all of the financial information for each audited component of the State into the financial statements in accordance with U.S. GAAP [generally accepted accounting practices]."

Auditors also reported that the state has not "identified and evaluated and/or disclosed all subsequent events and potential contingencies at the component or statewide level."

Despite the accounting problems, New Mexico is rated Aaa by Moody's Investors Service and AA-plus by Standard & Poor's.

Standard & Poor's revised its outlook to negative from stable ahead of New Mexico's competitive sale of \$150 million of general obligation bonds Feb. 17.

The agency cited a weakening economy due to falling oil prices but also noted "recent findings in the state's audited comprehensive annual financial report."

"We understand the state is in the process of analyzing historical transactions before February 2013 as part of its cash management remediation initiative and that officials expect full implementation of new software that will automate compilation of information into the state's financial accounting system by the end of fiscal 2015," S&P analyst Sussan Corson wrote.

New Mexico has set aside \$101 million of its fund balance as a contingency for uncertainty related to the future result of the remediation effort, Corson said.

"Should the state correct its processes in the next two years to provide confirmed reserve and cash balance levels in line with current estimates, we could revise the outlook back to stable," Corson said. "However, should material weaknesses in internal controls persist or if New Mexico were to significantly restate its reserve or cash position below historically good levels, we could lower the rating."

Moody's noted the accounting problems but maintained its stable outlook on the state's \$398 million of outstanding general obligation debt.

The state's financial reporting "has numerous weaknesses and is not characteristic of Aaa-rated issuers," analyst Kenneth Kurtz wrote.

Historically, the state's CAFRs were not audited but simply "reviewed," a substantially lower standard of verification, Kurtz wrote.

"The state is committed to a number of initiatives to eliminate the findings and improve the timeliness of the CAFR," Kurtz wrote. "It has also established a \$100 million reserve to cover adjustments necessary to resolve the cash reconciliation discrepancies. Moody's expects that the state will make continued improvement in its financial reporting."

The audit confusion comes on the heels of a major scandal in which the New Mexico Finance Authority issued a fake audit for fiscal year 2011. The audit was uploaded to the Municipal Securities Rulemaking Board and used in a bond sale in 2012.

The phony audit carried the name of one of CliftonLarsonAllen's pre-merger firms, but the auditors said they were unaware that the agency was simply posting the previous year's audit.

A subsequent investigation by the New Mexico Securities Agency found that the New Mexico Finance Authority "over-emphasized and under-prioritized the importance of bond credit ratings," in a "culture of complacency" that led to the fraudulent audit.

NMFA "operated on the presumption that the audit was a process that required little if any input from senior management, the Audit Committee or the Board," according to the investigators.

Other governments and agencies on Keller's "At Risk" list are the Public Education Department, the State Fair, and the cities of Raton, Grants and Espanola.

Keller's predecessor in the State Auditor's Office, Hector Balderas, cited New Mexico's most populous county for "serious abuses of public resources and violations of state law at the Bernalillo County Treasurer's Office." Bernalillo County includes the state's largest city of Albuquerque.

Keller won the auditor's office in the November 2014 election, in which Balderas was elected the state's attorney general.

In a November 2014 report, auditors found more than \$900 million in county investment purchases that "may not have been in the best interest of the county," according to Balderas. The report also noted that preferential treatment was given to certain brokers during the elected county treasurer's purchase of investments during fiscal years 2011 through 2013.

The special audit also revealed troubling abuses of county resources, including former County Treasurer Patrick Padilla's use of a county employee to run personal errands for Padilla's private business and family.

"I am deeply concerned that public officials who are entrusted with the investment of public funds violated their fiduciary duties," Balderas said in a statement that came with the audit. "These violations of law and clear abuses of taxpayer resources are unacceptable," he added.

Balderas designated the Bernalillo County Treasurer's Office for a special audit in November 2013 after finding "significant risks to county funds in connection with investment practices."

The special audit was performed by Moss Adams LLP, the independent audit firm selected by the county and approved by the state auditor. The auditors found "material weaknesses, significant deficiencies and compliance matters."

Padilla's purchase of a zero coupon bond for \$5 million raised concerns because the bonds do not pay interest during the life of the bond, causing prices to fluctuate more than other types in the secondary market, the audit noted.

Auditors also obtained evidence that Padilla contacted brokers to contribute to his golf tournament and may have given preference of county investment purchases to the investors who sponsored the tournament. Padilla ran a 501(c)(3) organization that annually organized golf tournaments in order to raise money for upcoming elections.

Padilla maintained county investment records and files at an off-site location as well, the report said.

Despite those findings, Bernalillo County retained its triple-A ratings and stable outlooks from Standard & Poor's and Moody's when it went to market with \$27.9 million of GO bonds on Feb. 17.

S&P analysts noted an 8% budget deficit in fiscal year 2014 and plans to spend down reserve funds for infrastructure, but still described the county's management as "very strong."

Moody's analyst John Nichols acknowledged "weak internal controls," and said that the county's rating could be affected if those "persist after implementation of a new investment policy."

While the county of Bernalillo retains its top ratings, the tiny town of Bernalillo in Sandoval County is in danger of losing its Standard & Poor's credit rating for failure to report its financial condition.

In a Feb. 20 report, S&P placed the town's A-plus rating on its 2008 sales tax revenue bonds on CreditWatch.

"Failure to receive the requested information by May 17, 2015 will likely result in the

suspension of the affected rating," analysts warned.



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