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FISCAL IMPACT REPORT

	ORIGINAL DATE 2/05/09		LAST UPDATED 3/12/09	HB 317
SPONSOR	Varela			
SHORT TITLE	Transfer Purchasing to the Department of Finance and Administration			SB
			ANALYST	Patel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	NFI (See narrative)		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Responses Received From
 LFC File
 General Services Department
 State Personnel Office
 Public Education Department

SUMMARY

Synopsis of Bill

House Bill 317 relates to executive reorganization, transfers the purchasing division from the general services department to the department of finance and administration and creates the state personnel division, including transferring the personnel board to the department of finance and administration. This bill includes temporary provision to transfer all personnel, property, contracts and references in law and rules effective on July 1, 2009 from purchasing division of the general services division and the state personnel office to the department of finance and administration.

FISCAL IMPLICATIONS

House Bill 317 does not contain any appropriation. Appropriations for the two divisions being proposed to transfer usually are included in the general appropriation act.

SIGNIFICANT ISSUES

According to the General Services Department (GSD) moving the State Purchasing Division under DFA would result in DFA having approval authority over both the purchasing and payment functions – a conflict with the preferred “checks and balances” system provided by separating the purchasing, receiving and payment functions. For those items purchased by DFA, the DFA Secretary would have approval authority over all three functions – thus eliminating the “checks and balances” system for that department

The required level of consultation between cabinet secretaries will add an additional level of oversight that will further complicate and slow procurement processes already cited as taking too long. The proposed reorganization may require a physical relocation and functional reorganization and the fiscal and administrative impact to DFA is unknown. State Purchasing currently has funding concerns so any cost will be borne by DFA.

According to the State Personnel Office (SPO) currently, there is an independent fiscal review being conducted by DFA to determine if the agency has sufficient budget to process certain human resource transactions. SPO has the sole responsibility to review these proposed transactions from a human resource perspective. This bill would create a “checks and balances” conflict if the DFA Cabinet Secretary has approval over both financial expenditures and human resource capital decisions.

Rather than exempting the SPO outright from the authority of the DFA Secretary or administratively attaching it to the department, the bill appears to leave it with some degree of autonomy by stating that it “shall not be construed to affect the exercise of any board power or duty,” but however does link the caveat to the Executive Reorganization Act rather than the enabling act that creates DFA and all its organizational units.

HB317 proposes the consolidation of the central human resource function of the state in a direction “exactly opposite” of what is transpiring in both the public and private sector. Over the past two decades private sector corporations have clearly seen the value of having the human resource function at a level similar to finance, opting for an Executive Vice-President of Human Resources to sit at the executive management table along side the Executive Vice-President of Finance. This development has taken place in the public sector at the municipal, county and state levels as well. The trend has been to elevate the human resource function to be on the same level as finance, not to bury it many layers down in the financial function.

Followings are major observations noted in the GSD- Purchasing Division effectiveness review report issued by LFC on October 21, 2008.

- State purchasing function typically resides within a state’s finance and administration agency.
- Statutory guidance on non-typical procurements such as emergency purchases and exemptions needs review by executive and legislature for statutory amendments, if any.
- Procurement Code violations have ranged from \$2 million to \$7 million and not tracked or monitored. GSD appears to be most frequent violator.
- GSD- Purchasing Division has a fair and consistent request for proposal and invitation to bid process.

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- Purchasing agent needs to develop improved management and accountability to ensure statutory compliance and efficient procurement practices are implemented.

Followings are major observations noted in the State Personnel Office (SPO) review report issued by LFC during May 2007.

- SPO has not consistently enforced personnel policies within its own organization and across state government in the areas of hiring, exception to open recruitment, promotion, lateral transfer, temporary pay increases, etc., and lacked documentation and justification for many of its personnel actions.
- SPO did not conduct quality assurance reviews during 26- month period prior to LFC review.
- SPO functions have decreased by decentralization of many human resources functions.

Followings are major observations noted in the selection and hiring process report issued in April 2008 by the Quality Assurance Bureau of the State Personnel Office (SPO).

- Statewide recruitment efforts by SPO and agencies are passive and a documented collaborative recruitment plan does not exist.
- The only viable method for applying for classified state employment is on-line through Statewide Human Resources, Accounting, and Management Reporting system (SHARE).
- Agencies generally followed the Personnel Act, rules and established best practices.
- Many agencies policies regarding recruitment, interviewing, selection, and hiring are outdated and do not reflect the changes associated with SHARE implementation.
- Agencies were not consistently conducting reference checks, education validations, or licensure verifications.
- Many agency staff that conduct interviews have not been trained on proper interviewing techniques.
- SPO's guidance efforts to agencies are largely sufficient, however need improvement in consistency.
- SPO is not adequately measuring the effectiveness of their training and recruitment efforts.
- SPO is meeting its statutory training requirement, however is providing inconsistent guidance in the recruitment and hiring process.

Above observations are indicative of the so called preferred “check and balances” system advocated by both GSD- purchasing division and SPO is neither preventing non-compliances with laws, rules and regulations nor has it proved to be effective and efficient. House Bill 317 is proposing to create two more divisions within DFA which will maintain the necessary checks and balances and provide effective and timely communications between all divisions to resolve issues and problems as they come up. The surrounding states research conducted by LFC indicate that they have maintained effective and efficient functional integrity of financial, human resources, purchasing, budgetary operation without compromising any internal and managerial controls (check and balances). The surrounding states websites researched conducted by LFC staff indicate nine states have its state purchasing division and six state personnel (Human Resources) within its finance and /or administration agency as listed below.

State Purchasing and Personnel Functions within Other States				
	State Purchasing		State Personnel	
State	Finance and/or Administration (Administrative Services)	General/Central Services Department	Finance and/or Administration (Administrative Services)	Independent Agency
Idaho	✓ http://adm.idaho.gov/purchasing/			http://www.dhr.idaho.gov/
Nevada	✓ http://purchasing.state.nv.us/			http://dop.nv.gov/
Wyoming	✓ http://ai.state.wy.us/GeneralServices/procurement/		http://personnel.state.wy.us/	
Utah	✓ http://purchasing.utah.gov			http://www.dhrm.utah.gov/
Arizona	✓ http://www.azdoa.gov/spo/		http://www.hr.state.az.us/	
Colorado	✓ http://www.colorado.gov/dpa/dfa/spo/index.htm		http://www.colorado.gov/DPA/dhr/train/index.htm	
Kansas	✓ http://www.da.ks.gov/purch/default.htm		http://www.da.ks.gov/ps/	
Nebraska	✓ http://www.das.state.ne.us/material/		http://www.das.state.ne.us/personnel/	
Oklahoma		✓ http://www.ok.gov/DCS/Central_Purchasing/index.html		http://www.ok.gov/opm/index.htm
Arkansas	✓ http://www.state.ar.us/dfa/procurement/pro_index.html		http://www.state.ar.us/dfa/personnel_mgmt/opm_index.html	
New Mexico		✓ http://www.generalservices.state.nm.us/spd/		http://www.spo.state.nm.us/index.html

Source: Internet

PERFORMANCE IMPLICATIONS

The proposed reorganization has greater possibilities to increase performance, efficiency and effectiveness of services provided by various divisions within DFA, if implemented correctly.

ADMINISTRATIVE IMPLICATIONS

The proposed reorganization will result in consolidation of duplicate functions such as merging of professional contract review and tracking staff within purchasing division, merging of financial services related resources of SPO and purchasing division with the administrative services division resources of DFA to create an economy of scale to provide the support services in a cost effective environment.

MP/svb