F I S C A L   I M P A C T   R E P O R T

SPONSOR: Varela DATE TYPED: 03/03/03 HB 219/aHAFC

SHORT TITLE: Financial Control & Oversight of Agencies SB

ANALYST: Patel

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	**FY04**	**FY03**	**FY04**		
			See Note 1	Non-Recurring	
			See Note 2	Recurring	General

(Parenthesis ( ) Indicate Expenditure Decreases)

Note 1: The integrated accounting and human resource management system would cost approximately $15 to $20 million in a non-recurring fund.

Note 2: The Department of Finance and Committee (DFA) indicted that approximately $378.0 will be needed to compile a comprehensive annual financial report (CAFR) and $400.0 will be needed to audit the CAFR.

SOURCES OF INFORMATION

Responses Received From
Office of the State Auditor (Analysis attached)
Office of the District Attorneys
Department of Health
General Services Department
Department of Finance and Administration (DFA)
Department of Labor

SUMMARY

Synopsis of HAFC Amendment

The House Appropriation and Finance Committee amended this bill as followings:

- Deleted requirements for the Financial Control Division of DFA to consult with the State Auditor (Section 6-5-10 A and B). (Pages 3, 4, 8 and 9).
- Section 6-5-9 is not repealed but is amended to require the DFA to promulgate rules providing conditions for agencies to meet before obtaining an authorization to issue war-

rant or be excepted from the requirement of prior submission of proposed vouchers, purchase orders or contracts to DFA. The DFA shall grant such authority annually and provide report to LFC on the authorizations and exceptions granted.

- Allows the Financial Control Division (FCD) to adjust the reversion within forty-five days instead of ten days after release of the audit report.
- Clarify Sections 8-6-7 A and B to consider receivables accrued based on policy issued by DFA for the purpose of issuing warrants.
- Amends Section 22-2-6.7 NMSA 1978 to repeal warrant issuing authority of the Public School Insurance authority (PSIA). (The PSIA would be required to receive an annual exception from DFA).
- Amends Section 77-2-10 NMSAS 1978 to repeal warrant issuing authority of the New Mexico Live Stock Board (Board). (The Board would be required to receive an annual exception from DFA).
- Repeals Section 16-6-8 NMSA 1978 whereby the New Mexico State Fair would not be allowed to issue its own warrants unless DFA grants annual exception.

<u>Synopsis of Original Bill</u>

House Bill 219 amends and adds language to certain sections of existing laws relating to the Department of Finance (DFA), Financial Control Division (FCD), public money and certain oversight agencies in order to:

- Establish statewide model accounting practices developed and maintained by the FCD.
- Centralize responsibility for the statewide accounting system and procedures.
- Establish responsibility for state agencies, in addition to FCD, for determining legality and authority for expenditures, as well as determination of budgetary sufficiency.
- Grant authority to the FCD to request documentation and other information necessary to justify an agency's determination of a proposed expenditure and allow FCD to disapprove the proposed expenditure if it is determined the agency's justification is inadequate or not substantiated by law.
- Strengthen statewide financial oversight.
- Require state agencies to implement internal accounting controls.
- Require FCD to notify the State Auditor of any exceptions found as a result of pre-audit or post-audit procedures.
- Require all unreserved general fund balances in reverting funds of state agencies to be reverted by September 30 to the state general fund. FCD may adjust reversions within ten days of release of the audit report for that fiscal year.
- Require FCD to compile a comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles (GAAP).
- Provide additional duties to strengthen FCD's role in coordinating activities, collecting data, enforcing statutory requirements and maintaining the central accounting system to enhance the accuracy and integrity of statewide accounting and finance.
- Repeals Sections 6-5-4 and 6-5-9 NMSA 1978.

HB219 amends Section 6-6-2 (F) to require at least quarterly financial reports from local public bodies.

This bill amends Sections 6-10-2 and 6-10-4 NMSA 1978 relating to keeping daily cash records and charges FCD to consider uncollected earned revenue when certifying that sufficient funds exist in an agency's budget to pay prior years' obligations. The bill adds provisions whereby appropriations to the Human Services Department for Medicaid payments may be expended by that department for Medicaid obligations for prior fiscal years.

In addition, this bill strengthens financial oversight by:

- Requiring the Commission on Higher Education to consult with the State Auditor regarding a uniform system of classification, budgeting and reporting that must include submission of at least quarterly financial reports complied in accordance with GAAP.
- Requiring the State Department of Public Education consult with the State Auditor and to establish rules and procedures for a uniform system of accounting and budgeting.

House Bill 219 amends the Audit Act as follows:

Section 12-6-2:

- Expands the definition of "agency" to include quasi-governmental agencies such as the New Mexico Finance Authority, the New Mexico Lottery Authority, the New Mexico Mortgage Finance Authority, and the corporations and the foundations provided for in the Educational Assistance Act.

Section 12-6-3:

- Requires an audit of the statewide CAFR.
- Allows the State Auditor to jointly conduct audits with contract auditors.
- Establishes a due date and certification procedures for audits of agencies under the control of FCD.

Section 12-6-6

- Requires agencies to report known or suspected loss of public funds or other illegal activity immediately to the State auditor.

Section 12-6-14:

- Requires agencies subject to oversight by the DFA Local Government Division, the state Department of Public Education and the Commission on Higher Education to request approval from the oversight agency prior to submitting a recommendation for an independent auditor.
- Allows the State Auditor to select an auditor for any agency that has not submitted a recommendation to the State Auditor within the specified time line.

This bill repeals Section 6-5-4 which required FCD to report to the legislature at the commencement of each regular session a full and detailed statement of the revenue and expenditures for the preceding two years. The effective date for this repeal is July 1, 2003.

This bill repeals 6-5-9 which allows the secretary of Department of Finance and Administration to authorize state agencies to issue warrants and except state agencies from the requirement of prior submission of proposed vouchers, purchase orders or contracts to the FCD. The effective date for this repeal is July 1, 2004.

Significant Issues

A survey of nine other states' practices indicates that a centralized accounting system and centralized responsibility of statewide accounting is the predominant model to maximize return on investment, economies of scale and efficient reporting. This bill specifies additional FCD duties to consolidate responsibility within the FDC for a centralized statewide accounting system, practices, procedures and reporting.

FDC is also authorized to implement a procurement card project. According to the Public Purchaser Magazine, "…e-purchasing arguably holds out the most potential for big, upfront, in-your-pocket savings- in cash and in staff time." According to Department of Health "… the state's procurement card program has been in place several years now and is being used on a voluntary basis by some state agencies. Therefore the need may be for consistent use across all agencies, or a revised system pilot project, rather than an initial project." Consistent use of the procurement card by all agencies has the potential to reduce the number of payment transactions processed by agencies and by FCD central accounting. It will also help to reduce the volume of warrants processed by the fiscal agent bank and the State Treasurer's office.

This bill also places the responsibility for ensuring compliance with all laws, rules and regulations at the agency level where transactions originate and the expenditure incurred. It authorizes the FCD to establish documentation requirements and would include provisions for document certification either in writing or electronically.

The FCD is authorized to store and maintain records electronically which will require implementation of a document imaging system resulting in elimination of the need to microfilm and store documents in a paper format.

February 2001 Governing Magazine gave New Mexico a grade of C+ for financial management and stated that "… the state's pensions are fully funded and its bond rating is healthy, but it could use better analysis of debt capacity. Financial reporting continues to be weakness here as well. Contracting is very decentralized, leaving problems with the potential to fester unnoticed." Recently Governor Bill Richardson ordered a halt to most state contracts due to questionable spending and management practices. As examples of waste, the Governor cited a $4 million telephone and data improvements contract by the State Highway and Transportation Department; a $16 million no-bid contract to a vendor that handles the Medicaid claim system and another sole source contract for the State System – Application Links to Services (SSALSA) entered into by the Human Services Department.

The bill also establishes the requirement for FCD to compile and the State Auditor to audit a comprehensive annual financial report which is essential to provide information that is used by investment companies to determine the state's fiscal integrity and to set bond rates. Quasi-governmental agencies are brought under the oversight of the State auditor for annual audit purposes.

FISCAL IMPLICATIONS

This bill does not contain an appropriation. A preliminary cost estimate of approximately $15 to $20 million for integrated systems is based on a conceptual design for central accounting and human resource management system in a phased implementation approach. The sources of funds have not yet been identified.

According to DFA it is estimated that $778.0 would be needed for compilation and audit of the CAFR. Based on the effective date of the HB219, the CAFR compilation and audit requirements will be for the fiscal year ending June 30, 2004.

Theoretically, the bill should not result in additional costs to the agencies because agencies should already be ensuring that expenditures are legal and sufficient funds exist prior to incurring expenditures. Every precautions should be exercised in planning an integrated accounting system that handles accounting, payroll, human resource management, procurement and other central office functions, including budget preparation, grant and project accounting, fixed asset/inventory management, etc.

ADMINISTRATIVE IMPLICATIONS

If this bill is enacted, the state should be more effective in monitoring expenditures, contract management and fulfilling its oversight responsibilities.

TECHNICAL ISSUES

A technical amendment may be needed to repeal specific authority granted to disburse funds (issue warrants) to the State Fair (Section 16-6-8 NMSA 1978), the Public School Insurance Authority (Section 22-2-6.7 NMSA 1978) and the New Mexico Livestock Board (Section 77-2-10 NMSA 1978).

MP/njw:yr