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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/20/15  
 LAST UPDATED 3/18/15      HB \_\_\_\_\_

SPONSOR Munoz

SHORT TITLE Modernize State Accounting & Reporting, CA      SJR 11/aSRC

ANALYST Malone

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

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$5,028.0	\$5,028.0	\$10,056.0	Recurring	DFA Operating (General Fund)
		Unknown Positive	Unknown Positive	Unknown Positive	Recurring	STO Operating (General Fund)
		Unknown Positive	\$0.0	Unknown Positive	Nonrecurring	STO Operating

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB 543, which also dictates daily reconciliation

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)  
 Attorney General's Office (AGO)  
 Department of Information Technology (DoIT)  
 Office of the State Auditor (OSA)  
 State Treasurer's Office (STO)

### SUMMARY

#### Synopsis of SRC Amendment

The Senate Rules Committee amendment to Senate Joint Resolution 11 clarifies that reconciliation take place each *business day*.

#### Synopsis of Original Bill

Senate Joint Resolution 11 proposes to amend Article 5 of the Constitution of New Mexico by repealing Section 9 and adding a new Section 9. Currently, Article 5, Section 9 of the New

Mexico constitution requires officers of public institutions to account for funds received and report annually to the governor. SJR 11 proposes to amend the constitution to require the State Treasurer and DFA to reconcile the state's cash accounts on a daily basis and report periodically to the governor and the legislature.

## **FISCAL IMPLICATIONS**

According to DFA, if the current banking structure is kept at 172 fiscal agent bank accounts, the department estimates that it would require approximately 57 additional FTE's in the Financial Control Division. This does not include the current Cash Control staff of four or the additional request for six FTE for the Financial Control Division made for FY16. The additional 57 FTE would be needed to perform the daily reconciliations and to track communications with agencies. Additionally, DFA estimates that Helpdesk would need an additional two FTE's to reconcile the various SHARE modules to the SHARE general ledger and work with DoIT to resolve system issues in a shorter timeframe. Finally, the department projects that the Budget Control Group would need one FTE to coordinate between all of the Financial Control Divisions, Agencies and the State Treasurer's Office to create the quarterly report. The department estimates the costs of these FTE as follows:

- 57 (FTE) x \$65,000.00 (average salary) = \$ 3,705,000.00 x 30% benefits = \$1,111,500.00 + \$3,705,000.00 = \$4,816,500 FCD FTE
- 2 (FTE) x \$48,960.00 (average salary) = \$ 97,920.00 x 30% benefits = \$29,376.00 + \$97,920.00 = \$127,296.00 DFA Helpdesk FTE
- 1 (FTE) x \$65,000.00 (average salary) = \$65,000.00 x 30% benefits = \$19,500.00 + \$65,000.00 = \$84,500.00 Budget Division FTE
- Total impact would be over \$5 million annually

STO notes that the agency may require a separate system from SHARE to accurately and independently track bank activity, although STO does not have an estimate of the cost of such a system at this time.

Although not identifying a specific amount, AGO notes that the court anticipates that a constitutional amendment requiring daily reconciliation of cash accounts would require a significant upgrade to the current PeopleSoft financial management system and would therefore have a significant fiscal impact.

## **SIGNIFICANT ISSUES**

Accurate and timely cash reconciliation, which the state has lacked since the implementation of SHARE in 2007, is key to ensuring financial accountability and has important implications for the state. DFA has booked a \$101 million contingent liability against the state's operating reserve fund to account for historical cash variances between SHARE and the bank, although the department is uncertain if that sum is large enough and acknowledges that shortfalls could be much greater.

DFA is working to remedy the cash control issues in the state. In 2013, the department completed a Cash Remediation project to better ensure financial control on a go forward basis (although the project did not deal with the historical imbalances/problems referenced above).

Cash Remediation Phase II is scheduled to begin at the end of February 2015. Cash Remediation

## **Senate Joint Resolution 11 – Page 3**

Phase II will address a number of serious issues including the manual process of booking the Payment Load and Third Party Warrant activity to the general ledger.

DFA should put together a strategic plan for reconciling historical imbalances and determining reliable starting account balances.

See attachment 1 for detailed background on the state's cash control problems and remediation efforts.

### **PERFORMANCE IMPLICATIONS**

The Cash Control Bureau believes that reconciling the State's bank accounts on a daily basis would not add value to the State's cash outlook and notes that monthly bank reconciliation is the standard practice utilized by the accounting profession.

### **ADMINISTRATIVE IMPLICATIONS**

Both DFA and STO would have substantial new administrative duties as a result of this resolution.

### **RELATIONSHIP**

Relates to SB 543, which also dictates daily reconciliation.

### **TECHNICAL ISSUES**

The state fiscal agent bank produces official statements on a monthly basis. The daily transactions that are provided to the State are not guaranteed to include all transactions, the monthly statements are the official record of the activities at the fiscal agent bank. The fiscal agent bank's detailed checks report, which is a critical part of the current monthly reconciliation process, is provided on a monthly basis. The disbursement bank accounts cannot be reconciled without this report.

### **OTHER SUBSTANTIVE ISSUES**

OSA supports the objective of addressing cash reconciliation problems and implementing appropriate accounting practices.

### **ALTERNATIVES**

Currently the Cash Remediation Phase II project is not 100% funded. The HAFC substitute for HB 2 includes approximately \$4 million dollars of funding for Cash Remediation Phase II.

Additionally, the executive budget recommendation for FY15 includes a request for six additional FTE for the Financial Control Division. The changes that will be implemented during the Cash Remediation Phase II project will require six additional FTE to perform the daily activities that will be necessary after the completion of the project. The additional FTE would be created if the additional funding for the Cash Remediation Phase II project is included in the General Appropriation Act of 2015.