

STATE OF NEW MEXICO
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State Capitol North, 325 Don Gaspar, Suite 200
Santa Fe, New Mexico 87501
Phone: (505) 986-4591 Fax: (505) 986-4338
<http://lesc.nmlegis.gov>

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June 15, 2010

MEMORANDUM

TO: Legislative Education Study Committee

FR: Ms. Eilani Gerstner

**RE: STAFF REPORT: SCHOOL FINANCE ISSUES: LESC SCHOOL FINANCE
WORK GROUP: PRELIMINARY REPORT**

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 both chambers, in keeping with the LESC's focus on public school finances during the 2010 interim, the LESC has requested that an LESC work group be formed and that updates on the progress of the work group be provided at each interim meeting.

This staff report provides recommendations for membership of the LESC School Finance Work Group as well as the objective and activities of the work group – all subject to committee approval:

- Attachment 1 includes a list of proposed work group members; and
- Attachment 2 includes the proposed objective and activities of the work group.

Background

Recent news stories have given press to alleged – and confirmed – cases of financial fraud, waste, and abuse committed by public school officials. Some school districts in which the alleged misuses were committed had been several years late in submitting statutorily required audits to the OSA.

In the 2009 and 2010 regular legislative sessions, legislation was enacted to improve the submission of timely audits and to improve school board and charter school governing body oversight over public school finances:

- in 2009, legislation was enacted allow PED 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; and
- in 2010, legislation was enacted require local school boards and charter school governing bodies to create finance subcommittees and audit committees (Laws 2010, Chapter 115), effective May 19, 2010 (the LESC is also receiving a report on the implementation of this legislation at the June 2010 interim meeting).

Laws and rules already in place governing public school finance include provisions in the *Public School Finance Act* and the *Audit Act*. As noted in Attachment 2, the proposed activities for the LESC School Finance Work Group include a review of current laws and rules affecting public school finance, including the implementation of laws effective in 2010.

Presenter

Mr. Steve Archibeque, Audit Manager, OSA, will provide the committee with an overview of the purposes of annual audits, school boards' roles as boards of finance, and the detection of fraud, waste, and abuse.

**PROPOSED MEMBERSHIP
FOR THE
LESC PUBLIC SCHOOL FINANCE WORK GROUP**

- **Office of the State Auditor:**
 - Steve Archibeque, Audit Manager
 - Antonio Corrales, Chief of Staff
- **Legislature:** Representative Jimmie C. Hall
- **NM School Boards Association:** Joe Guillen, Executive Director
- **NM Coalition of School Administrators:** Tom Sullivan, Executive Director
- **NM Coalition for Charter Schools:** Lisa Grover, Director
- **Independent auditor:** Juan J. (J.J.) Griego, Griego Professional Services, LLC
- **Public Education Department:**
 - Steve Burrell, Interim Deputy Secretary for Finance (*position effective FY 11*)
 - Mary Rose CdeBaca, Assistant Secretary for Educator Quality
 - Phil Baca, Program Manager, Professional Licensure Bureau
- **Governor's Office:** Peter Winograd, Education Policy Advisor
- **School Business Official:**
 - Don Moya, Chief Financial Officer, Albuquerque Public Schools (*position effective FY 11*)
 - Steve Suggs, Chief Financial Officer, Gadsden Independent Schools
- **Office of Education Accountability:** Scott Hughes, Director
- **Finance/fraud experts from universities and colleges:**
 - Richard Brody, Professor, Anderson School of Management, University of New Mexico
 - Representative from New Mexico State University to be determined
- **NM Association of School Business Officials:** to be determined (awaiting response from ASBO)
- **Legislative Finance Committee staff:** Rachel Gudgel, Public Education Analyst
- **Legislative Education Study Committee staff:** Eilani Gerstner, Fiscal Analyst and work group coordinator

PROPOSED OBJECTIVE & PROPOSED ACTIVITIES FOR 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:
 - 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
 - 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.