

STATE OF NEW MEXICO
LEGISLATIVE EDUCATION STUDY COMMITTEE

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September 27, 2010

MEMORANDUM

TO: Legislative Education Study Committee

FR: Craig J. Johnson

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

At the June 2010 interim meeting of the Legislative Education Study Committee (LESC), the committee approved the objective and activities (Attachment 1), and membership (Attachment 2) of the LESC School Finance Work Group and requested regular updates on work group activities. Since then, the work group has met twice to consider its objective and activities: July 12, 2010 and August 9, 2010. At the July 12 organizational meeting, the work group established two subgroups: (1) the Internal Controls/Guidance Documents Revision Subgroup, and (2) the Guidance for School Board Members Subgroup. The next meeting of the work group is scheduled for October 1, 2010. The work group will present its findings and recommendations for changes to statute, regulation, or practice to the LESC at the December 2010 meeting.

This staff report will:

- review the activities during the August meeting;
- describe the progress toward revising and updating the *Public School Accounting and Budgeting Manual of Procedures*; and
- provide a preview of the upcoming October meeting of the work group.

August 9, 2010 Work Group Meeting

The work group heard testimony on several items, including those described below:

Presentation: Licensure and Training of School Business Officials

New Mexico Public Education Department (PED) staff provided a report to the work group on the licensure and training requirements for public school business officials. They noted that these requirements are in rule but not in law. Discussion among work group members focused on the need for strengthened licensure, evaluation, and training requirements for school business officials, including the possibility of codifying requirements in law. PED staff suggested that all candidates for licensure be required to take an ethics course.

Report: Board Guidance Subgroup

Mr. Joe Guillen, Executive Director, New Mexico School Boards Association, presented research on guidance for school boards on their fiduciary duties developed by the New York State School Boards Association (NYSSBA). Mr. Guillen recommended that the subgroup move forward with adapting New York's guidance documents to tailor them to New Mexico's needs, and the work group agreed.

Presentation: Definition of Terms

Mr. Steve Archibeque, Senior Audit Manager, Office of the State Auditor (OSA) provided the group with definitions of the terms "waste" and "abuse." Waste of public resources, he said, is defined as follows:

- spending money or consuming property extravagantly or improvidently (not foreseeing or providing for the future);
- expending or using resources unprofitably;
- spending or using funds carelessly; or
- allowing funds to be used inefficiently.

Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud or violation of laws, regulations, or provisions of a contract or grant agreement.

Presentation: The Role of Regional Education Cooperatives (RECs)

Ms. Cathy Jones, Executive Director, REC IX, described current services that RECs provide for small school districts. Work group members also discussed the possibility of multiple school districts directly sharing one business manager.

Progress Toward Revising and Updating the *Public School Accounting and Budgeting Manual of Procedures*

When the Internal Controls/Guidance Documents Revision Subgroup met on July 26, 2010 to review the *Public School Accounting and Budgeting Manual of Procedures*, it determined that many of the 22 sections of the manual had not been updated since the 1990s. The subgroup 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.

It is the intent of the work group that 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 subgroup 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 LESC 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.

LESC staff drafted an initial scope of work that will be reviewed by the Internal Controls/Guidance Document Revision Subgroup and submitted to the full work group for approval at its October 1, 2010 meeting. The tentative schedule to complete the project includes having the funds transferred from NMPSIA to PED and the contractors selected by the end of November. The plan envisions having the updated manual completed by March 2011, in time for the PED school budget workshop in the spring of 2011.

October 1, 2010 Work Group Meeting

The next work group meeting is scheduled for October 1 from 9:00 a.m. to 3:00 p.m. in Room 322 of the State Capitol. The draft agenda for the next meeting includes the following items:

- description of activities conducted by the PED's Office of Inspector General;
- presentation from the New Mexico Association of School Business Official (NMASBO) on the association's training programs;
- discussion of next steps for the revision of the *Public School Accounting and Budgeting Manual of Procedures*;
- status update on implementation of legislation dealing with the creation of school board finance and audit committees and sanctions for late audits;
- exploration of the idea to establish a tiered audit process for school districts; and
- review of proposed work group recommendations.

**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 LESG 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 LESG at the December 2010 LESG 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:** 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 Lisa Grover, Director/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:** 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:** James Murdock, Associate Superintendent of Finance, Silver Consolidated Schools
- **Regional Education Cooperatives (RECs):** Cathy Jones, REC IX

- **Public Education Department:**
 - Ø Steve Burrell, Interim Deputy Secretary for Finance & Operations
 - Ø Mary Rose CdeBaca, Assistant Secretary for Educator Quality
 - Ø Phil Baca, Program Manager, Professional Licensure Bureau
- **Governor's Office:** 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:** Rachel Gudgel, Public Education Analyst
- **Legislative Education Study Committee staff:** Eilani Gerstner, Fiscal Analyst and work group coordinator