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FISCAL IMPACT REPORT

ORIGINAL DATE 02/02/11

SPONSOR Nava/Hall LAST UPDATED 02/07/11 HB _____

SHORT TITLE No Education Dept. Auditor Approval SB 141/aSEC

ANALYST Haug

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		NFI	NFI			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

State Auditor (OSA)

Public Education Department (PED)

SUMMARY

Synopsis of SEC Amendment

The Senate Education Amendment would retain PED approval requirements auditor selection for state-chartered charter schools subject to oversight by the Public Education Department.

Synopsis of Original Bill

Senate Bill 141, introduced on behalf of the Legislative Education Study Committee, removes the PED's authority to approve independent auditors for audits of school districts and State Charter Schools (SCS) prior to the submission of auditor recommendations to the State Auditor's Office for approval.

FISCAL IMPLICATIONS

The Senate Education Amendment effectively removes all fiscal implications since local school districts already bear the cost of annual financial audits and SCS are currently included in the PED's audit cost.

The PED believes there would be an increase in cost if each charter school selected a different auditor. According to the PED, FY10 audit cost of each SCS was approximately \$12,750.00 paid out of SCS' budget funded with state monies. The PED asserts this cost could increase as much as 60% or more for each SCS if the audits are performed by different auditors.

Should the PED concerns about 60% increased cost be borne out, each charter school would pay

as much as \$21,250.00 for their audit. Assuming 75 charter schools the marginal impact (75 X 8,500) in total audit cost for charter schools would be \$637,000. While it is unlikely that every charter school would select an auditor different from all others, some undoubtedly would. The estimate in the table above reflects the range of marginal cost should 10 to 50 of the charter schools select unique auditors incurring the marginal cost computed above. None of this additional cost would result from the PED's loss of authority to approve auditors for school districts as opposed to charter schools.

SIGNIFICANT ISSUES

Presently the Public Education Department (PED) has the authority to approve school districts' and state charter schools' (SCS) independent auditors prior to the State Auditor's Office review and approval.

The PED states with respect to State Charter Schools:

In the past the PED has selected the same auditor for both the SCS and the PED. SCS are classified as component units of PED by the Governmental Accounting Standards Board (GASB) and PED's audit cannot be submitted until all component unit audits are complete.

Having the same auditor for all the SCS and PED enables PED to closely monitor the progress of the SCS' audits and ensure that they are completed and submitted to PED and thus the State Auditor on time. If PED does not have the authority to review the selection of auditors for the SCS, it would be almost impossible to ensure that each SCS audit is timely. Since PED cannot submit its audit until all the component units (the charter schools') audits are submitted it would impact PED submitting its audit timely. Since public school funding is such a large portion of the state's total funding, PED not submitting its audit timely would adversely impact DFA timely completing the New Mexico Comprehensive Annual Financial Report (CAFR).

In addition, the PED notes:

The State Auditor's Office will have additional contracts and reports to review.

Audit costs for SCS will increase due to loss of efficiencies gained by performing multiple audits of multiple schools by the PED's auditor.

Having multiple auditors performing SCS' audits will increase the risk of financial statements' misstatement and the risk of financial statements being submitted late.

It should be noted that PED raises no specific issues with respect to the loss of authority for approval of auditors for school districts prior to their submission to the OSA. PED does note that continued collaborative efforts involving PED working closely with the State Auditor's Office should be encouraged and enhanced and that the audit approval process as it presently stands is an important vehicle for that purpose.

The OSA comments that SB 141 does not impact the OSA's performance. The OSA is still required to process recommendations for school districts and charter schools regardless if there is a requirement that the public education department (PED) must approve the independent auditors.

GH/bym