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December 13, 2010

**MEMORANDUM**

**TO:** Legislative Education Study Committee

**FR:** Eilani Gerstner

**RE: STAFF REPORT: LESC SCHOOL FINANCE WORK GROUP:  
FINAL REPORT**

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During the 2010 legislative session the Legislative Education Study Committee (LESC) endorsed SJM 24, *Study School District Finances & Operations*, requesting that the Office of Education Accountability, in collaboration with the Public Education Department (PED) and in consultation with the Office of the State Auditor (OSA), form a work group to examine public school finance issues.

Although the joint memorial did not pass, in keeping with the LESC's focus on public school finances during the 2010 interim, the LESC requested that an LESC work group be formed and that updates on the progress of the work group be provided at each interim meeting, with a final report to the LESC in December 2010. At the June 2010 interim meeting of the LESC, the committee approved the objective, activities, and membership of the LESC School Finance Work Group. Since then, the work group has met four times to consider its objective and activities.

At the November 12, 2010 meeting, the work group discussed and, through general consensus, approved the following recommendations to the LESC. This final report includes the recommendations of the work group in two attachments:

- Attachment A describes legislation, a memorial, and letters recommended by the group; and
- Attachment B describes the status of the revision of PED's *Public School Accounting and Budgeting Manual of Procedures*.

Finally, two more attachments describe the objective and activities (Attachment C) and the membership (Attachment D) of the work group.

## Recommendations of the LESC School Finance Work Group

### Legislation

1. Amend the *Audit Act* to remove the requirement that the Public Education Department (PED) approve the selection of an independent auditor by a school district.
2. Amend the *School Personnel Act* to require PED to:
  - provide by rule for licensure of school business officials (SBOs), including initial and continuing licensure, competencies, ethics and reporting requirements, and a savings clause;
  - track the denial, suspension, or revocation of SBO licenses and determine if these actions occur in a timely manner;
  - assess the quality of and enforcement of training requirements for SBO licensure; and
  - require mandatory training for superintendents on the evaluation of SBOs, including training in the assessment of SBO competencies.
3. Amend provisions in the *Public School Code* relating to local school board members and charter school governing body members to require 10 hours of mandatory training, and provide sanctions for members who fail to complete the mandatory training.

#### Possible sanctions:

- prohibiting members who fail to complete training from serving a subsequent term (discussed by the work group);
  - requiring independent auditors to cite a members' non-compliance with the training requirement as a finding on the audit report of the entity (recommended by the New Mexico School Boards Association); or
  - require PED to publish the names of school board members and charter school governing body members who do not complete the training (recommended by staff).
4. Amend the *School Personnel Act* to add “financial malfeasance or misfeasance” to the definition of “ethical misconduct” in current law. In addition, change from 90 days to 30 days the timeframe in which PED must serve an employee with the department’s notice of contemplative action.

## Language

5. Include language in the *General Appropriation Act* to transfer the positions (six) in the Office of Inspector General at PED to the Office of the State Auditor for education-related reviews.

## Memorial

6. Introduce a joint memorial requesting that PED, in collaboration with the Office of Education Accountability, Regional Education Cooperatives, Cooperative Educational Services, and other stakeholders to examine the feasibility of the consolidation of certain business services for small school districts, such as payroll, legal services, human resources, and federal program management; and provide a report to the LESC during the 2011 interim.

## Letters

7. Write a letter to the Office of the State Auditor (OSA) requesting that OSA investigate:
  - whether the state audit rule could be amended to allow certain school districts to submit their financial audits on December 15, rather than on November 15; and
  - the feasibility of allowing locally and state-chartered charter schools to have a separate audit from their authorizers.
8. Write a letter to PED from the Legislative Education Study Committee (LESC) requesting that PED include confirmation on the school budget questionnaire that school districts and charter schools have established SBO succession planning as part of the internal control process.
9. Write a letter to the New Mexico Association of School Business Officials (NMASBO) from the LESC requesting that NMASBO develop courses that count toward required annual Certified Public Accountant (CPA) training.

## Other

Among its recommendations, the work group also requested \$50,000 from the New Mexico Public Schools Insurance Authority to hire one or more contractors to revise the PED's *Public School Accounting and Budgeting Manual of Procedures*.

December 13, 2010

**MEMORANDUM**

**TO:** Legislative Education Study Committee

**FR:** Craig J. Johnson

**RE: REVISION OF THE PUBLIC SCHOOL ACCOUNTING AND BUDGETING  
MANUAL OF PROCEDURES: UPDATE**

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For the 2010 interim, the Legislative Education Study Committee (LESC) established the School Finance Work Group to evaluate the adequacy and effectiveness of New Mexico's laws and regulations relating to public school finance. Among its interim work activities, the work group reviewed the *Public School Accounting and Budgeting Manual of Procedures* (Manual); determined that many of the 22 sections of the manual had not been updated since the 1990s; and agreed that updating the manual would be an extensive project best assigned to an expert in school business management who had worked in the public schools.

Below is a timeline of actions taken to update the manual.

- ∅ In July, the work group agreed to request \$50,000 from the New Mexico Public Schools Insurance Authority (NMPSIA) to hire one or more contractors to revise the manual.
- ∅ On August 4, 2010, the LESG Director sent a letter to the NMPSIA board on behalf of the work group requesting the funds.
- ∅ At the August 5, 2010 NMPSIA board meeting, the board approved the request.

- Ø At its October 1, 2010, the work group approved a scope of work drafted by LESC staff.
- Ø During October, work group members and LESC staff solicited proposals from qualified and interested professionals.
- Ø On November, 12, the LESC School Finance Work Group reviewed the three proposals received and selected Team S&S, Caron Snow and Leslie Smith, as the contractors to complete the revision of the manual.
- Ø In late November, NMPSIA and PED signed an Intergovernmental Agreement (IGA) directing the transfer of funds, which is required by the Department of Finance and Administration to complete the operating transfer of \$50,000 from NMPSIA to the Public Education Department (PED).
- Ø Currently, PED staff is reviewing a draft contract. Once the contract review process at PED is completed, PED staff will meet with the contractors to begin work on the project.

The updated manual will serve as a guiding document to assist all school districts and charter schools to understand and comply with applicable laws and current financial reporting requirements. The revised manual will further help to strengthen internal controls and reduce waste, fraud, and abuse. The original plan envisioned having the updated manual completed by March 2011, in time for the PED school budget workshop in the spring of 2011.

**APPROVED OBJECTIVE & ACTIVITIES  
OF THE  
LESC SCHOOL FINANCE WORK GROUP**

**Objective:** To evaluate the adequacy and effectiveness of New Mexico's laws and regulations relating to public school finance, including the financial capacity and controls of school districts and charter schools statewide.

**Activities:** The LESC School Finance Work Group will review the following areas with regard to public school finance to determine whether policy changes may be needed.

- **Laws, rules, and policies:** review laws, rules, and policies governing school finance, including the implementation of two provisions effective in 2010 that:
  - Ø require local school boards and charter school governing bodies to create finance subcommittees and audit committees (Laws 2010, Chapter 115), effective May 19, 2010; and
  - Ø allow the Public Education Department to impose sanctions for failure of school districts or charter schools to submit timely audits to the State Auditor, including withholding up to 7.0 percent of a school district's or charter school's State Equalization Guarantee distribution and suspending the board of finance [Section 22-8-13.1 NMSA 1978], effective July 1, 2010.

The work group will also investigate whether the tiered audit process for local public bodies, effective July 1, 2010 [Section 22-6-3 NMSA 1978] or a similar tiered audit process may be appropriate for public schools.

- **Licensing and training:** review current licensing and training requirements for school business officials and current training offered for boards of finance.
- **Availability of resources:** investigate the availability of qualified school business officials and independent auditors with a focus on the needs of small, rural school districts.
- **Internal controls:** examine the internal financial controls within school districts and charter schools, including segregation of duties and the bank reconciliation process.
- **Capacity:** examine the supply and demand of school business officials, including the capacity of institutions of higher education to train future school business officials.

Finally, a survey of boards of finance, school districts, and charter schools may be necessary to gather data on these issues.

The work group will present its findings and recommendations for changes to statute, regulation, or practice to the LESC at the December 2010 LESC meeting.

**APPROVED MEMBERSHIP  
OF THE  
LESC SCHOOL FINANCE WORK GROUP**

- **Office of the State Auditor:**
  - Ø Steve Archibeque, Senior Audit Manager
  - Ø Antonio Corrales, Chief of Staff
- **Legislature:**
  - Ø Senator Cynthia Nava
  - Ø Representative Jimmie C. Hall
  - Ø Representative Rhonda S. King
- **NM School Boards Association:**
  - Ø Ramon Montaña, President
  - Ø Joe Guillen, Executive Director
- **School Board Members:**
  - Ø Randy Manning, Central Consolidated Schools
  - Ø David Robbins, Albuquerque Public Schools
- **NM Coalition of School Administrators:**
  - Ø Tom Sullivan, Executive Director
- **Superintendents:**
  - Ø Stan Rounds, Las Cruces Public Schools
  - Ø Adan Delgado, Pojoaque Valley Public Schools
- **School District Business Officials:**
  - Ø Don Moya, Chief Financial Officer, Albuquerque Public Schools
  - Ø Steve Suggs, Chief Financial Officer, Gadsden Independent Schools
  - Ø Sandra Heinsohn, Business Manager, Quemado Independent Schools
- **NM Coalition for Charter Schools:**
  - Ø Michael Vigil, Chief Financial Officer
  - Ø Rick Rios, Chief Performance Officer
- **Charter School Business Officials:**
  - Ø Stan Albright, The Montessori Elementary School
  - Ø Randy Freeman, Turquoise Trail Charter School
- **Independent auditor:**
  - Ø Juan J. (J.J.) Griego, Griego Professional Services, LLC
- **Finance/fraud experts from universities and colleges:**
  - Ø Richard Brody, Professor, Anderson School of Management, University of New Mexico
  - Ø Norman Colter, Lecturer, Anderson School of Management, University of New Mexico

- **NM Association of School Business Officials:**
  - Ø James Murdock, Associate Superintendent of Finance, Silver Consolidated Schools
- **Regional Education Cooperatives (RECs):**
  - Ø Cathy Jones, REC IX
- **Public Education Department:**
  - Ø Steve Burrell, Interim Deputy Secretary for Finance & Operations
  - Ø Phil Baca, Program Manager, Professional Licensure Bureau
- **Governor's Office:**
  - Ø Peter Winograd, Education Policy Advisor
- **Department of Finance & Administration:**
  - Ø Scott Hughes, Director, Office of Education Accountability
  - Ø Michael Marcelli, Executive Analyst, State Budget Division
- **Legislative Finance Committee staff:**
  - Ø Rachel Gudgel, Public Education Analyst
- **Legislative Education Study Committee staff:**
  - Ø Eilani Gerstner, Fiscal Analyst and work group coordinator
  - Ø Craig J. Johnson, Fiscal Analyst