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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/13/09  
 SPONSOR Varela LAST UPDATED 03/18/09 HB 321/aHEC/aHJC  
 SHORT TITLE School Finance Audit Report Requirements SB \_\_\_\_\_  
 ANALYST Archuleta

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY08	FY09	FY10	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		Unknown	Unknown	Unknown		

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

State Auditor (OSA)

Department of Finance and Administration (DFA)

Public Education Department (PED)

### SUMMARY

#### Synopsis of HJC amendment

The amendment removes the word “penalize” and inserts “withheld temporarily” when referring to the implications of failing to submit a timely audit.

#### Synopsis of HEC amendment

The amendment requires the State Auditor’s Office to notify the Public Education Department within ten days when a school district, charter school or regional educational cooperative fails to submit an audit report within 90 days of the due date specified by the state auditor. Lastly, the amendment specifies that the penalty described in the bill may be subject to the secretary’s suspension of the local school board or governing body acting as a charter school.

#### Synopsis of Original Bill

House Bill 321 establishes progressive sanctions against school districts, charter schools, and regional education cooperatives that fail to comply with the due dates for annual audits specified by rule of the State Auditor. This bill also requires the State Auditor to notify the Public Education Department when a school district, charter school or regional education cooperative fails to submit a required annual audit by the due date.

## **FISCAL IMPLICATIONS**

House Bill 321 requires school districts and charter schools to have an annual audit and provides sanctions for school districts and charter schools who fail to submit a timely audit report to the department. These sanctions include: submission of monthly financial reports to the department until the district or charter is in compliance; after ninety days and up to one hundred eighty days, the district or charter may be penalized in an amount up to five percent of its current-year state equalization guarantee distribution; after one hundred eighty days but within two hundred seventy days, the district or charter may be penalized in an amount up to seven percent of its current equalization guarantee and may be required to submit a corrective action plan to the secretary; after two hundred seventy days, may be penalized up to seven percent of its current equalization guarantee distribution and may be subject to suspension of the local school board or governing body acting as a board of finance.

## **SIGNIFICANT ISSUES**

House Bill 321 will require more accountability on the local school district and or charter schools to provide timely submission of audit reports. If audit reports are submitted in a timely fashion, projection of future financial demands of the school districts and charter schools might be more transparent to the legislature and other policy makers.

## **ADMINISTRATIVE IMPLICATIONS**

The notification requirement placed on the Office of the State Auditor (OSA) by Subsection E of Section 1 is negligible in terms of the OSA's administrative operations.

## **TECHNICAL ISSUES**

According to OSA, Subsection A of Section 2 requires the school district or charter school to submit a copy of the audit report to the department "upon completion". The OSA reviews and releases all audit reports for school districts and charter schools. Upon its release of an audit report for a school district or charter school, the OSA sends a copy of the report to the Public Education Department. Therefore, that provision is not needed. If the provision is kept in the bill, the more appropriate language would be "upon the release of the annual or special audit report."

## **OTHER SUBSTANTIVE ISSUES**

According to OSA, the bill may need clarification if it is intended to apply to school districts, charter schools and regional education cooperatives who do not comply with annual audit due dates after July 1, 2010.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Failure to make accurate projections based upon audited financial statements can lead to inadequate budgeting.

School districts, charter schools and regional education cooperatives would not be subject to sanctions for failing to submit annual audits.