



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

September 1, 2010

Katherine B. Miller, Cabinet Secretary
Dannette K. Burch, Deputy Cabinet Secretary
Department of Finance and Administration
407 Galisteo Street
Santa Fe, NM 87501

Re: Office of the State Auditor Budget Request – Fiscal Year 2012

Dear Secretary Miller and Deputy Cabinet Secretary Burch:

Enclosed for your review is the Office of the State Auditor's (OSA) budget appropriation request for fiscal year 2012. Respectfully, our request reflects an approach which is necessary to prevent a severe fiscal crisis at the OSA during fiscal years 2012 and 2013 and beyond.

I appreciated the opportunity to meet with Governor Richardson and Deputy Secretary Burch on August 20, 2010 to discuss my agency's impending budget situation. As we discussed, the OSA's budget historically has been funded from three different sources: (1) general fund appropriation, (2) audit fees generated by the Office and (3) a portion of the unexpended balance in the OSA's Audit Fund. As I mentioned during our meeting, the OSA's Audit Fund, which the OSA has been required to rely more heavily on by the Legislature in recent years, will be depleted during fiscal year 2012. During the 2009 legislative session the OSA's general fund appropriation for its fiscal year 2010 budget was reduced by approximately 14% or \$393,500. At the same time, the Legislature required my office to increase the use of its Audit Fund from \$217,400 to \$418,100. This level of usage of the Audit Fund was also mandated during the 2010 legislative session for its fiscal year 2011 budget. Now that we are approaching submission of our 2012 budget, the OSA will not have the \$418,100 in its Audit Fund to rely on for sustainability. What remains in the Audit Fund is half that amount, which will leave my office in an approximate \$200,000 deficit. As a result, the OSA, in its budget submission, requests a larger appropriation from the general fund to cover the approximate \$200,000 deficiency the OSA will have once the Audit Fund runs out during fiscal year 2012.

The OSA is sensitive to New Mexico's current economic situation. Accordingly, our budget request represents an overall flat budget. If the increase in appropriation from the

2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507

Toll Free 1-800-432-5517

Local (505) 476-3800 • Fax (505) 827-3512

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general fund is granted, the OSA will be in the same financial position all other state agencies have been directed to request: a flat budget minus the recent 3.2% reduction.

If the OSA does not receive assistance to remedy its deficit situation, the imminent fiscal crisis will damage the State Auditor's constitutional and statutory independent audit functions, including performing annual financial audits, conducting comprehensive reviews of government agency financial audit reports, and regulating independent public accountants who contract with the state. Moreover, the OSA will not be able to execute its fiscal oversight function related to targeting severe mismanagement of government funds and acts of financial fraud, waste and abuse. I provided testimony to the Legislative Finance Committee in August regarding the progress of my initiatives designed to identify and address problems that contribute to high risk environments and place public funds in jeopardy. Additionally, the OSA continues to dedicate available resources to conduct special audits, such as the special audit of the Jemez Mountain School District which found that over \$3.3 million was embezzled by the District's former business manager. However, these valuable functions and services may no longer be available to New Mexico's citizens in the future if the OSA's budget situation is not remedied.

My office welcomes any suggestions you may have to remedy this crisis, and I look forward to working with you to avert our predicament and strengthen the vital functions of the State Auditor – ensuring fiscal accountability and transparency for the citizens of New Mexico.

Thank you for careful consideration of the OSA's budget submission for fiscal year 2012.

Sincerely,

A handwritten signature in black ink, appearing to read "Hector H. Balderas". The signature is stylized and cursive, with a long horizontal flourish extending to the right.

Hector H. Balderas
State Auditor

cc: Marilyn A. McKnight, Executive Analyst, Department of Finance and Administration

Enclosure