



**Report  
to  
The LEGISLATIVE FINANCE COMMITTEE**



Public Education Department  
State and Federal Reimbursement Timeliness  
September 28, 2009

**Report # 10-04**

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September 28, 2009

Dr. Veronica Garcia, Cabinet Secretary  
New Mexico Public Education Department  
Jerry Apodaca Education Building  
300 Don Gaspar  
Santa Fe, NM 87501

*Veronica*  
Dear Secretary Garcia,

On behalf of the Legislative Finance Committee (Committee), I am pleased to transmit the Program Evaluation of the Public Education Department – State and Federal Reimbursements.

The evaluation team reviewed the reimbursement process and timeliness of payments by the Public Education Department (PED) to school districts, charter schools and regional education cooperatives for state and federal programs, federal rules and regulations concerning the reimbursement process and comparable states' best practices. An exit conference was held on September 22, 2009 to discuss the report's contents with your staff.

The report will be presented to the committee on September 28, 2009. We very much appreciate the cooperation and assistance we received from you and your staff.

The committee expects an action plan from PED to implement the report's recommendations within 30-days from the date of the hearing. Committee staff will monitor your progress.

I believe that this report addresses issues the Committee asked us to review and hope the Public Education Department will benefit from our efforts. Thank you for your cooperation and assistance.

Sincerely,

A handwritten signature in cursive script that reads "David Abbey".

David Abbey, Director

DA:LD/svb

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*LFC expressed a need to examine issues related to the timeliness of PED's reimbursement process.*

*Both the LFC and LESC have identified issues with PED's reimbursement process, which might postpone funding benefits for whom such funds are intended to serve.*

*The Legislature has appropriated \$1.8 million in nonrecurring funds to aid REC cash-flow issues resulting from untimely reimbursements.*

*New Mexico will receive an estimated \$369.2 million in ARRA funding.*

This report examines issues related to the reimbursement of state and federal flow-through funds by the Public Education Department (PED) to school districts, charters schools and regional education cooperatives (RECs) and suggests procedures to improve the timeliness of reimbursements.

In May 2007, LFC report, *Review of the Regional Education Cooperatives* identified cash-flow issues stemming from untimely reimbursements of grant funds by PED and submission issues among RECs.

In June 2008, the Legislative Education Study Committee (LESC) issued memorandum, *Statutorily Created Funds*, stated that delayed reimbursements might postpone fund benefits and have adverse effects upon school entities, teachers and students whom these funds are intended to serve.

In an effort to mitigate a series of REC cash-flow issues resulting from changes to the reimbursement process and delayed reimbursements, the Legislature, in FY07 and FY08 provided nonrecurring special appropriations totaling \$1.8 million.

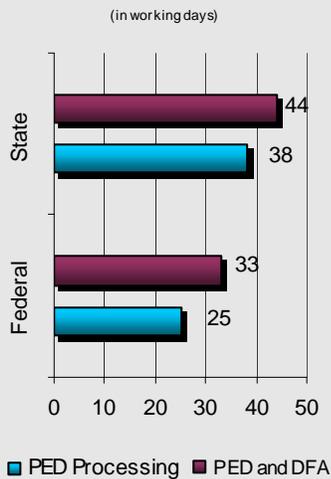
On average PED processes over \$270 million annually in reimbursements to local school districts and other related entities. Reimbursement timeliness will be especially important in FY10 because New Mexico will receive an estimated \$369.9 million in American Reinvestment and Recovery Act of 2009 (ARRA) that will flow through PED's reimbursement process. PED estimates that it will receive \$205.2 million in stimulus funds that flow through existing distribution mechanisms, such as Title I and \$164.7 million in fiscal stabilization funds of ARRA.

Program evaluation objectives consist of the following:

- Review and document state and federal flow-through processes, rules, regulations, and statutes;
- Provide a progress update for prior reports and associated issues; and
- Review comparable and regional flow-through processes and procedures for best practice identification and department comparison.

*School entities cash-flow and abilities to meet current obligations are directly impacted by the timeliness of PED's reimbursement process.*

**Average Processing Time for State and Federal Funds - Fiscal Year 2009**  
(in working days)



*Infrequent or untimely reimbursement requests compound cash-flow issues.*

*The implementation of PED's online RfR system has enhanced accountability, transparency and efficiency.*

*PED does not have federal or state incentives to conduct a timely reimbursement review.*

## Key Findings

### **Despite Improvements, Delayed Reimbursements Continue to Impact Cash Management Operations For School Entities.**

School entities must maintain enough cash on hand to fulfill operational expenses while waiting for reimbursements. District superintendents stated that reimbursement delays have required them to actively manage funding transfers between funding sources, and close fiscal year-end books with funds in arrears, in order to pay for operational costs, such as payroll. Identified fund transfers for such issues have ranged from \$342 thousand to \$12.8 million in FY09.

*In FY09, an average of 29 working days was required for PED to approve reimbursement requests, more than four times its original estimation.* This projection did not include the two to five days needed for processing at the Department of Finance and Administration (DFA) once submitted by PED. The total average processing time for FY09 to complete state reimbursements was 44 working days with federal reimbursements requiring 33 working days. However, PED has demonstrated processing time improvements in FY09. PED improved its processing time from 62 working days in the first quarter to 17 working days in the fourth quarter of FY09.

As of September 1, 2009, PED reported a total of 1,303 pending reimbursement requests; 512 waiting for PED approval (\$18.2 million) and 791 pending final payment (\$46.4 million).

An analysis of school entity submission data in PED's reimbursement system indicated that PED received 32 percent of reimbursement requests in May, June and July (July 31<sup>st</sup> was the deadline for FY09 submissions). Infrequent or untimely reimbursement requests compound cash-flow issues. Therefore, it is important for school entities to submit timely requests for reimbursement.

*PED implemented an online RfR System in July 2008 at an approximate cost of \$95 thousand.* The implementation of this system automated the majority of reimbursement processes which has allowed for greater accountability, transparency and efficiency. Each reimbursement request is subjected to a programmatic review by program analysts and a fiscal review by flow-through analyst. (See Appendix C and D)

*PED management does not regularly monitor reimbursement timeliness and incurs no cost for poor performance.* PED incurs no direct cost from overdue reimbursements. Given federal and state oversight requirements PED has a natural incentive to conduct a thorough review of operational practices but does not have similar

*Various PED administrative issues contribute to reimbursement request delays.*

*Other states take less time to process reimbursement requests.*

*States retain considerable latitude in designing oversight compliance procedures.*

*Cash-advance fund allocations of \$1.8 million have not been properly administered by PED.*

incentives to conduct a timely review. In addition, management reports do not fully use information available within PED's online request for reimbursement (RfR) system would allow management to better identify process delays by bureau, fund and individual analysts.

***Various PED administrative requirements contribute to reimbursement delays.*** Funding award letters, carryover certifications, and inter-governmental agreements (IGAs) are among the issues that contribute to reimbursement delays. Inefficiencies within PED's approval process also contribute to reimbursement delays. These include the following:

- There is duplication of effort between program and flow-through analysts.
- The RfR system is not capable of directing resubmitted requests to the proper bureau.
- The RfR system lacks front-end logic checks that could reduce processing times.

***In general, other states with largely manual reimbursement approval processes conduct timelier reviews.*** While Colorado and Nevada use a largely manual approval process they report that, on average it takes five to 10 working days to approve a reimbursement request. On the other hand, Texas maintains an online approval system fully integrated with the state's automated operating budget management systems and requests are processed within three days, on average.

***Federal regulations require that states design and implement grant oversight processes.*** State education agencies are responsible for ensuring that local-expenditures are allowable under grant rules. Federal regulations, however, provide states the latitude to determine how, and when, they will perform their grant oversight function.

**\$1.8 Million in Nonrecurring Special Appropriation Funds Have Been Retained by REC Recipients.** PED distributed \$200 thousand to each REC to address REC cash-flow issues. PED did not obtain timely or sufficient justifications for the retention of allocated funds as required by the Laws of 2008, Chapter 3, Section 5, Subsection 104.

### **Key Recommendations**

*PED should*

- Work with DFA and LFC to establish a reimbursement timeliness performance measure for inclusion in the General Appropriation Act (GAA) to capture the average number of working days to process reimbursement requests and report performance on a quarterly and annual basis.



- Generate managerial performance reports from the RfR system that allow the department to identify reimbursement process delays and use such information to improve the timeliness of existing processes.
- Improve the timeliness of final award and carry-over funding processes to mitigate reimbursement complications toward the latter part of fiscal years.
- Improve and streamline the approval process for IGAs and consider the implementation of multi-year and multi-fund IGAs.
- Require RECs to justify a need for not returning the cash advances, including cash-flow analysis and average monthly cash balances from all sources. If the cash-flow analysis indicates inadequate justification to retain funds or RECs fail to provide adequate justifications then PED should recover such advances and revert the recovered amounts to the state general fund.

### PED REIMBURSEMENT PROCESS BACKGROUND

Prior to fiscal year 2006, the New Mexico Public Education Department (PED) distributed federal and state grants to localities on a quarterly cash-advance basis. Following a series of external audits, PED found that its then-existing advance payment system was not in compliance with the Federal Cash Management Improvement Act (CMIA). The act requires states that choose to distribute grant funds in advance must maintain procedures to minimize time elapsing between the transfer of funds by the federal government and their disbursement by PED to school districts, charter schools and RECs. PED's external audit found that school districts were able to accumulate excessive cash balances of federal education funds when the advance payment method was used. This represented a direct violation of relevant provisions of the CMIA and certain provisions of the Education Department General Accounting Rules (EDGAR), which require that a state education agency (SEA) certify that federal funds are expended within three business days of being drawn down from the federal government.

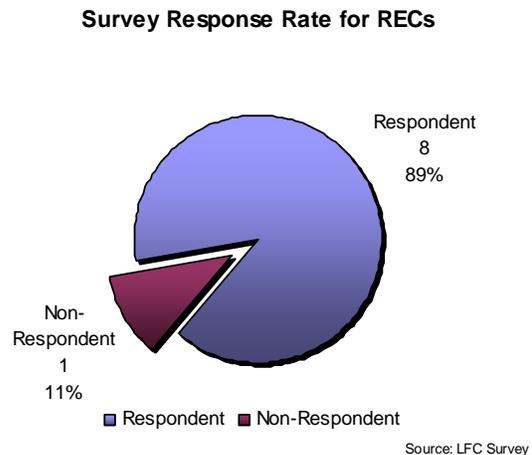
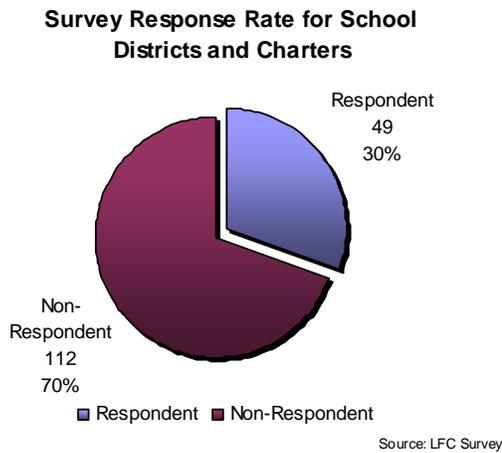
Beginning in FY06, with the advice of outside counsel and the Department of Finance and Administration (DFA), PED established a reimbursement process. No provisions exist in EDGAR, CMIA, federal Office of Management and Budget Circular A-87 or A-133 that prescribe how an SEA shall distribute federal education grant funds so long as the methods used by an SEA comply with federal CMIA requirements. Therefore, PED transitioned to a reimbursement basis in order to comply with regulations governing advance payments.

In May 2007, Legislative Finance Committee (LFC) report *Review of the Regional Education Cooperatives* identified REC cash-flow issues attributed to incorrect or incomplete REC reimbursement submissions, PED processing delays, and software implementation difficulties.

In June 2008, the Legislative Education Study Committee (LESC) issued a memorandum, *Statutorily Created Funds* that identified "a pattern of delayed distributions from some of the funds examined, particularly those for which PED requires school districts to request funds on a reimbursement basis." In conclusion, LESC stated that delayed reimbursements might postpone fund benefits and have adverse effects on school entities, teachers and students whom these funds are intended to serve. LESC recommended that PED in collaboration with selected school entities, review statute, rules, and internal policies and implement administrative remedies as needed.

To date the Legislature has appropriated \$1.8 million in nonrecurring funds to mitigate REC cash-flow issues. In 2008, the Legislature amended the provisions of the original cash-advance language, stating that the RECs could retain the funds allotted to them, *if* they could justify a need by the close of FY09. These funds were to revert back to the general fund by the close of FY09.

LFC staff conducted a statewide survey of school districts, charter schools and RECs to gain their perspective on the timeliness of the PED reimbursement process. The intent of the survey was to identify issues and possible resolutions that would aid in the timeliness of PED's reimbursement process and help the LFC formulate recommendations to improve cash flow issues. The following graphs depict the response rate received.



### **Objectives.**

- Review and document state and federal flow-through processes, rules, regulations and statutes;
- Provide a progress update for prior reports and associated issues; and
- Review comparable and regional state flow-through processes and procedures for best practice identification and department comparison.

### **Scope and Methodology.**

- Review applicable state and federal rules, regulations, statutes and other relevant information that pertains to PED’s reimbursement process.
- Review LFC file documents and prior reports, relative performance audits from other states, and information obtained from outside sources, including LESC and Internet searches.
- Interview PED and LESC staff to gain a better understanding of the reimbursement process.
- Submit information and data requests to PED based on preliminary interviews and preliminary review documents.
- Document and produce a workflow diagram for the reimbursement processes:
- Analyze the request for reimbursement system (RfR) database for time lag, outstanding prior-year payments and other identified anomalies.
- Conduct an online survey via *Survey Monkey* to obtain information from school districts, charter schools and RECs regarding the reimbursement process.

**Authority for Review.** The committee is authorized under the provisions of Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies and institutions of New Mexico and all of its political subdivisions, the effect of laws on the proper functioning of these governmental units and the policies and costs of governmental units as related to the laws. Pursuant to its statutory authority, the committee may conduct performance reviews and inquiries into specific transactions affecting operating policies and costs of governmental units and their compliance with state laws.

**Review Team.**

Manu Patel, Deputy Director for Program Evaluations  
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**Exit Conference.** The contents of this report were discussed in an exit conference conducted on September 22, 2009, with Deputy Secretary Don Moya, and other Public Education Department staff.

**Report Distribution.** This report is intended for the information of the Office of the Governor, Department of Finance and Administration, Public Education Department, the Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report, which is a matter of public record.



Manu Patel, CPA  
Deputy Director for Program Evaluations

## FINDINGS AND RECOMMENDATIONS

### REIMBURSEMENTS AND CASH FLOW

**Impact on School Entity Cash-Flows.** School entities' cash-flow is directly impacted by the timeliness of PED's reimbursement process. School districts, charter schools and RECs must first expend budgeted funds and subsequently submit reimbursement requests to PED to receive cash draw downs. As a result, school entities must maintain enough cash on hand to fulfill operational expenses while waiting for reimbursed funding from PED. On average PED processes over \$270 million annually in reimbursements to local school districts and other related entities. In addition, New Mexico will receive an estimated \$369.9 million from the American Reinvestment and Recovery Act of 2009 (ARRA) that will flow through PED's reimbursement process. PED estimates that it will receive \$205.2 million in stimulus funds that flow through existing distribution mechanisms, such as Title I and \$164.7 million in fiscal stabilization funds of ARRA. Therefore, reimbursement timeliness is especially important in FY10 because of incoming ARRA funding.

*District superintendents report that reimbursement delays have required them to transfer funding between funding sources, and close fiscal year-end books with funds in arrears, in order to pay for operational costs, such as payroll.* Some school districts have had to transfer funding from other funds, such as operational and debt-service funds and replace transferred funds when PED reimbursement payments are received. Identified fund transfers for such issues have ranged from \$342 thousand to \$12.8 million in FY09.

**Improvements and Processing.** PED implemented an online request for reimbursement (RfR) system in July 2008 at an approximate cost of \$95 thousand. The implementation of this system automated the majority of reimbursement processes which has allowed for greater accountability, transparency and efficiency. It appears that 87 percent or 122 reimbursement funds are active within the RfR system. The remaining 13 percent of funds are manually processed. The RfR system is not integrated with other financial systems, such as the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) and the budget module within PED's Operating Budget Management System (OBMS) requiring a manual interface to process reimbursements.

*For FY09 and as of July 24, 2009, PED had 6,571 approved or pending reimbursement requests totaling \$271.6 million.* Approximately 77 percent of these submissions have been approved and paid with the remaining requests either pending PED approval or awaiting final payment by the Department of Finance and Administration (DFA). The deadline for school entities to submit reimbursement requests to PED for FY09 was July 31, 2009. DFA's payment acceptance deadline for FY09 expenses was August 31, 2009, however, PED did not meet DFA's deadline of August 31, 2009 but was allowed to make final payment submissions for FY09 on September 4, 2009. As of September 11, 2009, DFA reported that the majority of payment submissions have been paid and the remaining few have been rejected and returned to PED.

**Table 1. Status of Approved and Pending Reimbursement Request Submissions for FY 2009**

(does not include voided or denied RfRs)

Category	Number	Amount
Submissions	6,571	\$271.6
Paid	5,052	\$195.7
Pending	1,519	\$ 75.9

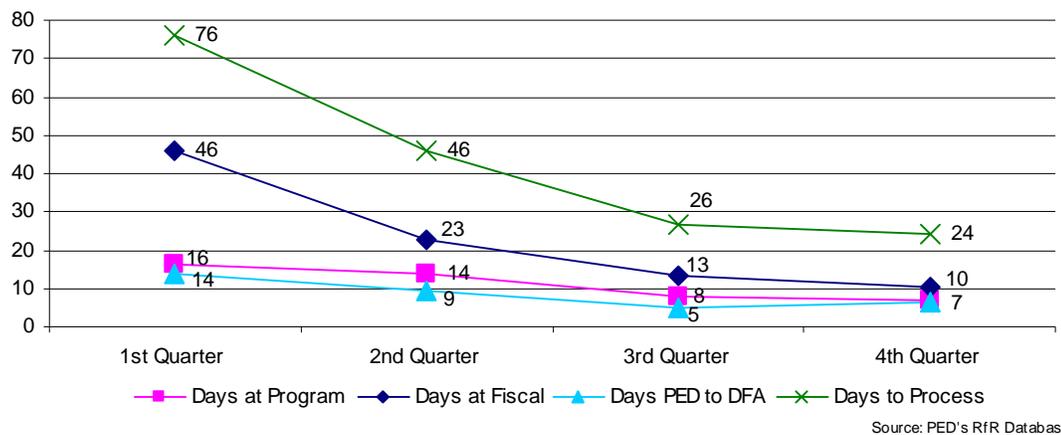
Source: RfR Database

As of September 1, 2009, PED reported a total of 1,303 pending reimbursement requests; 512 waiting for PED approval (\$18.2 million) and 791 pending final payment (\$46.4 million). PED currently uses an aging report generated from the RfR system to identify outstanding reimbursement requests. Reimbursement requests with a processing time of less than 10 days are considered timely. The department categorizes pending reimbursement request into six performance-tracking bands that correspond to the number of days reimbursement requests have been active within the RfR system: 0-10 days, 11-15 days, 16-30 days, 31-45 days, 46-60 days, and 61+ days.

**Reimbursement Timeliness.** In FY09, an average of 29 working days was required for PED to approve reimbursement requests, more than four times original projections. PED has not yet achieved its desired reimbursement request approval time of six to seven working days, which was communicated to school entities within the September 2008 presentation entitled *21<sup>st</sup> Century Grant Awards Federal and State Flow-Through Process*. This estimate does not include the time it takes DFA to process payments once submitted by PED. An average of seven days elapsed between PED’s final approval and payment remittance by DFA. Two school entities have expressed great concern for outstanding reimbursements from school year 2007-2008 totaling \$252.8 thousand. Average processing times by entity can be found in Appendix A.

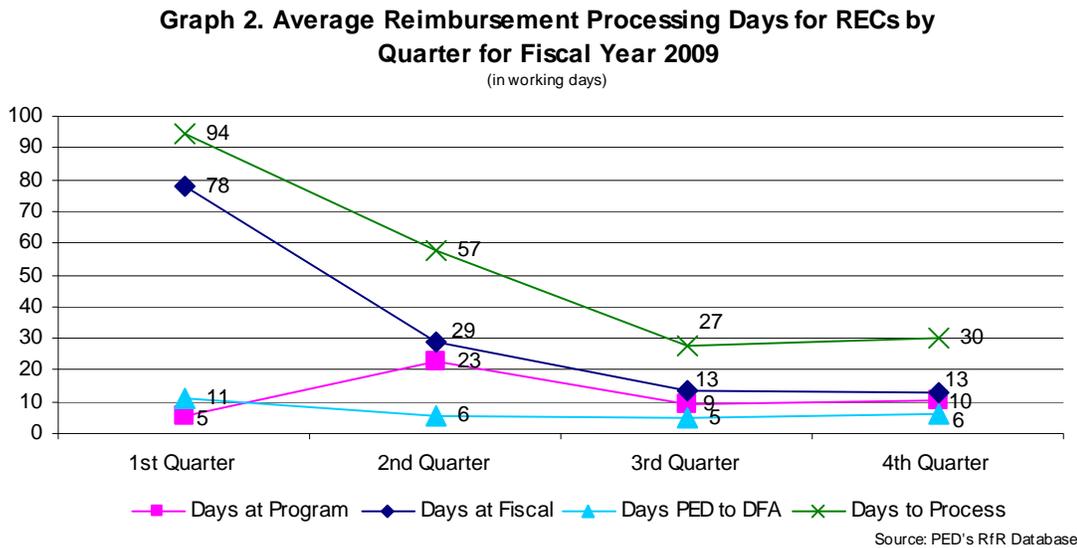
PED has managed to improve its processing time while experiencing an increase in the number of reimbursement request submissions, particularly in the latter part of the fiscal year. Thirty-two percent of reimbursement request were received during May, June and July (July 31<sup>st</sup> was the deadline for FY09 submissions). (See Appendix B) PED’s processing time improved from 62 working days in the first quarter to 17 working days in the fourth quarter of FY09. The graph below illustrates the average number of working days required to process reimbursement requests for FY09.

**Graph 1. Average Reimbursement Processing Days by Quarter for Fiscal Year 2009**  
(in working days)



**During fiscal year 2009 PED has also improved the reimbursement request timeliness for RECs.** In the first quarter of FY09 the average processing time for REC reimbursement request submissions was 94 working days. As of July 27, 2009, the average processing time for FY09 was 32 working days. Although PED has improved its processing time through FY09 the average rate still remains more than four times PED’s original projection. Graph 2 illustrates the

average number of working days it has taken to process reimbursement requests for REC by quarter for FY09.



***PED management does not regularly monitor reimbursement timeliness and incurs no cost for poor performance.*** School districts, RECs and charter schools may incur significant costs from overdue reimbursements, as delays in repayment compromise an entity's ability to make payments in a timely manner for operational expenses, such as payroll. However, PED incurs no direct cost from overdue reimbursements. Given federal and state requirements PED has a natural incentive to conduct a thorough review for programs and funding; however, it does not have similar incentives to conduct a timely review. There are no provisions within state statute or rules that mandates prompt reimbursement by PED. As such, PED incurs no penalties or consequences for untimely reimbursements. For example, the General Appropriation Act (GAA) lacks a performance measure that would allow the Legislature to monitor PED reimbursement performance.

Management does not fully use information available within the RfR system to identify process delays by bureau, fund and individual analysts. As a result, management's lack of performance monitoring diminishes internal accountability.

**Inefficiencies Impacting the Reimbursement Process.** PED's processing timeliness for funding award letters and carryover certifications impact the timeliness of the reimbursement process. School entities communicated that final award letters and carryover certifications are not provided by PED on a timely basis. This could result in a significant variation from original budget amounts to final award and carryover amounts. As a result, school entities may prematurely expend budgeted amounts causing reimbursement request denials for insufficient budgets. In addition, one district superintendent stated that the delay in carryover allocations caused the district to "seriously consider the need to cancel summer school." However, PED is not able to calculate carryover amounts until all school entities have submitted year-end expenditure reports.

***Inefficiencies within PED’s approval process also contribute to reimbursement request delays.*** Each reimbursement request is subjected to a programmatic review by program analysts and a fiscal review by flow-through analysts at the administrative services division of PED. (See Appendix C and D)

The following inefficiencies exist throughout this process and contribute to delays in the approval process:

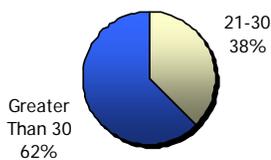
- *There is duplication of effort between program and flow-through analysts.* Both program managers and Tier II flow-through analysts determine if an expense is assigned to the proper fund and function code and whether or not there is sufficient budget to cover the request. By more clearly outlining each division’s scope of work and streamlining the review process PED could eliminate duplicative tasks and thus reduce approval times.
- *Program bureaus’ audit practices are not risk-based.* Audit standards vary between school districts and funds and some may require additional oversight.
- *The RfR system is incapable of directing resubmitted requests to the proper bureau.* If a request for reimbursement is denied and then re-submitted, the RfR system is incapable of redirecting that request to the point of denial. This increases the work load of reviewers and effective waiting time for local entities.
- *The RfR system lacks front-end logic checks that could reduce processing times.* Logic-checks could reduce processing times, as well as the likelihood of human-error.

***Other Issues***

While the following issues do not directly impact the efficiency of the approvals process, they may compromise PED’s ability to comply with federal and state mandates that it hold localities accountable for their expenditures:

- *PED has not developed program audit guidelines.* In the absence of department-generated program audit guidelines, standards vary significantly between program bureaus. For instance, Title I program analysts regularly require supporting invoices to justify expenditures. While special education analysts seldom require supporting documents to justify expenditures and focus more on ensuring that they have been assigned to the proper function and fund code. This variance in standards may increase the risk of waste, fraud or abuse within certain grant funds that apply a weak programmatic review process.
- *PED has not developed standard denial criteria.* This increases the likelihood that localities will experience subjective treatment and reduces the ability of management to hold analysts accountable for their decisions.

**Graph 3. Average Number of Business Days to Complete IGA Agreements**



Source: LFC Survey

***Inter-governmental agreements (IGAs) and communication deficiencies contribute to the delay in reimbursement timeliness.*** IGAs are agreements between RECs, their member districts and PED that allow RECs to receive and spend federal and state grant funding from member school districts for needed services. (See Appendix E) Reimbursement request may not be submitted to PED for allocated IGA funding until the completion of an IGA. RECs reported that IGAs are time-consuming, completed on an annual basis, and may

cover a range of funds or programs. Most RECs generally stated that the average completion time for IGAs is over 30 business days. However, five of nine RECs stated that they have experienced an IGA completion rate of six to nine months for various funds. Due to this lengthy process, one REC has declined to handle funds that require IGAs. RECs reported that the timeliness of IGAs would be their primary improvement recommendation for the reimbursement process.

***Thirty-six school districts and charter schools and eight RECs responding to an LFC staff survey indicated that they submit reimbursement requests on a monthly or bi-monthly basis.*** However, contrary to RECs responses, data extracted from the RfR system illustrated that during FY09 the majority of RECs did not submit reimbursement request on monthly or bi-monthly basis.

***School entities stated that the most common reimbursement delays are due to PED processing and school submission errors.*** RECs stated that the points below are all contributing factors to the delay in timeliness:

- Too many PED staff members and processing steps involved in the approval process,
- Staff turnover by both PED and REC,
- Completion timeliness of IGAs by PED, and
- Lack of budget allocation information from PED.

Many respondents stated that they do not know why delays occur in the reimbursement request process and attribute delays to communication deficiencies between themselves and PED.

**Other States.** Other states reported that they take less time to process reimbursement requests. LFC evaluators surveyed other states that distribute federal and state grant funds on a reimbursement basis to determine how long it takes them to process reimbursement requests. Four states responded to the survey: Colorado, Nevada, Texas and Utah.

Like New Mexico, each of these states distributes federal grant funds on a reimbursement basis. Colorado and Utah choose to allocate state grant funds on an advancement basis.

Three states took less time than PED to approve reimbursement requests:

- Colorado and Nevada take five to 10 working days to approve a reimbursement request. Unlike New Mexico, much of these states' approvals process has yet to be automated.
- Texas maintains an online approvals system fully integrated with the state's automated operating budget management systems. On average, reimbursement requests are approved within three working days.
- Utah was unable to provide an average approval time.

***Federal regulations require that states design and implement grant oversight processes to ensure that local expenditures are allowable under grant rules.*** Federal regulations, however, provide states the latitude to determine how, and when, they will perform their grant oversight function.

Each state has articulated a clear set of duties for both fiscal and program analysts. This has provided a check against duplication of effort, which has facilitated a more timely approvals process.

Program analysts are responsible for certifying that expenditures comply with state and federal grant regulations. While fiscal analysts are responsible for verifying that expenditures are coded to the correct grant fund; there is sufficient budget in a locality's account to support a reimbursement request; and the request complies with state spending regulations that in some cases limit the amount of funds a locality can request during a given period.

*Other states have designed their programmatic oversight process to minimize wait times.* Nevada has adopted a de-centralized programmatic review process, in which local-level grant officials must verify that expenditures comply with state and federal grant regulations before a reimbursement request can be submitted to the state. This has reduced compliance audits being performed by state-level program analysts, thus providing them with the latitude to conduct risk-based audits. State officials claim this practice has decreased the total wait time of the reimbursement approval process. Colorado and Utah perform general audits at the end of each fiscal year to ensure that local expenditures comply with grant regulations. This has allowed program analysts to focus on conducting risk-based audits during the fiscal year.

In addition, according to state officials, Texas' automated approvals system has significantly expedited the approval process. Once submitted, the electronic system verifies that the requests contain all required information and supporting documents, that expenditures are coded to the correct grant fund, that a locality has sufficient budget to cover the reimbursement request; and that expenditures comply with state spending guidelines.

### ***Recommendations***

#### *PED should*

- Work with DFA and LFC to establish a reimbursement timeliness performance measure for inclusion in the General Appropriation Act to capture the average number of working days to process reimbursement requests and report performance on a quarterly and annual basis.
- Work with school entities and DFA to immediately resolve all open items with an aging greater than 60 days.
- Generate managerial performance reports from the RfR system to allow PED to identify reimbursement process delays and use such information to improve the timeliness of existing processes.
- Improve the timeliness of final award and carry-over funding notification processes in an effort to mitigate reimbursement complications toward the latter part of fiscal years.
- Modify and enhance submission logic testing within the RfR system to alleviate common issues associated with the denial of reimbursement requests (e.g. insert a standard certification checklist that localities must complete with the understanding that a request will be denied if any information on this list is incorrect, such as incorrect fund coding).
- Develop and implement guidelines that clearly outline the scope of duties for both program and flow-through analysts and managers and that prescribe criteria for denying a reimbursement request.
- Develop and implement a standardized, risk-based audit rule that establishes a standard set of audit practices to be followed by all bureaus and criteria for identifying requests that may require greater review.
- Modify the current RfR system so that previously denied reimbursement requests can be re-submitted to the original point of denial.

- Provide in-depth reimbursement process training during PED's spring budget seminars to include common reasons for reimbursement request denials and delays as well as reimbursement submission expectations.
- Improve and streamline the approval process for IGAs and consider the implementation of multi-year and multi-fund IGAs.

## CASH ADVANCES OF \$1.8 MILLION TO RECs

**Cash-Advance Fund Allocations by PED.** To mitigate REC cash-flow issues resulting from untimely reimbursements the Legislature appropriated two nonrecurring special appropriation cash-advance loans to REC in the amount of \$750 thousand and \$1.05 million in 2006 and 2007 respectively. PED distributed \$200 thousand to each REC to address REC cash-flow issues.

Laws 2008, Chapter 3, Section 5, Subsection 104, states, “Cash advances distributed to regional education cooperatives shall not be returned to the public education department but shall be retained by the regional education cooperative if the regional education cooperative justifies a need for not returning the cash advance. Any undistributed funds appropriated for regional education cooperative cash flow assistance remaining at the end of fiscal year 2009 shall revert to the general fund.” As of July 17, 2009, PED failed to obtain such justifications and all fund allocations have been retained by RECs. Subsequent to LFC’s inquiry, PED obtained justification responses on July 22 and 23, 2009. However, justification letters did not include cash-flow analysis, average monthly disbursements from flow-through funds, number and amounts of monthly outstanding reimbursement requests, etc. Also, many similarities between justification letters were observed, in most cases word for word.

*In FY08 six of nine RECs demonstrated improvements in cash balances to meet operational expenses. Cash balances ranged from \$107.5 thousand to \$2.8 million.* However, REC #9 continues to demonstrate financial difficulties initially identified within an LFC review in May 2007. This review revealed that REC #9 had consistently large negative cash balances and fund deficits, which jeopardize its ability to meet operating expenses and continued to be an issue through FY08. In addition, REC #2 has not submitted FY06-FY09 audit reports.

### ***Recommendations***

PED should

- Require RECs to justify a need for not returning the cash advances, including cash-flow analysis and average monthly cash balances from all sources. If the cash-flow analysis indicates inadequate justification to retain funds or RECs fail to provide adequate justifications then PED should recover such advances and revert the recovered amounts to the state general fund.
- Require PED’s Inspector General to conduct a special audit of REC 2 and REC 9 to identify and resolve continuous cash overdraft, fund deficit and delays in completing annual financial audit.

**Follow-Up of 2007 Review of Regional Education Cooperatives Report.** Below is an update of reported actions taken by PED to address prior recommendations in an LFC report issued in May 2007, *Review of the Regional Education Cooperatives*.

<b>Recommendation</b>	<b>Status</b>
Eliminate unnecessary steps in the current PED process to expedite reimbursement requests while still maintaining accountability.	RECs as of FY 08-09 are processing reimbursement and budget adjustment requests using the PED Operating Budget Management System (OBMS). This has decreased the length of time for PED to approve reimbursements to an average of 28 days.
Reengineer the internal PED process to comply with DFA requirements for requests for reimbursement.	RECs are utilizing the OBMS system for processing. The OBMS system meets DFA requirements for reimbursement.
Include REC in OBMS to minimize routing and approval delays associated with a paper process	All nine REC were set up to process through OBMS for FY08-09 and utilized the system for the entire year. The REC are utilizing OBMS to process request for reimbursements and budget adjustment request in FY 09-10 as well.
Examine the REC deferred revenue classification for appropriateness.	All RECs are required pursuant to 2-2-2 NMAC to be audited annually by an independent Public Accountant. The annual audit report should address deferred revenue. PED receives copies of each audit and will ensure that a copy of such audit is received and maintained by the REC Coordinator.
Require the governing board of each REC to prepare a plan to address cash flow problems and submit such plan to the PED for approval.	PED requested each REC to complete and submit a business plan to include information on cash flow problems. Each REC submitted a plan to PED in FY09. Plans are on file with the REC Coordinator.
Consider consolidating Clovis/Portales REC #6, Hobbs REC #7, Artesia REC #8 and Ruidoso REC #9 into one REC. Additionally, consider consolidating Gallina REC #2 into Albuquerque REC #5 as well as Raton REC #3 and Las Vegas REC #4 into one REC to take advantage of economies of scale and reduce overall REC expenditures.	This recommendation has been taken into consideration during the annual visits to RECs but no changes have been made. The REC were strategically placed to enable each to provide specific services (such as diagnosticians, etc.) to their member districts and were based on need. Due to the different services provided by each REC and the large service areas covered, consolidation is not being recommended by PED at this time.
Ensure constitutional and statutory violations are rectified and prevent such violations from occurring in the future.	The PED REC Coordinator does an annual site visit to each REC. At that time, issues such as cash balances are reviewed to ensure state requirements are being met.
Dedicate one PED position to oversee REC operations, services, planning, and cash reimbursements creating a central point of contact between the REC and PED.	PED has one FTE that is located in the flow-through bureau that is the designated REC coordinator and point of contact for RECs. This position was created and filled February 2008. The person in that position as of September 2009 is Jim Lindsay.
Hold regular meetings to discuss PED and REC operations, ideas, issues, strategies, finances and services.	The PED REC coordinator has been performing annual site visits to each REC office. The PED is also conducting monthly webinar meetings with the REC directors on the second Wednesday of each month. Due to the geographic location of the REC offices, webinar meetings are the most cost effective venue in both travel cost and human resource utilization.
Provide training to REC of the Procurement Code, Constitution, and audit requirements.	PED discussed several of these items with the REC at the August 24 <sup>th</sup> , 2009 REC/PED meeting as well as statutory and PED regulations. It was determined at that meeting that PED would hold a special REC training session at the Annual Spring Budget Workshop conducted each year in April. Specific trainings such as those listed and other needed training will be addressed each April.

Source: PED

NMPED Response to LFC State and Federal Reimbursement Timeliness Report of 9/28/2009

The Public Education Department (PED) takes seriously its responsibility to administer federal education programs appropriately. Federal law makes clear that PED is a fiduciary of federal funds with the legal responsibility to oversee the funds it subgrants, as well as the actions of its subgrantees, to ensure compliance with all applicable federal requirements. PED's reimbursement process is an important part of its oversight system.

PED has a strong incentive to ensure its reimbursement process is timely and efficient. The PED's primary responsibility in a state-administered federal education program is to assist subgrantees in achieving program objectives while ensuring compliance with federal requirements. PED is responsible to the U.S. Department of Education (ED) to ensure subgrantees have timely access to funds, and ED may review a state's payment system through routine program monitoring, annual single audits and audits by ED's Office of Inspector General (OIG). Because PED is ultimately responsible for ensuring it fulfills its federal responsibilities, PED welcomes the opportunity to improve its reimbursement process.

As the PED and LFC work together to improve the process, it is important to balance speed and efficiency against the need to fulfill the requirements discussed below.

### *Compliance with Monitoring and Oversight Requirements*

PED's reimbursement process helps New Mexico to comply with federal monitoring and oversight requirements. When New Mexico applies for a federal education grant, New Mexico assures ED the State will administer programs in accordance with all applicable federal rules, use fiscal controls and fund accounting procedures sufficient to ensure the proper use of federal funds, monitor its subgrantees and enforce federal requirements.

While the report accurately reflects that states have "latitude to determine how, and when, they will perform" these oversight functions, ED has articulated several key expectations as to how states should monitor and oversee subgrantees. In general, ED expects monitoring to be comprehensive, meaning it should:

- Cover both financial and programmatic elements of federal grant programs;
- Include both fiscal and program staff review;
- Provide controls to ensure costs charged to federal funds are allowable; and
- Include a variety of mechanisms to ensure major compliance requirements are monitored throughout the year.

The reimbursement system is one of the mechanisms PED uses to provide comprehensive oversight of federal funds spent by subgrantees, and it is a key control that facilitates New Mexico's compliance with its federal responsibilities.

It is important to ensure PED's reimbursement process continues to include both a financial and programmatic review of costs.

#### *Compliance with Cash Management Requirements*

As noted in the report, PED's reimbursement process helps New Mexico to comply with federal cash management requirements. ED is increasingly focusing on cash management issues due to the release of several high-profile audits by OIG highlighting non-compliance by state and local educational agencies. As a result of these audits, as well as the influx of funds under the American Recovery and Reinvestment Act (ARRA), ED, the OIG and the U.S. General Accountability Office (GAO) have pledged to review cash management practices nationwide. Maintaining a strong reimbursement system is critical to helping New Mexico demonstrate it has implemented robust controls over its cash management process.

#### *Compliance with Allowable Cost Requirements*

Another important compliance area for ED is ensuring all costs charged to federal funds are allowable. Recent OIG audits and program monitoring reports have identified substantial costs charged to federal funds that are not consistent with federal program purposes and do not meet federal cost principles because they are not necessary, reasonable, properly allocated, consistent with state rules, or adequately documented. Such costs are unallowable and may not be charged to federal education program funds. It is important to ensure PED's reimbursement process continues to provide PED with an opportunity to review selected costs before they are liquidated with federal funds.

## APPENDIX A: AVERAGE PROCESSING TIME

**Average Processing Time Through the RfR System by School and Category for Fiscal Year 2009**  
(in working days, as of July 27, 2009)

<u>School Name</u>	<u>Number of Paid Requests</u>	<u>Additional Data Requests from School Entities</u>	<u>Program Approval</u>	<u>Fiscal Analyst Approval</u>	<u>Fiscal Supervisor Approval</u>	<u>Total PED Processing</u>	<u>PED to DFA Timeliness</u>	<u>Total Reimbursement Process</u>
<b>School Districts</b>								
Alamogordo	172	4	11	16	5	32	8	40
Albuquerque	142	10	8	11	9	28	7	35
Animas	4		6	3	3	12	4	16
Artesia	53	18	11	14	4	29	8	37
Aztec	38	15	11	11	4	26	10	36
Belen	111	5	8	13	6	27	7	34
Bernalillo	112	16	10	8	6	24	7	31
Bloomfield	78	13	10	10	4	24	8	32
Capitan	42	17	16	11	7	34	7	41
Carlsbad	118	9	10	12	4	26	6	32
Carrizozo	20	5	6	7	6	19	5	24
Central	111	8	12	13	5	30	6	36
Chama Valley	30	7	5	9	8	22	5	27
Cimarron	16		11	6	3	20	5	25
Clayton	9	3	9	11	3	23	5	28
Cloudcroft	32	15	12	9	4	25	9	34
Clovis	80	8	7	9	6	22	7	29
Cobre	60	8	8	11	6	25	7	32
Corona	30		7	12	6	25	8	33
Cuba	26		9	14	5	28	9	37
Deming	87	15	7	14	9	30	12	42
Des Moines	3		11	5	6	22	5	27
Dexter	131	14	8	11	6	25	10	35
Dora	11	3	11	3	4	18	6	24
Dulce	39	8	7	5	6	18	5	23
Elida	14	3	9	11	6	26	7	33
Espanola	106	14	7	8	5	20	6	26
Estancia	11	2	7	5	5	17	6	23
Eunice	45	8	10	18	7	35	7	42
Farmington	103	8	8	8	4	20	7	27
Floyd	22	4	9	4	5	18	5	23
Fort Sumner	40	10	16	19	6	41	7	48
Gadsden	199	10	9	13	7	29	7	36
Gallup	97	12	8	8	5	21	6	27
Grady	17	9	10	7	4	21	7	28
Grants/Cibola	66	10	9	6	6	21	8	29
Hagerman	58	4	8	15	5	28	7	35
Hatch	57	8	9	9	6	24	7	31
Hobbs	189	10	13	17	5	35	10	45
Hondo Valley	7		6	4	4	14	4	18
House	26	33	11	20	11	42	7	49
Jal	16	1	8	15	4	27	7	34
Jemez Mountain	4	8	8	2	3	13	6	19
Jemez Valley	36	6	7	12	6	25	12	37
Lake Arthur	16	1	7	5	5	17	8	25
Las Cruces	142	11	9	14	9	32	9	41
Las Vegas City	35	26	13	8	9	30	6	36
Logan	29	2	9	8	5	22	14	36
Lordsburg	58	4	10	14	4	28	8	36
Los Alamos	29	15	13	10	4	27	6	33
Los Lunas	61	8	12	6	4	22	6	28

<u>School Name</u>	<u>Number of Paid Requests</u>	<u>Additional Data Requests from School Entities</u>	<u>Program Approval</u>	<u>Fiscal Analyst Approval</u>	<u>Fiscal Supervisor Approval</u>	<u>Total PED Processing</u>	<u>PED to DFA Timeliness</u>	<u>Total Reimbursement Process</u>
Loving	72	10	8	8	4	20	8	28
Lovington	63		7	10	5	22	9	31
Magdalena	31	8	13	12	7	32	14	46
Maxwell	60	10	8	9	5	22	7	29
Melrose	32	10	11	11	5	27	10	37
Mesa Vista	44	9	11	8	6	25	6	31
Mora	4	7	4	7	4	15	4	19
Moriarty	117	14	10	7	5	22	8	30
Mosquero	2		23	2	3	28	5	33
Mountainair	5		6	3	7	16	4	20
Pecos	20	7	13	8	4	25	6	31
Penasco	33	8	8	12	9	29	6	35
Pojoaque	30	18	7	9	5	21	7	28
Portales	98	7	8	16	5	29	8	37
Quemado	17	2	10	8	7	25	7	32
Questa	20	2	11	11	5	27	6	33
Raton	62	17	11	11	5	27	7	34
Reserve	13		15	5	3	23	5	28
Rio Rancho	97	20	13	10	5	28	6	34
Roswell	90	7	9	15	5	29	7	36
Roy	8	5	11	10	4	25	4	29
Ruidoso	55	8	13	14	5	32	10	42
San Jon	18	1	10	8	5	23	5	28
Santa Fe	95	5	5	7	9	21	7	28
Santa Rosa	20	17	10	13	9	32	6	38
Silver City	67	11	10	17	6	33	6	39
Socorro	55	18	14	13	5	32	9	41
Springer	12	1	9	12	10	31	7	38
Taos	49	7	14	12	10	36	9	45
Tatum	15	5	14	9	5	28	6	34
Texico	17	11	20	8	4	32	6	38
Truth or Consequences	99	2	9	14	5	28	7	35
Tucumcari	36	2	8	5	6	19	5	24
Tularosa	45	7	11	11	4	26	8	34
Vaughn	5	2	6	3	7	16	5	21
Wagon Mound	32	25	12	8	5	25	7	32
West Las Vegas	47	64	18	15	6	39	7	46
Zuni	60	14	11	8	7	26	5	31
<b>District Overall Average</b>	<b>Total 4,683</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>6</b>	<b>26</b>	<b>7</b>	<b>33</b>
<b>Charter Schools</b>								
Academy for Technology and the Classics	1		6	5	3	14	4	18
Academy of Trades and Technology	6	13	10	12	7	29	6	35
Albuquerque Talent Development	2	5	5	21	4	30	7	37
Alma D' Arte Charter High School	2		20	12	2	34	5	39
Amy Biehl Charter High School	8	2	8	10	5	23	6	29
Anansi Charter School	3	18	20	20	15	55	6	61
Bataan Military Academy Charter	2	4	21	3	15	39	5	44
Career Academic Technical Academy	1		15	42	3	60	6	66
Cesar Chavez Community School	6	14	11	5	9	25	7	32
Christine Duncan Community School	1		5	2	8	15	13	28

<u>School Name</u>	<u>Number of Paid Requests</u>	<u>Additional Data Requests from School Entities</u>	<u>Program Approval</u>	<u>Fiscal Analyst Approval</u>	<u>Fiscal Supervisor Approval</u>	<u>Total PED Processing</u>	<u>PED to DFA Timeliness</u>	<u>Total Reimbursement Process</u>
Corrales International School	1		2	5	2	9	21	30
Cottonwood Classical Preparatory School	2		2	7	8	17	6	23
Creative Education Preparatory Institute #2	1	4	9	3	15	27	8	35
Deming Cesar Chavez Charter High School	1	5	6	46	2	54	6	60
Digital Arts and Technology Academy	6	16	13	14	9	36	5	41
East Mountain High School	3		12	14	8	34	4	38
El Camino Real Academy	16	12	12	20	5	37	5	42
Horizon Academy West	12		10	7	5	22	7	29
La Academia Dolores Huerta	10	5	11	21	10	42	7	49
La Luz Del Monte Learning Center	1		9	12	3	24	4	28
La Promesa Early Learning Center	4	27	16	9	13	38	6	44
La Resolana Leadership Academy	8	14	16	4	5	25	5	30
Lindrith Area Heritage Charter School	11	8	11	29	12	52	5	57
Los Puentes Charter School	6	5	9	26	6	41	5	46
Media Arts Collaborative Charter School	1		5	16	5	26	6	32
Monte Del Sol Charter School	11		12	12	4	28	5	33
Montessori of the Rio Grande	4		5	14	6	25	16	41
Mosaic Academy Charter	2	2	7	5	27	39	8	47
Mountain Mahogany Community School	3	1	5	31	11	47	15	62
Native American Community Academy	7	4	6	16	9	31	6	37
North Albuquerque Co-Op Community	9	8	12	9	13	34	6	40
North Valley Academy	25	6	15	7	7	29	6	35
Public Academy for Performing Arts	4		17	5	11	33	6	39
Ralph J. Bunche Academy	1		9	3	15	27	8	35
Robert F. Kennedy Charter School	10	13	17	13	7	37	5	42
San Diego Riverside Charter School	5		12	2	9	23	7	30
South Valley Academy	5	2	15	31	15	61	4	65
Southwest Primary Learning Center	10	3	6	18	4	28	5	33
Southwest Secondary Learning Center	5		18	29	7	54	5	59
Turquoise Trail Elementary	35	1	14	14	9	37	5	42
Twenty-First Century Charter	1		14	16	2	32	4	36
Village Academy	1		3	29	18	50	7	57

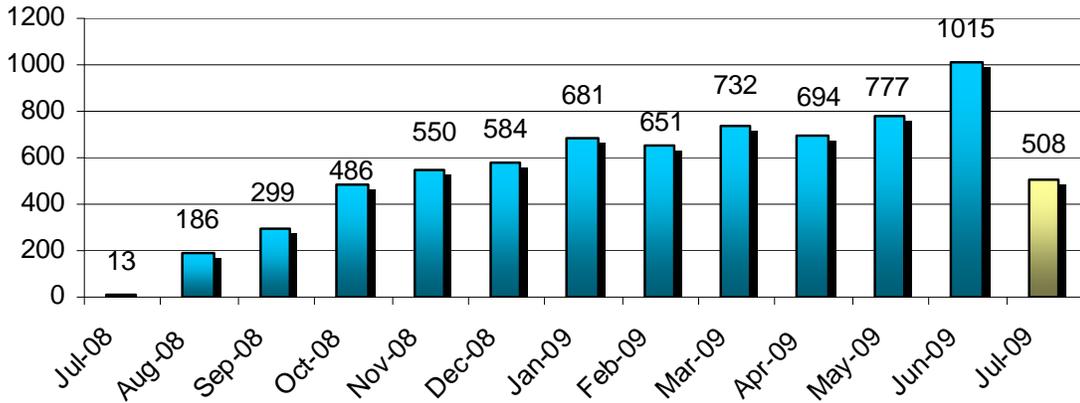
<u>School Name</u>	<u>Number of Paid Requests</u>	<u>Additional Data Requests from School Entities</u>	<u>Program Approval</u>	<u>Fiscal Analyst Approval</u>	<u>Fiscal Supervisor Approval</u>	<u>Total PED Processing</u>	<u>PED to DFA Timeliness</u>	<u>Total Reimbursement Process</u>
<b>Charter Overall Average</b>	<b>Total 253</b>	<b>8</b>	<b>11</b>	<b>15</b>	<b>8</b>	<b>34</b>	<b>7</b>	<b>41</b>
<b>Regional Education Cooperatives</b>								
Regional Education Cooperative #2	1		1	3	6	10	11	21
High Plains REC #3	8		9	35	6	50	7	57
Northeast REC #4	2		6	2	10	18	8	26
Central REC #5	2		10	2	13	25	5	30
Regional Education Cooperative #6	20	7	8	43	4	55	6	61
Regional Education Cooperative #7	20	121	32	18	4	54	5	59
Pecos Valley REC #8	16	1	6	8	6	20	11	31
Regional Education Cooperative #9	6	3	3	9	7	19	7	26
Southwest REC #10	41	6	14	12	6	32	5	37
<b>REC Overall Average</b>	<b>Total 116</b>	<b>28</b>	<b>10</b>	<b>15</b>	<b>7</b>	<b>32</b>	<b>7</b>	<b>39</b>
<b>Overall Average</b>	<b>Total 5,052</b>	<b>10</b>	<b>10</b>	<b>12</b>	<b>7</b>	<b>29</b>	<b>7</b>	<b>36</b>

Source: PED RfR database

**APPENDIX B: REIMBURSEMENT SUBMISSIONS BY MONTH FOR FY09**

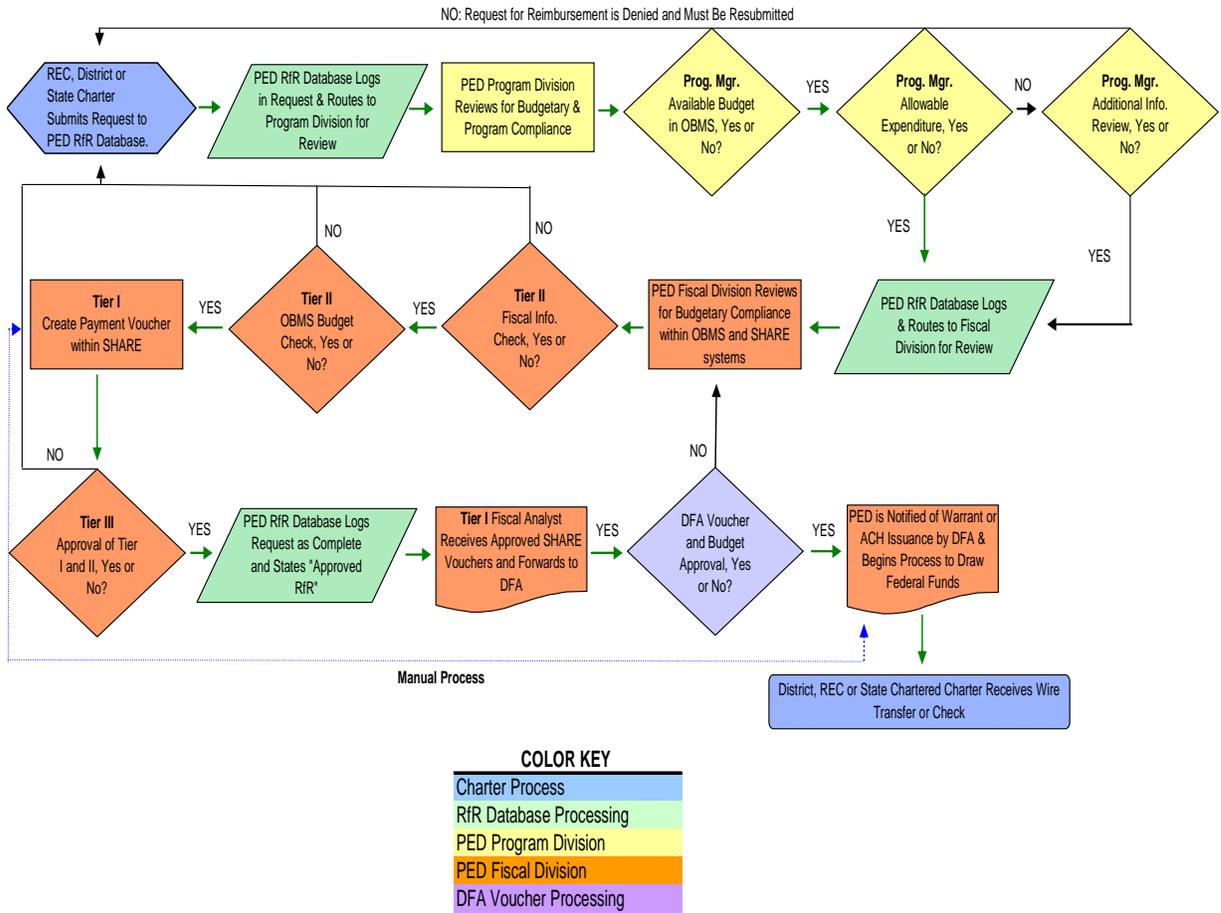
**Number of Reimbursement Submissions by Month for  
Fiscal Year 2009**

(PED's deadline for FY09 RfRs is July 31, 2009)

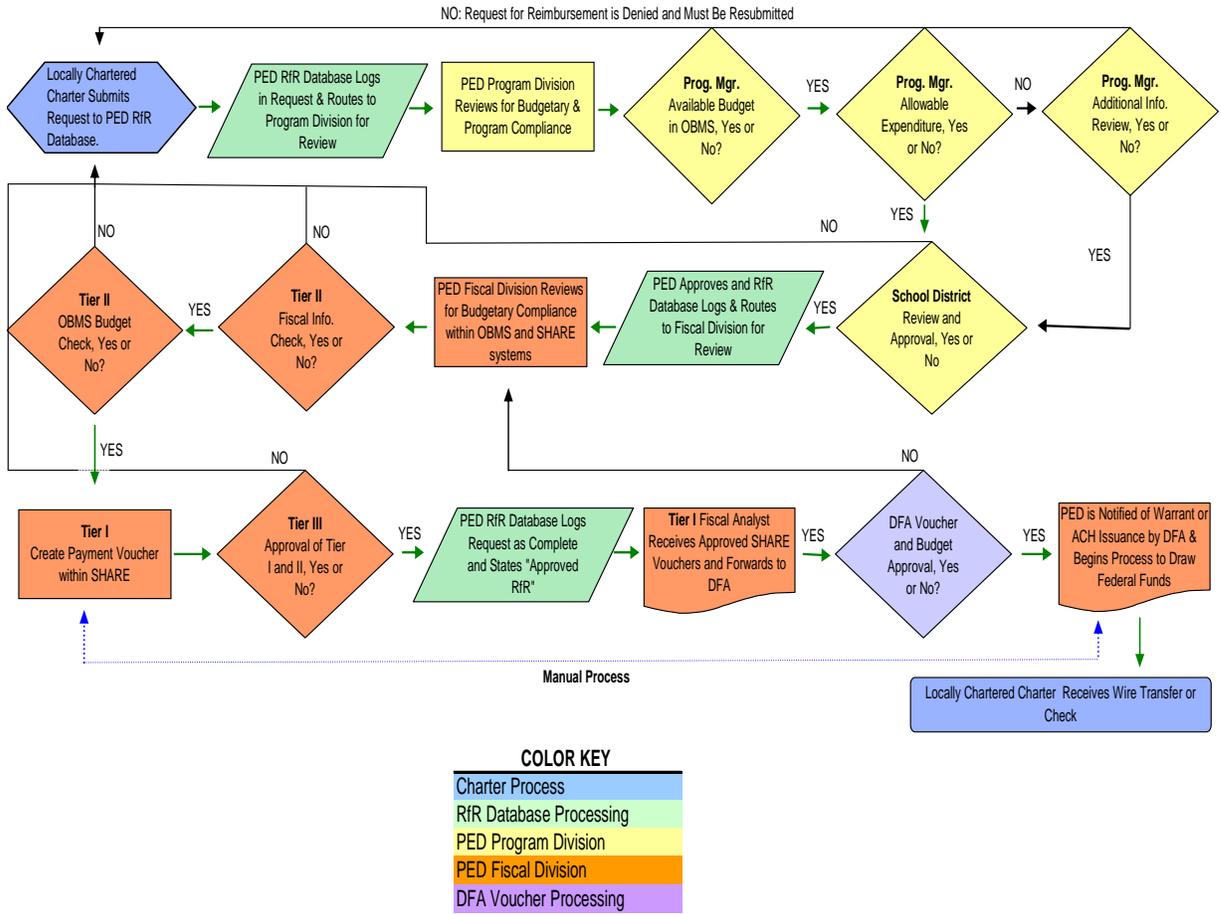


Source: PED's RfR Database

# APPENDIX C: REC, DISTRICT AND STATE CHARTERED CHARTER PROCESS



# APPENDIX D: LOCALLY CHARTERED CHARTER PROCESS



## APPENDIX E: REC MEMBER DISTRICT COMPOSITION

### Regional Education Cooperatives Member District Composition

REC	Member District Composition
2	Chama, Cuba, Dulce, Jemez Mountain, Mesa Vista, Penasco, Questa
3	Cimarron, Clayton, Des Moines, Maxwell, Mosquero, Raton, Roy, Springer, and Charter Schools
4	Las Vegas City, Las Vegas West, Mora, Pecos, Santa Rosa, Wagon Mound
5	Estancia, Magdalena, Jemez Valley, Mountainair, Quemado, Vaughn, Corrections Dept., Children's Psychiatric Hospital (CPH), Juvenile Justice Sites, Sequoyah Adolescent Treatment Center, Youth Diagnostic Center, NM Boys School Camp Sierra Blanca, John Paul Taylor Center
6	Dora, Elida, Floyd, Ft. Sumner, Grady, House, Logan, Melrose, San Jon, Texico
7	Hobbs, Eunice, Jal, Tatum
8	Dexter, Hagerman, Lake Arthur, Loving
9	Capitan, Carrizozo, Cloudcroft, Corona, Hondo, Ruidoso, Tularosa
10	T or C, Animas, Deming, Hatch Valley, Lordsburg, Reserve