

# Office of the State Auditor



**The School Board's Critical Role in Effective  
Fiscal Management**

**2024 NMSBA Board Institute  
February 2, 2024**

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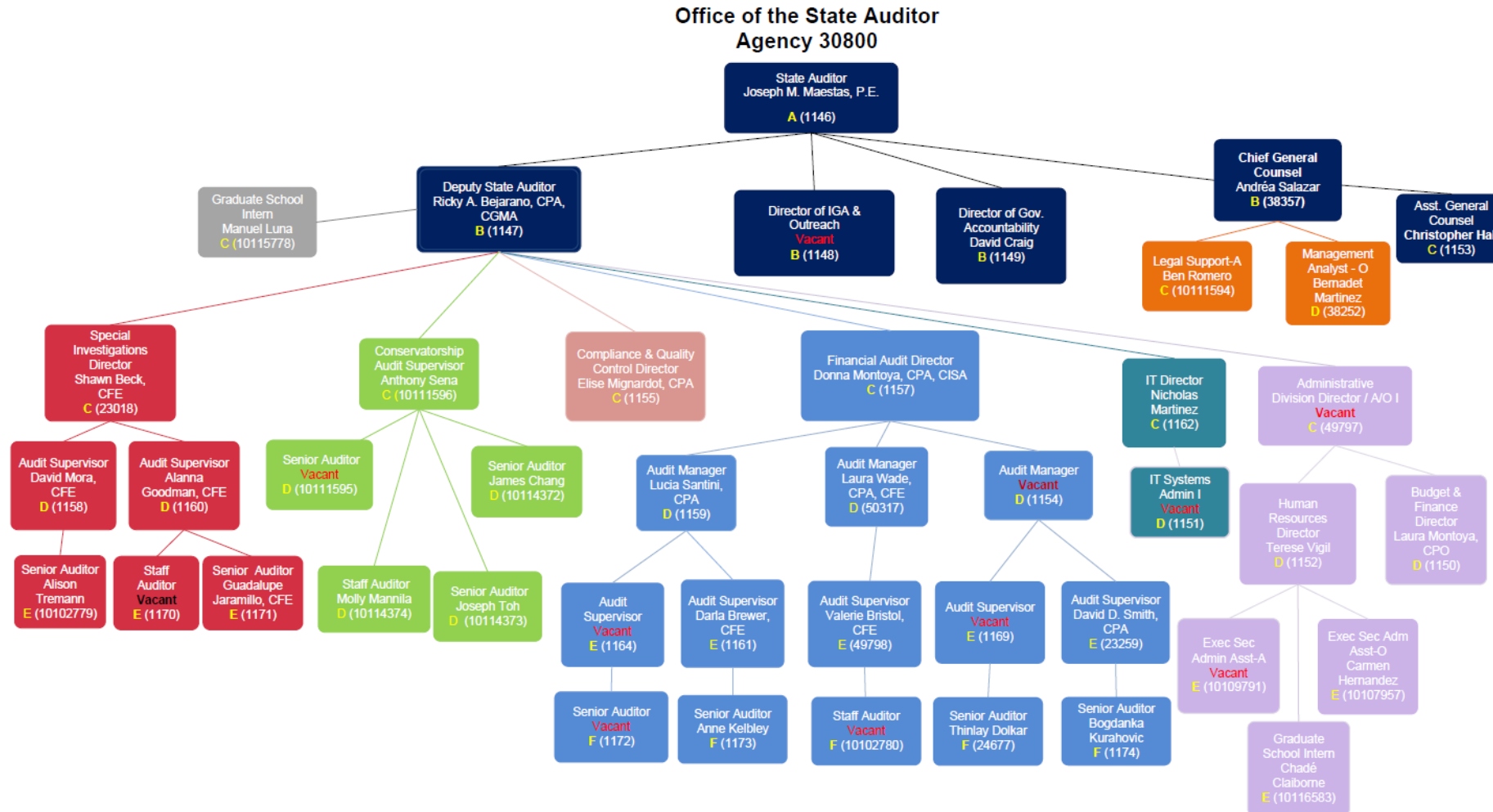




## Governed by the Audit Act and Audit Rule

- To ensure that the financial affairs of every agency shall be thoroughly examined and audited each year by the state auditor, personnel of the state auditor's office designated by the state auditor or independent auditors approved by the state auditor;
- The State Auditor office shall examine all reports of audits of agencies and local public bodies made pursuant to contract;
- Cause the financial affairs and transactions of an agency to be audited in whole or in part. NMSA 1978, § 12-6-3, (gives the State Auditor the authority to conduct both financial & special audits); and
- Ensure Independent Public Accountants (or IPAs) (2.2.2.8 NMAC) maintain adherence to professional standards required for governmental audit engagements.

# Office of the State Auditor's Organization Chart



# Office of the State Auditor – First Year Work



## Accomplishments

- Updated Audit Rule to include systems of controls (SOC) audit for SHARE financial system – looking to expand.
- Partnered with the State Treasurer to address major issues related to pledged collateral and custodian designation.
- Improved coordination with DFA and LFC – working to improve partnership with PED.
- Launched new internship program in partnership with universities.
- Implemented a new case management system for fraud complaints.

# Office of the State Auditor – Policy Goals



## Future Work Goals

- Propose amending statutes to reduce deficiency appropriations.
- Additional audits of State financial management systems.
- Reinforce supports for OSA Financial Audit Division.
- Revise and update Audit Act.
- Revise probate code to limit OSA scope in conservatorship audits.
- Complete singular audit study.
- Support OSA recruitment and retention by aligning to other public and private sector benchmarks.
- Expand GAO report reviews or special audits into more targeted areas of concern.
- Relocate OSA office space to new executive office building.
- Bolster training and education in partnership with stakeholders to sustain financial compliance (like you all at NMSBA).

# Office of the State Auditor – Government Accountability Office (GAO)



## Role of the GAO

- Brings transparency and accountability to public entities.
- Makes information in the public audits more easily understood.
- Measures the financial health, areas of risk, and targets improvements for public entities.
- Uses data to inform entities of improvement opportunities.

## Overview

- Today we summarize the fiscal year 2022 (FY22) financial audit finding data for schools – and specifically school districts.
- Discuss what your independent public accountants (IPA's) suggest can resolve some of your audit findings.

# Government Accountability Office – Findings Review Process



## How was data analyzed for today's presentation?

- FY22 audit findings for school districts, charter schools and Regional Education Cooperative (REC's) were consolidated.
- Identified missing data.
- Sorted all findings by category.
- Determined frequent categories of audit findings.
- Dove deeper into the reasons behind the common reasons for occurring.
- IPA recommendations for frequent categories were summarized into themes.

# FY22 Audit Finding Categories



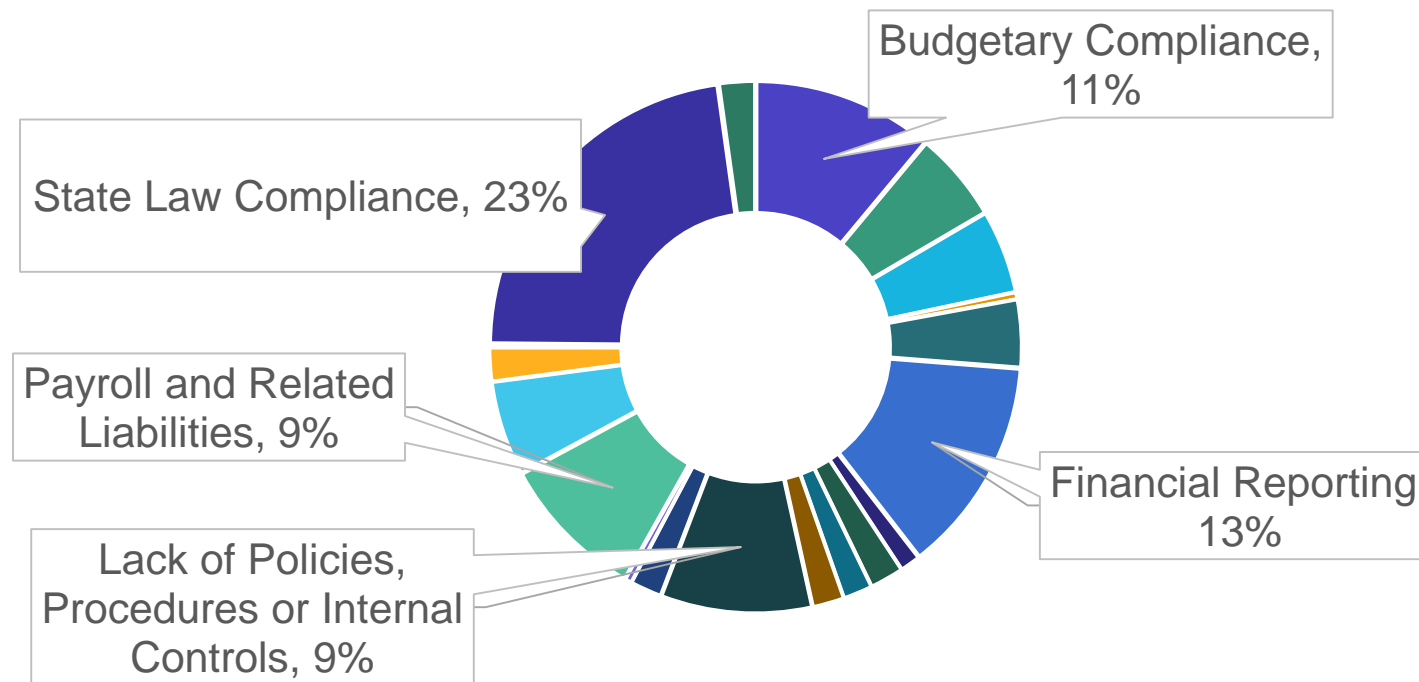
1. Budgetary Compliance
2. Capital Assets
3. Cash and Investments
4. Debt and Debt Service
5. Expenditures and Expenses - Advance Payments
6. Expenditures and Expenses - Lack of Documentation
7. Expenditures and Expenses - Lack of Proper Authorization
8. Expenditures and Expenses - Other
9. Expenditures and Expenses - P Cards and Credit Cards
10. Financial Reporting
11. Fund Balance and Net Position
12. Grant Compliance
13. Information Technology
14. Inventory
15. Lack of Policies, Procedures or Internal Controls
16. Late Audit
17. Payables and Related Liabilities
18. Payroll and Related Liabilities
19. Procurement
20. Revenues and Receivables
21. Reversion
22. Segregation of Duties
23. State Law Compliance - Anti-Donation Clause
24. State Law Compliance - Open Meetings Act
25. State Law Compliance - Other
26. State Law Compliance - Public Money Act
27. State Law Compliance - Sale of Public Property
28. Travel and Per Diem
29. Unclaimed Property
30. Vehicles and Fuel Cards



# What are the most common categories of audit findings in all schools?



## FY22 Public Schools Findings (by category)



**65% of all public school findings are in 5 categories of financial issues. Includes districts, charters and REC's.**

# Comparing all Schools to School Districts



- *But your data includes charter schools and school districts have different issues than charter schools right?*

## **Yes and No.**

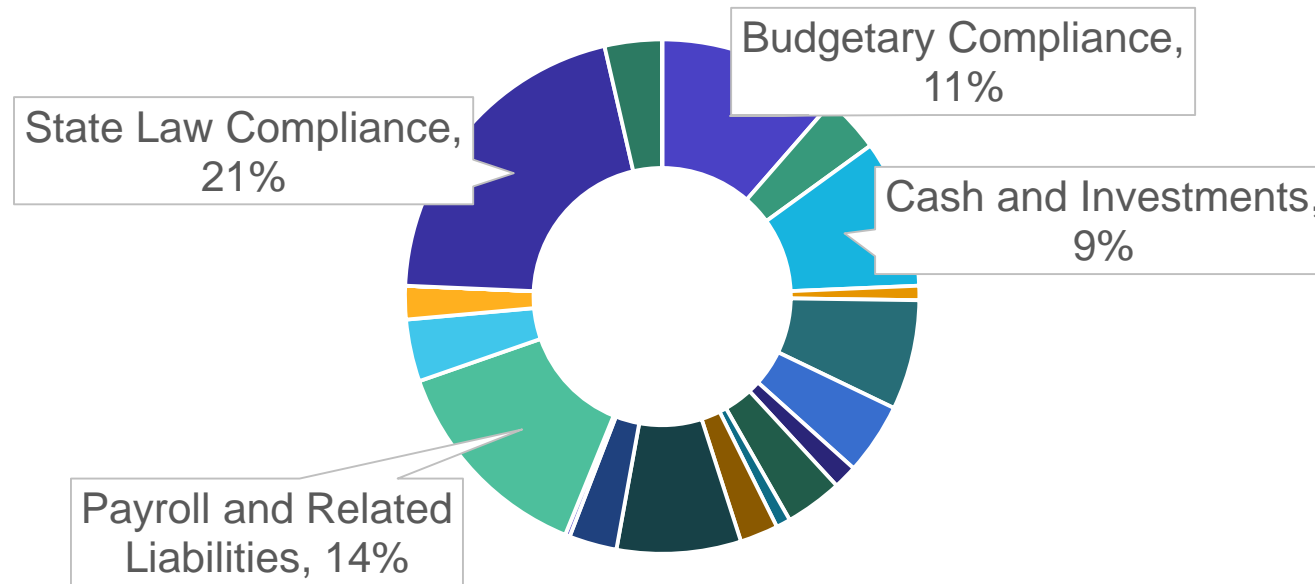
- Top 4 finding categories for all public school entities: state law compliance, financial reporting, budgetary compliance, payroll and related liabilities/lack of policies and procedures.
- Top 4 finding categories for all charter schools (local and state): financial reporting, state law compliance, budgetary compliance, and some lack of policies and procedures.
- Top 4 finding categories for all school districts (not including charter schools): state law compliance, payroll and related liabilities, budgetary compliance and cash and investments.
- Of the top 4 findings for school districts, they share 3 of the 4 top categories of findings with public schools at large and 2 of the 4 with the charter schools.

**You share many of the same financial challenges as charter schools.**

# What are the most common categories of audit findings for school districts?



## FY22 School District Findings (by category)



**These 4 categories of audit findings reflect 55% of all audit findings at school districts!**



# State Law Compliance Category

## Subcategories

Vouchers/Deposits	35.71%
Inaccurate Reporting	24.29%
Personnel Files	14.29%

Vouchers/Deposits – Untimely bank reconciliations, Improper pledged collateral, 24-hour deposit rule, and stale dated checks.

Inaccurate Reporting - largely to PED (Actual Revenues and Expenditures, Cash report, and Equity in Athletics)

Personnel Files – Background Checks

# State Law Compliance Findings Mitigation



- Read the law. Be familiar with Public School Finance, Public Monies Acts and Procurement Code.
- Management must review cash controls to ensure cash receipts are deposited within 24 hours and documentation of deposits be maintained.
- Written proof *pledged collateral* requirements are being met from your bank provide for deposits over \$250,000 can help resolve state compliance findings.
- Receive *bank reconciliations* at School Board meetings with bank statements to show they are correct and approve.
- Automation - 6.20.2.14 NMAC 1978 requires cancellation of checks over one year. Many vendors take e-payments or ACH transfers and this can help address *stale dated checks*.

# State Law Compliance Findings Mitigation



- Management Oversight – Administration reviews PED reporting, personnel actions and bank reconciliations/ check cancellations.
- Ensuring review of accuracy of reports to general ledger system reported amounts would cut down on *PED reporting errors*.
- For all, written Policies and Procedures – For all state compliance findings having internal controls that address the procedures (for PED cash reports, check cancellation, performing bank reconciliations, etc.) are recommended.
- Review personnel files prior to audit and have proof of background check in the personnel file.

# Payroll and Related Liabilities Category



## Subcategories

Improper Pay	28.81%
Missing Documentation	23.73%

Improper Pay- Mostly ERB, RHCA or NMPSIA Withholding errors, but also overpaying employees.

Missing Documentation – The majority of these findings were related to not having the proof of a background check on file; same with I-9 forms.

# Payroll and Related Liabilities Findings Mitigation



- Management Oversight. IPA's recommend administration review:
  - all withholding calculations and personnel file closeouts;
  - the entry of human resources and personnel files into the financial system;
  - all personnel contracts before they are signed;
  - the accuracy of Education Retirement Board (ERB) and Retiree Health Care Authority (RHCA) withholding; and
  - contract language matches system for pay.
- Written Policies and Procedures. Develop checklists of required documentation retained in personnel file and how to load staff into financial system.
- Ensure payroll is in System – Visions (and most other financial management systems) have modules for HR payroll data. Not keeping separate systems for HR payroll can minimize overpayments.



# Budgetary Compliance Category



## Subcategories

Overspent Budget                      76.31%

Overspending Budget – Entities either don't timely perform budget maintenance (Budget Adjustment Requests or BAR's) or overspend.

# Budget Compliance Findings Mitigation



- Compare School Board Reports – Compare the BAR reports to Budget Status Reports. Is the Budget versus actuals showing deficits? What are the administration's plans for BAR's? When and where will they occur?
- Management Oversight – Administration reviews budget to actuals reports on a regular and routine basis to ensure that proper BAR's are being completed.
- Grant Compliance – Understand allowable expenditures on grants. Don't allow special revenue funds to run negative.
- Don't overspend – In rare situations, some folks will just spend into the red rather than make tough choices on priorities.
- Other issues – Not budgeting all cash available, underbudgeting revenue held at other agencies like DFA or NMFA, failure to establish budget authority.



# Cash and Investments Category

## Subcategories

Improper Accounting	35.48%
Bank Reconciliation Errors	19.35%
Stale Dated Checks	16.13%
Vouchers/Deposits	16.13%

Improper Accounting – Errors between the General Ledger and PED’s cash report, but also failure to account properly.

Bank Reconciliations, Stale Dated Checks, Vouchers/Deposits – Often they are done but done improperly and incorrectly recorded.

# Cash and Investments Findings Mitigation

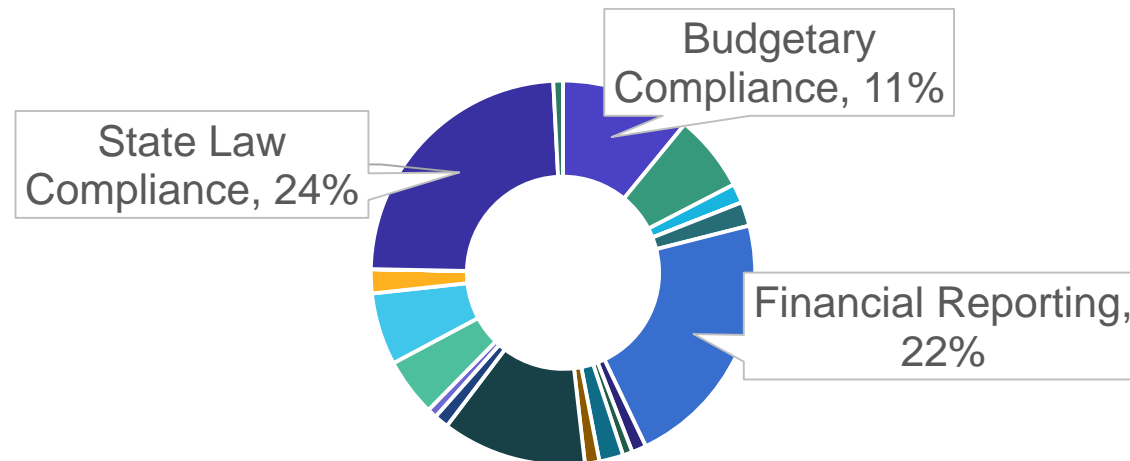


- Management Oversight – Administration review of cash report and match to accounting software (general ledger).
- Examples of common calculation procedures, frequently asked questions and common errors for vouchering/warrants, depositing, bank reconciliations and cash report development, and check cancellation should accompany written policies and procedures for financial operations.
- Periodic review of common accounting items including adjusting journal entries, interfund temporary loans, and development of any PED required financial reporting is recommended.
- Cash receipts – Deposit and record receipt.

# What are the most common categories of audit findings for charter schools?



## FY22 Charter School Findings (by category)



**These 3 categories of audit findings reflect 57% of all audit findings at charter schools!**

# Charter Schools Findings Mitigation



- School District Oversight – Locally chartered charter schools are overseen by chartering school district.
- State Law Compliance and Budgetary Compliance – Similar issues with vouchers/deposits, inaccurate reporting, personnel files, failure to perform BAR's and overspending we see in school districts.
- Financial Reporting – Charter school experience more issues with improper accounting.
- This is an issue with proper accounting for funds. IPA's recommend periodic reviews of accounting procedures at the charter schools.

# Common Areas of Risk Across Categories



## What areas should the School Board work with administration to target?

- Benefits Withholding – Especially for ERB percentages and ensuring they scale to contracts.
- Voucher/Deposits – Ensure compliance with 24-hour deposit rule.
- Year End Financial Report Accuracy - Ensure General Ledger matches submitted year-end PED and IPA reports.
- PED Required Reporting – ensure that PED's reports are accurate to the school district system at time of reporting.
- Bank Reconciliations – Ensure these are being completed monthly and accurately.
- Stale Dated Checks – Cancel all checks over a year old.
- Personnel Files – Make sure you have a background check completed and filed in the personnel folder. Create a checklist of all required documentation. Ensure that someone is reviewing entry into the system.
- Administration Oversight – Ensure we do not have a single point of failure (i.e., one staff member performing all bank reconciliations, check cancellations, deposits and entry of withholding without supervision).

# Looking Forward to FY23 School Audit Findings



- After this training – we will look at whether you improved in FY23.
- Did you all respond and fix the issues identified by the IPA, or do we have repeat findings?
- What new areas are required to be addressed after we review FY23 audit findings?
- Where do we think school districts need to target interventions (Supervisory/Management Oversight, policies and procedures)? Has that changed with new audit findings in FY23?
- How can we help?
- Always a difficult balance between remaining independent as public auditors and not providing management instruction, but also highlighting your IPA recommendations for best practices and continuous quality improvements.



# Reporting Fraud Waste and Abuse



## **DUTY TO REPORT**

- The New Mexico Audit Act (Section 12-6-6 NMSA 1978 (criminal violations), requires an agency or IPA to provide a written notification to the state auditor immediately upon discovery of any alleged violation of a criminal statute in connection with financial affairs.
- Notifications are to be sent by e-mail to [reports@osa.state.nm.us](mailto:reports@osa.state.nm.us) or by US mail.
- Agencies are not to submit notifications through the OSA's fraud complaint online portal.
- Notifications need to include (at a minimum)
  - an estimate of the dollar amount involved, ***if known or estimable***,
  - a description of the alleged violation, including names of persons involved, and
  - any action taken or planned.

## **FILING A COMPLAINT**

- Complaints may be made anonymously through our website's online portal (<https://nmosa.caseiq.app/portal>) or by calling 505-476-3800
- You may also write to the office at:

New Mexico Office of the State Auditor  
2540 Camino Edward Ortiz, Suite A  
Santa Fe, NM 87507



# Thank you

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