

**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: IMPLEMENTATION OF CS/HB 227 & 251, SCHOOL BOARD FINANCE & AUDIT COMMITTEES**

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During the 2010 legislative session the Legislative Education Study Committee (LESC) endorsed a measure to require each local school board to appoint a finance committee to assist the board in carrying out its budget and finance duties. During the session, a similar measure was also introduced. The House Education Committee tabled both bills and instead created CS/HB 227 & 251 (see Attachment 1), which was enacted, creating a new section of the *Public School Code*, effective May 19, 2010.

CS/HB 227 & 251 requires each local school board and charter school governing authority to appoint a finance subcommittee and an audit committee:

- the finance subcommittee shall, among other duties, make recommendations regarding financial planning, review of financial statements, monitoring of revenues and expenses, annual budget preparation and oversight, and procurement; and
- the audit committee shall monitor and participate in financial audits, by, among other duties: evaluating the request for proposals for annual financial and audit services; recommending the selection of the financial auditor; attending the entrance and exit

conference for annual and special audits; and tracking and reporting progress on the status of the most recent audit findings.

This report on the implementation of CS/HB 227 & 251 addresses how the Public Education Department (PED) is implementing these provisions, including how the department is communicating these new requirements to school districts and charter schools.

### **PED Guidance and Implementation Work Group**

Attachment 2 shows the recent guidance letter sent by PED to school district superintendents and charter school administrators. The letter cites the law and informs districts and charter schools of a work group that will be established by PED to address procedural details and issues related to the law's implementation.

PED indicates that this work group will meet three times from August 2010 to September 2010, and will include representation from:

- the New Mexico School Boards Association;
- the New Mexico Association of School Business Officials;
- the New Mexico Coalition of School Administrators;
- the Office of the State Auditor;
- the LESC; and
- the Legislative Finance Committee.

### **The LESC School Finance Work Group**

During the 2010 legislative session, the LESC also endorsed SJM 24, *Study School District Finances & Operations*, requesting that the Office of Education Accountability (OEA), in collaboration with PED and in consultation with the Office of the State Auditor (OSA), form a work group to examine 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. The LESC will receive a report at the June 2010 interim meeting on the LESC School Finance Work Group's proposed membership, objective, and activities.

The proposed membership of the LESC School Finance Work Group includes representation from all agencies included in the PED work group described above; therefore, the membership and activities of the two work groups will likely overlap. The coordinator of the LESC School Finance Work Group will work with PED to ensure that the two groups collaborate in order to avoid duplication of efforts.

## **Presenters**

- Mr. Don Moya, Deputy Cabinet Secretary, PED, and Mr. Steve Burrell, Director, School Budget and Finance Analysis Bureau, PED, will discuss PED's plans for the implementation of CS/HB 227 & 251.
- Mr. Joe Guillen, Executive Director, New Mexico School Boards Association (NMSBA) will present a summary of training sessions conducted to date by NMSBA and results of a survey to determine how many school districts have finance subcommittees and audit committees.



The Legislature  
of the  
State of New Mexico

49th Legislature, 2nd Session

LAWS 2010

CHAPTER 115

HOUSE EDUCATION COMMITTEE SUBSTITUTE FOR

HOUSE BILLS 227 AND 251, as amended

Introduced by



# Chapter 115

## AN ACT

RELATING TO PUBLIC SCHOOLS; REQUIRING LOCAL SCHOOL BOARDS AND GOVERNING AUTHORITIES OF CHARTER SCHOOLS TO ESTABLISH FINANCE SUBCOMMITTEES AND AUDIT COMMITTEES; REQUIRING MEMBERSHIP TO INCLUDE PERSONS WITH ACCOUNTING OR FINANCIAL EXPERIENCE AND PARENTS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

Section 1. A new section of the Public School Code is enacted to read:

"LOCAL SCHOOL BOARD FINANCE SUBCOMMITTEE--AUDIT COMMITTEE--MEMBERSHIP--DUTIES.--

A. As used in this section, "local school board" includes the governing authority of a charter school.

B. Each local school board shall appoint at least two members of the board as a finance subcommittee to assist the board in carrying out its budget and finance duties.

C. The finance subcommittee shall:

(1) make recommendations to the local school board in the following areas:

(a) financial planning, including reviews of the school district's revenue and expenditure projections;

(b) review of financial statements and periodic monitoring of revenues and expenses;

1 (c) annual budget preparation and  
2 oversight; and

3 (d) procurement; and  
4 (2) serve as an external monitoring  
5 committee on budget and other financial matters.

6 D. Except as otherwise provided in this section,  
7 each local school board shall appoint an audit committee that  
8 consists of two board members, one volunteer member who is a  
9 parent of a student attending that school district and one  
10 volunteer member who has experience in accounting or financial  
11 matters. The superintendent and the school district business  
12 manager shall serve as ex-officio members of the committee. A  
13 local school board with more than five members may appoint  
14 more than two board members to its audit committee. The audit  
15 committee shall:

16 (1) evaluate the request for proposal for  
17 annual financial audit services;

18 (2) recommend the selection of the financial  
19 auditor;

20 (3) attend the entrance and exit conferences  
21 for annual and special audits;

22 (4) meet with external financial auditors at  
23 least monthly after audit field work begins until the  
24 conclusion of the audit;

25 (5) be accessible to the external financial

1 auditors as requested to facilitate communication with the  
2 board and the superintendent;

3 (6) track and report progress on the status  
4 of the most recent audit findings and advise the local school  
5 board on policy changes needed to address audit findings;

6 (7) provide other advice and assistance as  
7 requested by the local school board; and

8 (8) be subject to the same requirements  
9 regarding the confidentiality of audit information as those  
10 imposed upon the local school board by the Audit Act and rules  
11 of the state auditor."

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*Ben Lujan*

BEN LUJAN, SPEAKER  
HOUSE OF REPRESENTATIVES

*Stephen R. Arias*

STEPHEN R. ARIAS, CHIEF CLERK  
HOUSE OF REPRESENTATIVES

*Diane D. Denish*

DIANE D. DENISH, PRESIDENT  
SENATE

*Lenore M. Naranjo*

LENORE M. NARANJO, CHIEF CLERK  
SENATE

Approved by me this 10<sup>th</sup> day of March, 2010

*Bill Richardson*

BILL RICHARDSON, GOVERNOR  
STATE OF NEW MEXICO

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STATE OF NEW MEXICO  
PUBLIC EDUCATION DEPARTMENT  
300 DON GASPAR  
SANTA FE, NEW MEXICO 87501-2786  
Telephone (505) 827-6688  
[www.ped.state.nm.us](http://www.ped.state.nm.us)

DR. VERONICA C. GARCÍA  
SECRETARY OF EDUCATION

BILL RICHARDSON  
Governor

June 7, 2010

**MEMORANDUM**

**TO:** Local School District Superintendents  
Charter School Administrators  
Other Interested Parties

**FROM:** Veronica C. García, Ed.D.

**SUBJECT:** NEW LOCAL SCHOOL BOARD SUBCOMMITTEE REQUIREMENTS

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On May 19, 2010, new requirements requiring local school boards and governing authorities of charter schools to establish finance subcommittees and audit committees went into effect due to a recent change in law. Committee Substitute for House Bill 227 & 251 (CS/HB 227& 251) creates a new section of the Public School Code to require each local school board and charter school governing authority to appoint at least two members of its board as a finance committee to assist the board in carrying out its budget and finance duties by:

- Making recommendations to the local school board in the following areas:
  1. financial planning, including reviews of the school district's revenue and expenditure projections;
  2. review of financial statements and periodic monitoring of revenues and expenses;
  3. annual budget preparation and oversight; and
  4. procurement
- Serving as an external monitoring committee on budget and other financial matters.

The bill further requires that each local school board appoint an audit committee that consists of:

- \*two board members;
- one volunteer member who is a parent of a student attending the school district; and
- one volunteer member who has experience in accounting or financial matters

The superintendent and the school district business manager must serve as ex-officio members of the committee.

\*(A school board with more than five members may appoint more than two members.)

CS/HB 227& 251 requires the audit committee to:

- evaluate the request for proposals for annual financial and audit services;
- recommend the selection of the financial auditor;
- attend the entrance and exit conference for annual and special audits;
- meet with external financial auditors at least monthly after audit field work begins until the conclusion of the audit;
- be accessible to the external financial auditors as requested to facilitate communication with the board and the superintendent;
- track and report progress on the status of the most recent audit findings and advise the local school board on policy changes needed to address audit findings;
- provide other advice and assistance as requested by the local school board; and
- be subject to the same requirements regarding the confidentiality of audit information as those imposed upon the local school board by the Audit Act and rules of the State Auditor.

The internet link to the law is: <http://nmlegis.gov/Sessions/10%20Regular/final/HB0227.pdf>

Although the law went into effect on May 19, 2010, there are still a number of procedural details and issues that must be addressed. To that end, the Public Education Department is establishing a work group comprised of school district representation from the following education partners and stakeholders: The New Mexico School Boards Association, The New Mexico Association of School Business Officials, and The New Mexico Coalition of School Administrators. In addition, the workgroup will also have representation from the Office of the State Auditor (OSA), the Legislative Finance Committee (LFC) and the Legislative Education Study Committee (LESC). The workgroup will meet for the first time in early August 2010 and will meet two more times before the end of September 2010. Additional details on meeting times and locations will be forthcoming.

The PED looks forward to collaborating with its education partners, the LFC, LESC, and the OSA in improving the accountability and transparency of public school finance in New Mexico.

VCG/SB

cc: Office of the State Auditor  
The Legislative Education Study Committee  
The Legislative Finance Committee  
The New Mexico Coalition of School Administrators  
The New Mexico Association of School Business Officials  
The New Mexico School Boards Association  
Dr. Peter Winograd, Office of the Governor  
Brian Condit, Chief of Staff, Office of the Governor  
PED Executive Team  
PED Leadership Team