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FISCAL IMPACT REPORT

ORIGINAL DATE 01/27/10
 LAST UPDATED 02/10/10 HB _____

SPONSOR Nava

SHORT TITLE Study School District Finances & Operations SJM 24/aSRC

ANALYST Pava

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY10	FY11		
	NFI	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of Education Accountability (OEA)
 Public Education Department (PED)
 Office of State Auditor (OSA)

SUMMARY

Synopsis of SRC Amendment

The amendment by the Senate Rules Committee for Senate Joint Memorial 24 changes the word “collaboration” to “consultation” on page 1, line 12, and page 3, line 17. It strikes line 13 through 17, page 2, stating ~~“reviews have found that several agencies, ..., must strengthen their oversight of public school finances.”~~

Synopsis of Original Bill

Senate Joint Memorial 24 requests the OEA, in collaboration with the OSA and the PED to convene a work group to examine the public school district finance systems and operations; its statutory powers and legal concepts; the ability of school districts and state agencies to oversee school district finance systems; and the training of governing bodies and school finance personnel concerning the systemic safeguards against fraud, waste, abuse.

This workgroup would present a work plan 5/30/10, 11 days after the memorial would go into effect 5/19/10 and make recommendations to the Legislative Education Study Committee, Legislative Finance Committee and the Governor by 10/30/10.

FISCAL IMPLICATIONS

There is no appropriation or fiscal impact.

SIGNIFICANT ISSUES

News headlines have reported financial irregularities and embezzlement in a NM school district after they had received an unqualified opinion from an independent CPA auditing firm. PED has reported several districts late with their audits, and the Legislative Finance Committee of several school districts found their financial systems often lacked sufficient oversight, planning and management. Given the state's fiscal crisis, identifying areas of waste and misuse of public school funding, one of the state's largest overall investments, becomes especially important.

PERFORMANCE IMPLICATIONS

It would be prudent to give the work group additional time to meet and move the due date for the final report to November to allow the committee sufficient time to develop recommendations.

OSA notes: Staff members with expertise in the subject area of the work group will have to be redirected from assigned tasks within OSA to work group tasks. Accordingly, given the OSA's current budget constraints and limited staff, as well as the broad scope of the work group's charge under SJM 24, this may impact other statutory and administrative functions of the OSA related to conducting financial audits, administering the financial audit process for over 600 government agencies, and conducting special audits related to financial fraud, waste and abuse.

ADMINISTRATIVE IMPLICATIONS

A work group can be convened with existing PED and OEA staff.

TECHNICAL ISSUES

OSA indicates:

The task assigned to the work group applies to all school districts, charter schools and oversight agencies in the state. The following concerns were noted given the general, broad scope:

Page 3, lines 15-24 and page 4, lines 1-4, states that the office of education, in collaboration with the state auditor and public education department, convene a work group to examine **current public school finance policies and practice**; statutory powers and duties of local school boards and state agencies vis-à-vis public school finance; **legal concepts** pertaining to public schools, finance and budget; **the ability and capacity of school districts and state agencies to manage and oversee school district financial systems**; training requirements; and **systematic safeguards against fraud, waste and abuse**.

SJM 24 **generally** advises the work group to examine "current public school finance policies and practice," "the ability and capacity of school districts...to manage and oversee school district financial systems" and "systematic safeguards against fraud, waste and abuse." This language appears to direct the work group to examine these operations and issues in all of the school districts and charter schools in the state. This is a considerable task that the work group would not be able to perform with the given time

and resources allotted. However, the work group could examine the adequacy of relevant state laws and regulations issued by PED and other oversight agencies that are applicable to all school districts and charter schools. SJM 24 should clarify the scope of the work group's examination or state that the work group is not required to examine the operations of all school districts and charter schools in the state.

Also, the language states the work group should examine "legal concepts pertaining to public schools, finance and budget." The term "legal concepts" is general and the scope of this examination should be clarified.

Lines 11-13 on p. 4 states: "... the work group should hold an organizational meeting and present an interim work plan to the legislative education study committee by May 30, 2010." Given the scope of the work, it may take more than one meeting to develop an interim work plan.

OTHER SUBSTANTIVE ISSUES

OSA indicates:

Page 2, lines 13-17, SJM 24 states "the reviews have found that several agencies, including the state auditor...must strengthen their oversight of public school finances."

In accordance with the Audit Act, Sections 12-6-1 through 12-6-14 NMSA 1978, the OSA annually meets its oversight responsibilities, including performing annual audits of all school districts and charter schools; reviews of the annual audit reports; performing special audits; education and training of government agencies; and, within the limits of its jurisdiction, investigating financial fraud, waste and abuse in government.

The OSA has worked to strengthen its oversight of public school finances through the implementation of an at-risk designation program to monitor outstanding audit reports and agencies that are determined to be at-risk of financial mismanagement and occupational fraud.

The OSA also has held training sessions and consultations with school officials on the audit requirements, contracting with auditors, generally accepted accounting principles, internal controls over financial reporting, the safeguarding of assets, compliance with laws, regulations, contracts and grant agreements, the prevention and detection of occupational fraud, and the waste and abuse of public funds and assets.

The OSA looks forward to continuing this work in the work group if this legislation were to pass.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Internal control weaknesses, noncompliance, financial reporting errors, late audits, lack of audit reports, occupational fraud, and the waste and abuse of public resources may not be addressed and minimized in certain school districts and charter schools. The OSA supports measures that work to strengthen financial accountability, prevent fraud, waste and abuse, and ensure timely audits of government agencies, including school districts.