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FISCAL IMPACT REPORT

SPONSOR	HEC	2	ORIGINAL DATE LAST UPDATED	02/09/10 02/12/10	нв	227&251/HECS /aHAFC		
		School Board Finance Committees and Audits SB			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			
				ANAI	LYST	Aguilar		
APPROPRIATION (dollars in thousands)								

Appropr	iation	Recurring or Non-Rec	Fund
FY10	FY10 FY11		Affected
	None		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From Public Education Department (PED) Department of Finance and Administration (DFA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment to House Education Committee substitute for House Bills 227 and 251 by allowing a school board that consists of more than five members to appoint more than two of its members to the audit committee.

Synopsis of Original Bill

The House Education Committee Substitute for House Bill 227 and 251 requires school districts and charter schools to establish a finance subcommittee of the governing board to assist the board in carrying out its budget and finance duties. The subcommittee is to provide recommendations to the board and serve as an external monitor on budget and finance issues.

The bill provides for each governing board to appoint an audit committee composed of two board members, a district parent and one member with experience in accounting and finance. The superintendent and the chief financial officer of the school district will serve an as ex-officio members of the committee.

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FISCAL IMPLICATIONS

This bill does not appear to have any fiscal impact on school districts.

SIGNIFICANT ISSUES

A recent performance analysis of school districts conducted by the Legislative Finance Committee identified a number of financial and management irregularities, many that were consistent among districts. It was clear from information received from the school districts that the financial oversight responsibilities of school boards is not as robust as it should be to properly account for the expenditure of public funds.

As of March 22, 2009, 23 school districts were out of compliance with statutory requirements to have timely audits submitted to the state auditor. By September 30, 2009, with considerable pressure applied by the state auditor and PED this number was reduced to 12 districts. The state auditor notified the LFC in September that he considers these school districts to be "at risk" for employee fraud and embezzlement. While some districts were late by a few months, the most egregious violators were late by as many as four years.

The provisions contained in this bill appear to be a way to help districts identify and correct financial and audit issues before they become problematic.

Community-School partnerships are considered by many to be a vital component for schools and school district success. These partnerships serve as a way for districts to learn and understand what is important to local communities and to improve a school district's accountability to its citizens. This appears to be a way to ensure that school boards remain accountable for a school district's operations.

OTHER SUBSTANTIVE ISSUES

There have been recent financial issues with school districts in which audits were not completed for several years or other financial issues occurred which were not known by the local school board until much later.

The duties of the finance committee are to make 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 expenditures; (3) annual budget preparation and oversight; and (4) procurement. The finance committee will also serve as an external monitoring committee on budget and other financial matters.

The membership of the audit committee is to consist of two board members, one parent of a student attending that school district and members of the community within the school district who have experience in accounting and financial matters. The superintendent and the school district business manager shall serve as ex-officio members of the committee.

The duties of the audit committee are: (1) issue and evaluate the request for proposal for annual financial audit services; (2) recommend the selection of the financial auditor; (3) attend the entrance and exit conferences for annual and special audits; (4) meet with external financial auditors at least monthly after audit field work begins until the conclusion of the audit; (5) be

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accessible to the external financial auditors as requested to facilitate communication with the board and the superintendent; (6) 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; (7) provide other advice and assistance as requested by the local school board; and (8) be subject to the same confidentiality requirements as those imposed on the board by the Audit Act and rules of the state auditor.

PA/svb:mt