

**MANUAL OF PROCEDURES  
PSAB SUPPLEMENT 2  
INTERNAL CONTROL STRUCTURE**

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**TABLE OF CONTENTS**

**INTRODUCTION ..... 1**

**CONTROL ENVIRONMENT ..... 2**

**KEY FACTORS..... 3**

    MANAGEMENT'S PHILOSOPHY AND OPERATING STYLE ..... 3

    MANAGEMENT'S COMMITMENT TO COMPETENCE ..... 3

    THE SCHOOL DISTRICT'S ORGANIZATIONAL STRUCTURE ..... 3

    THE FUNCTIONING OF THE SCHOOL BOARD AND ITS COMMITTEES ..... 4

*The Finance Subcommittee* ..... 4

    METHODS OF ASSIGNING AUTHORITY AND RESPONSIBILITY ..... 4

    MANAGEMENT'S CONTROL METHODS..... 4

    AUDIT SUBCOMMITTEE ..... 4

*The Audit Subcommittee's role* ..... 5

    PERSONNEL POLICIES AND PRACTICES..... 5

    EXTERNAL INFLUENCES ..... 5

**RISK ASSESSMENT ..... 5**

**CONTROL ACTIVITIES AND PROCEDURES..... 7**

*Segregation of responsibilities*..... 8

*A system of authorization* ..... 8

*Sound accounting practices* ..... 8

*Bonding of employees*..... 8

*Sequential numbering*..... 8

*Proper safeguards*..... 8

*Transactions shall be properly recorded on a timely basis*..... 8

*Independent performance checks and proper valuation*..... 8

**INFORMATION AND COMMUNICATION ..... 9**

    COMPUTER DATA ..... 10

*General Controls* ..... 10

*Application Controls*..... 11

**MONITORING ..... 11**

<b>TOOLS .....</b>	<b>12</b>
<b>EFFECTIVE INTERNAL CONTROL.....</b>	<b>13</b>
<b>MODEL INTERNAL CONTROLS AND PROCEDURES.....</b>	<b>14</b>
GENERAL .....	14
CONTROL FRAMEWORK.....	14
ETHICS STATEMENT.....	14
COMMUNICATION AND TRAINING.....	14
PERSONNEL.....	15
• <i>Segregation of Duties.....</i>	<i>15</i>
• <i>Transaction Authorization.....</i>	<i>15</i>
• <i>Transaction Recording.....</i>	<i>15</i>
• <i>Safekeeping Assets.....</i>	<i>16</i>
• <i>Record Reconciliation.....</i>	<i>16</i>
RISK ASSESSMENT .....	16
CONTROL ACTIVITIES.....	16
<i>Budget.....</i>	<i>16</i>
FINAL CASH BALANCES.....	17
BUDGET MAINTENANCE .....	17
PAYROLL .....	18
<i>Sick Leave.....</i>	<i>18</i>
PURCHASING.....	19
ENCUMBRANCES .....	20
RECEIVING .....	20
ACCOUNTS PAYABLE .....	20
BANK RECONCILIATIONS .....	21
PER DIEM & MILEAGE ACT .....	21
<i>In District Travel -.....</i>	<i>21</i>
<i>In-State Travel.....</i>	<i>21</i>
<i>Out-of-State Travel.....</i>	<i>21</i>
CASH RECEIPTS .....	22
ACCOUNTS RECEIVABLE.....	23
PETTY CASH .....	23
INVESTMENTS.....	23
INVENTORY .....	24
SPECIAL REVENUE FUNDS .....	24
DEBT SERVICE.....	25
INSURANCE .....	25
REPORTING .....	25
JOURNAL ENTRIES.....	26
<b>KEY WORDS INDEX .....</b>	<b>I</b>
<b>TABLE OF AUTHORITIES .....</b>	<b>III</b>

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## **INTRODUCTION**

Each school district is responsible for establishing and maintaining an internal control structure including policies and procedures and is also responsible for ensuring that the school district complies with laws and regulations applicable to state and federal programs. (Section 22-1-1, NMSA 1978; 6.20.2.11, NMAC)

These internal control policies should be based on the 1994 report issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and standards adopted by the American Institute of Certified Public Accountants and the Federal Office of Management and Budget. Much of the material in this supplement is from the General Accounting Office (GAO) publication, Standards for Internal Control in the Federal Government. The terms defining internal control in this document are synonymous with management control in the Office of Management and Budget publication OMB Circular A-123.

The COSO report defines internal control as a process established to provide **reasonable assurance** specific school district objectives such as effectiveness and efficiency of operation, reliability of financial reporting, and compliance with applicable laws and regulations will be achieved. Internal controls include the plans, methods and procedures used to meet goals and objectives. Effective Internal Control serves as the major defense in safeguarding assets and preventing and detecting errors, fraud, waste and abuse.

**Management is responsible for developing detailed policies, procedures and practices and insuring that they are an integral part of the district's operations.**

The COSO report recognizes that Internal Control is affected by people. People are involved in every process that calls for specific internal controls. The responsibility for good internal control rests with the management of a school district or charter school. The superintendent with the approval of the school board or governance council sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control and sets the general "tone" of the organization. However, all personnel in the organization play important roles in an effective and efficient operation.

A school district's and charter school's internal control structure consists of the five following elements:

- The Control Environment.
- Risk Assessment.
- Control Activities.
- Information and Communications.
- Monitoring.

These elements set the minimum standard acceptable for internal control and provide the basis against which internal control is to be evaluated. These standards apply to all aspects of a district's operations, both programmatic and financial, and provide a general framework for developing and organizing detailed policies and procedures.

## **CONTROL ENVIRONMENT**

The control environment is the collective effect of various factors in establishing, enhancing, or mitigating the effectiveness of specific policies and procedures. The control environment reflects the overall attitude, awareness, and actions of the school board, management and others concerning the importance of control and its emphasis in the district or charter school.

***Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.***

**(GAO Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1)**

The control environment sets the tone of a school district. By providing discipline and structure, it is the foundation for all other components of internal control. Control environment factors include the integrity, ethical values, and competence of the school district's staff; district management's philosophy and operating style; the way management assigns authority and responsibility; the way management organizes and develops its staff; and the attention and direction provided by the board.

## **KEY FACTORS**

### **MANAGEMENT'S PHILOSOPHY AND OPERATING STYLE**

Management determines the degree of risk the school district or charter school is willing to take and the organization's philosophy towards performance-based management. Further, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, audits and evaluations can have a profound effect on internal control.

### **MANAGEMENT'S COMMITMENT TO COMPETENCE**

All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as to understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals. See PSAB Supplement 14, Payroll. (GAO/AIMD-00-21.3.1 (11/99), Page 8).

### **THE SCHOOL DISTRICT'S ORGANIZATIONAL STRUCTURE** ( 6.20.2.12 NMAC )

School districts will devise, establish and maintain an effective organizational structure in order to give appropriate consideration to the following matters:

- Devise a system of measurement and accountability for employee performance.
- Establish a policy in which the delegation of the responsibility for employee actions is combined with sufficient authority to perform the assigned activities.
- Create and maintain budgets and financial reports which facilitate the discharge of assigned responsibilities and monitors activities at each level of the organizational structure.
- Operate a system of checks and balances which separates incompatible activities to preclude absolute control by any individual or unit, provides for supervision by higher levels of management and for the monitoring of overall school district activities.
- Provide an organizational structure to support district's framework for planning, directing, and controlling operations to achieve objectives.

## THE FUNCTIONING OF THE SCHOOL BOARD AND ITS COMMITTEES

(Section 22-8-12.3, NMSA 1978)

***As used in this section, "local school board" includes the governing authority of a charter school.***

**The Finance Subcommittee** shall serve as an external monitoring committee on budget and other financial matters.

Each local school board is charged with appointing at least two board members to serve as a finance subcommittee to assist the board in carrying out its budget and finance duties. This finance subcommittee shall make **recommendations** to the school board in the following areas:

- Financial planning, including reviews of the school district's revenue and expenditure projections;
- Review of financial statements and periodic monitoring of revenues and expenditures;
- Annual budget preparation and oversight; and
- Procurement.

## METHODS OF ASSIGNING AUTHORITY AND RESPONSIBILITY

A good internal control environment requires that the school district's or charter school's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting. The environment is also affected by the manner in which the district/charter school delegates authority and responsibility throughout the organization for operating activities, reporting relationships, and authorization protocols.

**MANAGEMENT'S CONTROL METHODS** provide for monitoring and following up on performance, including internal auditing and establishment of an audit committee (Section 22-8-12.3, NMSA 1978)

## AUDIT SUBCOMMITTEE

Each local school board shall appoint an audit subcommittee that consists of two board members, one volunteer member who is a parent of a student attending that school district and one volunteer member who has experience in accounting or financial matters. The superintendent and the school district business manager shall serve as ex-officio members of the committee. A local school board with more than five

members may appoint more than two board members to its audit committee. The audit committee shall:

- Evaluate the request for proposal for annual financial audit services;
- Recommend the selection of the financial auditor;
- Attend the entrance and exit conferences for annual and special audits;
- Meet with external financial auditors at least monthly after audit field work begins until the conclusion of the audit;
- Be accessible to the external financial auditors as requested to facilitate communication with the board and the superintendent;
- Track and report progress on the status of the most recent audit findings and advise the local school board on policy changes needed to address audit findings;
- Provide other advice and assistance as requested by the local school board; and
- Be subject to the same requirements regarding the confidentiality of audit information as those imposed upon the local school board by The Audit Act (Section 12-6-1, NMSA 1978) and rules of the state auditor (2.2.2, NMAC).

**The Audit Subcommittee's role is primarily to provide assistance to management in fulfilling its responsibilities with respect to its oversight of the following:**

- The quality and integrity of the district's accounting and reporting practices and controls, and the financial statements and reports of the district;
- The district's compliance with legal and regulatory requirements;
- The independent auditor's qualifications and independence; and
- The performance of both the district's internal audit function and independent auditors.

## **PERSONNEL POLICIES AND PRACTICES**

The district's management is charged with establishing appropriate practices for hiring, orienting, training, evaluating, counseling, promoting, compensating, and disciplining personnel. Providing sufficient supervision is also a requirement.

**EXTERNAL INFLUENCES** that affect a school district's operations and practices.

Because governmental, economic, regulatory, and operating conditions continually change, systematic reviews should be established to identify and address any special risks prompted by such changes that are external to the district.

## **RISK ASSESSMENT**

A **risk assessment** is a process to identify, analyze, and manage risk. A school district needs a plan to identify both external and internal risks. The plan will help the school

district or charter school to understand how those risks affect their activities, to assess their significance, to manage their effect, and to provide for continuous monitoring. **Risk identification** can often be integrated with a school district's planning activities. **Risk analysis** involves a careful, rational process of estimating the significance of a risk, assessing the likelihood of its occurrence, and considering what actions and controls need to be taken to manage it. Risk analysis also involves estimating the potential cost to the school district if something does go wrong.

While risk assessment is only one of the elements of risk management, it provides the foundation for the other elements. Other elements include but are not limited to establishment of a central management focal point, implementation of appropriate policies and related controls, promotion of awareness throughout the organization, and the establishment of a system for monitoring and evaluating effectiveness of policies and controls. It is important to implement the most cost effective measures that will result in minimizing risk..

Critical success factors include but are not limited to:

- Obtaining senior management support and involvement
- Designating focal points
- Defining procedures
- Involving business and technical experts
- Holding operating departments responsible
- Limiting the scope of individual assessments
- Documenting and maintaining results

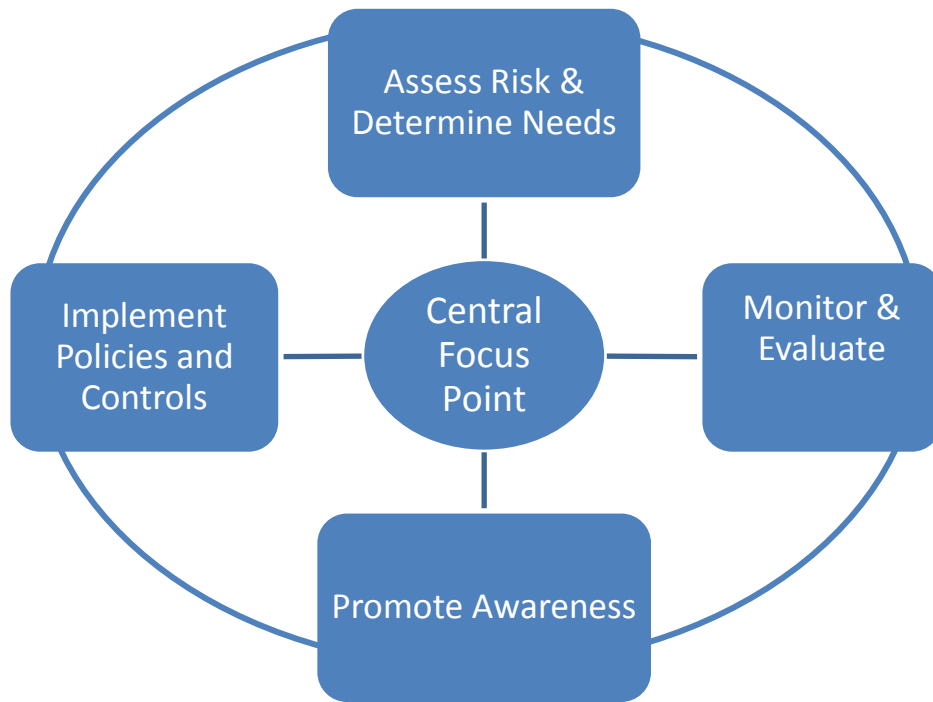
The benefits of an organization's implementation of a risk management program are assurance that the greatest risks are identified and addressed and understood by management and district personnel, that management's support exists for needed controls, and that there is a systematic means of communicating results.

Management must define a process for identifying risks and develop appropriate tools. These tools may include tables, questionnaires, standard report forms, and software to facilitate documentation and analysis. A sample Risk Assessment Tool for Internal Controls is included in the Tips, Tools and Resources section to this manual.

Because risks and threats change over time, it is important to periodically evaluate current policies and procedures for appropriateness in the current environment. Thus, risk assessment is a continuing cycle of activity as illustrated following. (GAO/AIMD-00-33, Information Security Risk Assessment)



# Risk Assessment Cycle



(GAO/AIMD-06-33, Information Security Risk Assessment)

## CONTROL ACTIVITIES AND PROCEDURES

Control activities are the internal policies and procedures that help ensure district directives are carried out. These policies and procedures help ensure necessary actions are taken to address risks to achieving the school district's objectives. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets, and segregation of duties.

Control procedures are those processes in addition to the control environment and accounting system that the district or charter school has established to provide *reasonable assurance* that specific school district objectives will be achieved. Control procedures have various objectives and are applied at various organizational and data processing levels. They may also be integrated into specific components of the control environment and the accounting system. PSAB Supplements 7 through 14 address defined processes for the subject of each Supplement coupled with a sample Risk Assessment Analysis worksheet for each process.

Certain basic internal control structure concepts will not vary from one school district to the next (6.20.2.11, NMAC Internal Control Standards). Each school district will devise, establish and maintain a written structure of internal administrative and accounting controls to provide:

**Segregation of responsibilities** which is also known as division of duties shall be established and implemented. The three main duties to be segregated are the authorization to execute a transaction, the recording of the transaction, and the custody of assets involved in the transaction.

**A system of authorization and recording procedures** shall be adopted by the local school board and implemented by the school district. Management will insure that protection of the public trust is a major focus when granting the authorization to execute business of the school district.

**Sound accounting practices** in performance of duties and functions shall be implemented to include varied error-checking routines that may be performed in connection with record keeping and by comparing recorded amounts with existing budgets. Appropriate action shall be taken with respect to any differences.

**Bonding of employees** handling significant amounts is required. Access to assets is permitted only in accordance with the district's authorization through written policies.

**Sequential numbering** of receipts, checks, purchase orders, and vouchers either on pre-printed forms or by the financial accounting system as appropriate is required. Sequences should be examined to determine any skips in numbers or any duplicate numbers.

**Proper safeguards** to protect unused checks and other pre-numbered forms, cash prior to deposit, and other receipts, and facsimile signature plates shall be in place.

**Transactions shall be properly recorded on a timely basis** in order to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). In addition school districts shall establish any other criteria applicable to such statements to maintain accountability for assets.

**Independent performance checks and proper valuation** of recorded amounts such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances, and user review of computer generated reports will be performed.

An internal control structure is required to demonstrate the school district's ability to record, process, summarize and report financial data consistent with financial statement assertions (See PSAB Supplement 5, Financial Statements) which are:

- Rights and ownership
- Existence and occurrence
- Valuation and allocations
- Completeness
- Presentation and disclosure

This structure shall demonstrate that the school district identifies applicable laws and regulations and designs procedures to provide reasonable assurance that the school district complies with those laws and regulations. **Please refer to PSAB Supplements 5 and 6 for examples of laws and regulations the school district should be aware of when disbursing public funds and carrying out public programs.**

Internal control procedures shall be established, implemented and documented via school district memos, manuals, etc. These procedures should be adopted within a school district to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure should address all school district transactions for all operating units and departments.

## INFORMATION AND COMMUNICATION

Pertinent information must be identified, captured, and communicated in a form and time frame that enables personnel to carry out their responsibilities. The Financial Management System (FMS) generally produces reports containing operational, financial, and compliance related information recorded on a **cash basis** of accounting, making it possible to efficiently manage the cash functions of the school district. Additional software is generally needed to convert from a cash basis to an **accrual basis** of accounting required by Generally Accepted Accounting Practices (GAAP) and Generally Accepted Governmental Auditing Standards (GAGAS). Districts and charter schools should understand the differences and management implications inherent in these statements. See PSAB Supplement 5, Financial Statements.

The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record and report a school district's transactions and to maintain accountability for the related assets and liabilities. An effective accounting system gives appropriate consideration to establishing methods and records that will:

- Identify and record all valid transactions.
- Describe transactions in sufficient detail and on a timely basis to permit proper classification of transactions for financial reporting.

- Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements.
- Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period.
- Present properly transactions and related disclosures in the financial statements.

Sources outside of the district may provide valuable information for districts and charter schools to use in verifying their reports. These sources may include but are not limited to vendors, auditors, and the PED. Information such as vendor statements, OBMS reports, and auditor's and PED's analysis are useful tools for districts and charter schools.

## COMPUTER DATA

Information in this section is taken from GAO publication, Information Security Risk Assessment, (GAO/AIMD-00-33).

The school district should be concerned about the eligibility of computer processed data, general access controls, the access to computer data, the storage for backup media, the existence of duplicate media and the cross training of personnel. Security of computer data must be proved to the auditors, and the school district should consider internal control requirements when they purchase computer software as well as when they staff their data processing department. Auditors shall test the general and application controls.

### General Controls

General controls are normally applicable to all data processing being carried out within an installation and provide a control environment affecting the applications being processed. Application controls, however, apply on an individual basis, and may vary among organizations.

These controls include the plan of organization, the methods and the procedures that apply to the overall computer operations in a school district. The general controls should determine whether the controls (a) have been designed according to management direction and known legal requirements and (b) are operating effectively to provide reliability of, and security over the data being processed. The objectives and procedures followed in conducting this work are discussed in the three areas below.

- **Organization and management controls:** Is there is a clear assignment of responsibilities and accountability for planning, managing, and controlling the functions of the data processing organization? (b) Are personnel qualified and adequately trained and supervised? (c) Is there proper separation of duties?

Such controls will help ensure that the school district's objectives are achieved, and that errors or irregular acts are prevented or detected in a timely manner.

- **Security controls:** Is adequate security is provided over the computer programs, data files, telecommunications network, and input and output materials? These controls, such as physical restrictions and the use of secure passwords and user IDs to limit system access, help ensure that only authorized persons are granted access to the computer system for authorized purposes.
- **Systems software and hardware controls:** Computer systems are controlled by systems software such as operating, data base management, and program library systems. Systems software and hardware normally include built-in error-checking features to detect any errors during processing. The school district should be aware (a) of the procedures used to ensure that the system's software and hardware are functioning properly, and (b) when errors are detected, appropriate and authorized corrective actions are taken. The school district should also be aware of the controls the system's software can exercise over the system, how these controls can be bypassed or overridden, and how modifications to the software are controlled.

### **Application Controls**

Application controls are designed to ensure the authority of data origination, accuracy of data input, integrity of processing, and verification and distribution of output. Districts should review the application controls on which it relies in order to assess their reliability to process only authorized data and to process them promptly, accurately, and completely. A review of the controls used to ensure that application software and later modifications are authorized and tested is essential before implementation. These controls are intended to protect the integrity of the application software.

### **MONITORING**

District and charter school systems and internal activities require monitoring to assess the quality of the system's performance over time. Assessment is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Deficiencies should be reported to supervisors, with serious matters reported to top management.

Monitoring requires continuous assessment and implementation of the district's internal control system. Monitoring includes the normal day to day standard operating procedures used by the district to conduct business, and the evaluation of employees' understanding of those procedures. Monitoring also includes both internal and external quality

assessments of the internal control system. The results of the quality assessments are used to produce a positive impact on the internal control system and ensure that recommendations are actually implemented.

*Management must ensure that employees understand the control system and standard operating procedures, and their responsibility to ensure that the internal controls are effective.*

Employees' understanding of the internal controls system is evidenced through training and interview. They are expected to notify management of suspected internal control weaknesses, information inaccuracies or any other weakness that may indicate internal control weaknesses. The environment should be conducive to frank assessments regardless of employee's position in the managerial hierarchy.

Internal control checklists are reviewed on a set periodic basis. Periodic internal audits are actually conducted and comply with the requirements set forth by the audit committee, if applicable. Results of the periodic internal audits are documented.

External audits are conducted annually in accordance with standards set forth by OMB Circular A-133 pursuant to the Single Audit act of 1984. (6.21.2, NMAC).

External audits include a review of the districts internal control system.

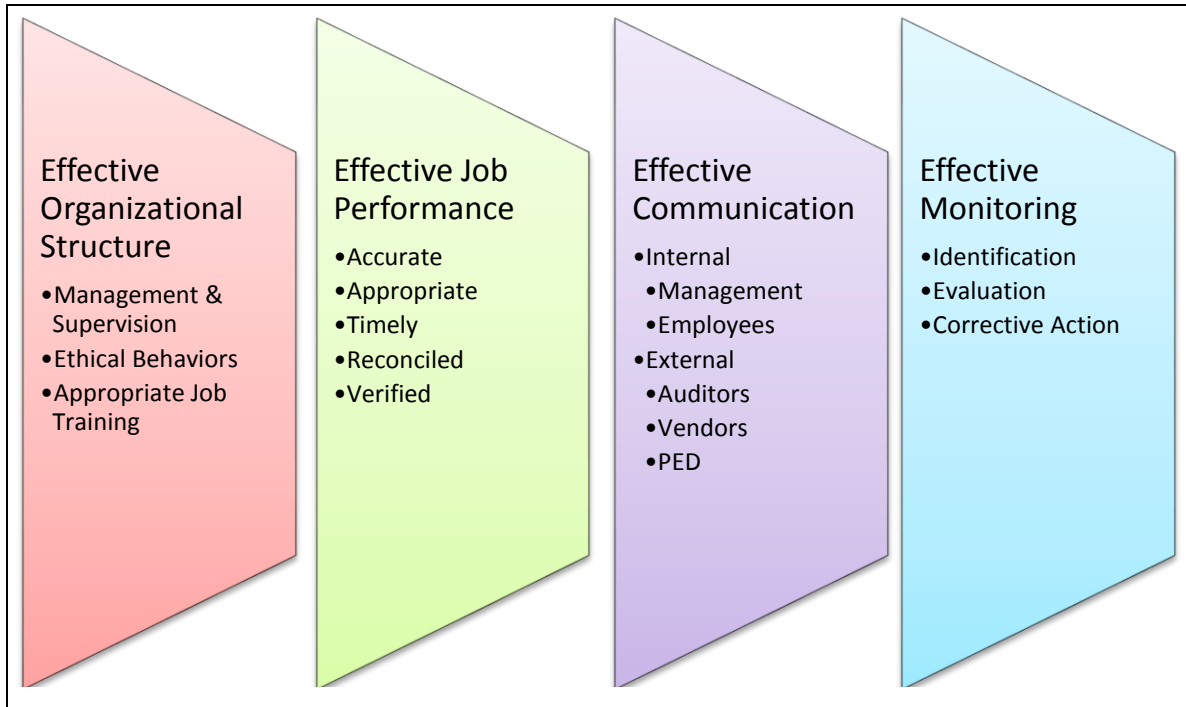
Internal control weaknesses and deficiencies are immediately corrected by the district. Where there is a failure to correct a deficiency in the audit, the state auditor may invoke an enforcement process. (6.21.2.10-11, NMAC).

See also 2.2.2, NMAC, The Audit Rule, and PSAB Supplement 6, Financial and Compliance Audit for additional information.

## **TOOLS**

Tools and checklists that have been developed by GAO and others are included to aid districts in developing their Internal Control Environment. Districts and Charter schools will find that implementing and monitoring controls will generate new controls. Controls will evolve and districts and charter schools will make successive refinements. The tools presented in this supplement are examples only and may be modified by districts to fit their particular school district. A Risk Assessment tool is included in Tips, Tools and Resources section this manual.

## EFFECTIVE INTERNAL CONTROL



## **MODEL INTERNAL CONTROLS AND PROCEDURES**

### **ABC SCHOOL DISTRICT**

#### **GENERAL**

The ABC School District #103 has established procedures to maintain internal control over all assets. The purpose of establishing internal controls is to provide a reasonable assurance that the District will accomplish its objectives of safeguarding assets, providing reliable financial information, promoting operational efficiency and ensuring compliance with laws, regulations and established district policies and procedures.

#### **CONTROL FRAMEWORK**

The District has implemented an internal control system and framework based on its internal and external needs. This framework includes elements modeled according to the COSO model. It is the policy of the district to ensure that its control framework provides for strong administrative governance. The district's internal control system is a relevant evaluation tool for internal control over financial reporting.

It is the policy of the district that its own internal control framework and review evaluations:

- Be free from bias;
- Permit reasonably consistent qualitative and quantitative measurements of the District's internal control system;
- Are sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of the district's internal controls are not omitted.

#### **ETHICS STATEMENT**

ABC School District makes every effort to set an honest and ethical tone for the district that is demonstrated at every level. The district operations reflect the overall attitude, awareness, and actions of the school board, management and others concerning the importance of how the district views internal control and the management of these controls.

#### **COMMUNICATION AND TRAINING**

The ABC School District makes every effort to maintain communication with all employees regarding the policies and procedures of the district including but not limited to periodic training for personnel, both at school sites and central office, and regular meeting of the school board. The District's Board Policies and meeting agendas are



maintained on the District web site along with other information necessary to the requirements for safekeeping of various assets and transparency of financial operations for both employees and taxpayers. Supervisory hierarchies are maintained to insure proper approvals and processes are in place.

## PERSONNEL

The recruitment of competent, honest individuals is administered through the services of the principals and Superintendent, and Assistant Superintendent for Human Resources. The training of staff regarding the established policies and procedures governing all financial transactions is administered through the Business Office.

- **Segregation of Duties.** The assignment of duties to staff members who have access to the Financial Management System is done with the intent of limiting their ability to cause and conceal errors or irregularities. Working within certain limitations, including staff size, incompatible functions are not assigned to any staff member. Details of incompatible staff assignments are specifically addressed for focal points, such as accounts payable and receiving, or posting cash receipts and reconciling the bank accounts. Continued monitoring and oversight must take place daily to ensure secure business operations.
- **Transaction Authorization.** The budget is allocated to each school site and program area and the authorization or expending of funds is assigned to the principal or director for monitoring. The individual school principal or the appropriate director or supervisor is responsible for his/her budget and for assuring that each request is appropriate and necessary. The District allows for Purchase Orders of under \$500 to be processed without additional authorization unless otherwise restricted by funding source. Purchase Orders over \$500 are forwarded electronically to the next approver.
- **Transaction Recording.** Transactions are recorded at the time of authorization resulting in the encumbrance of the budget. The business office staff (with assistance from the Director of Business Services) in the Finance Department is responsible for verifying the amounts, the classification to the appropriate account codes, and the proper authorization of all transactions prior to posting to the Financial Management System. All source documents (checks warrants, etc.) used to record transactions are official District forms and are sequentially numbered by the accounting system for accountability. All voided check warrants are marked VOID and kept on file for the auditor's review. All voided Purchase Orders are marked VOID and are reflected in the Financial Management System.

- **Safekeeping Assets.** The access to assets is limited by assigning primary custodians for the assets at each school or department (including the central office) location. The primary custodian at each location is responsible for monitoring the access of building, vehicles, cash, and other assets. Custodians are periodically rotated or reassigned.
- **Record Reconciliation.** The Finance Department administers the comparison of actual assets on hand with the amounts recorded in the financial management system. Monthly reconciliation of bank statements, fixed asset records, and other financial records are prepared and verified during the monthly closing process. All discrepancies found during the reconciliation process are researched and corrected at the time they are detected. These closeout procedures are administered as a joint effort by the business office staff. Reconciliation of bank accounts is handled by the Internal Auditor, who does not participate in the purchasing or expending activities of the District. The fixed asset listing is maintained and reconciled to the general ledger by the Internal Auditor and verified by either the Director of Business Services or the Assistant Superintendent for Finance.

## **RISK ASSESSMENT**

The ABC School District analyzes all processes and applies a Risk Assessment tool to determine inherent risks in each of its accounting processes. Emphasis is on communication to ensure that each employee is aware of necessary processes to meet certain objectives. The district holds meetings several times a year with key personnel to ensure that employees involved with the acquisition and disposal of assets are thoroughly trained and informed of proper procedures. At the same time, the district must weigh the costs of certain requirements to make sure that the benefits derived do not outweigh the cost of implementing, maintaining and monitoring the system.

## **CONTROL ACTIVITIES**

### **Budget**

The ABC School District prepares and adopts an annual budget in accordance with New Mexico Statutory requirements. The Operating Budget is prepared under the supervision of the Superintendent and Assistant Superintendent for Finance. A budget committee in addition to the Budget Subcommittee of the School Board is selected at each school site and makes recommendations regarding budgetary issues, including site based allocations, and staffing. The Superintendent of Schools monitors all staffing and compares all positions to student class loads. The budget committee at each school site is designed to ensure representation from instructional, program, parent, and administrative perspectives. These decisions are reviewed by the Assistant Superintendent for Instruction and the Assistant Superintendent for Human Resources before being finalized by the Budget Subcommittee and the Assistant Superintendent for Finance. The Operating Budget is reviewed for technical accuracy and approved by

the Public Education Department. It is then presented to the local Board of Education for approval and certification prior to June 20 of each year. The approved and certified budget constitutes the Operating Budget, which is authorization for the District to begin operations on July 1 of the fiscal year. The Director of Business Services integrates the Operating Budget formally into the Financial Management System prior to July 1 by uploading the budget spreadsheets prepared by the Assistant Superintendent for Finance.

## **FINAL CASH BALANCES**

Upon completion of the final close for each fiscal year, the district or charter school determines the actual cash balances for all funds and reports them to the Public Education Department by the designated deadline. (See PSAB Supplement 7, Cash Controls). The Operating Budget is then adjusted by the use of a **Budget Adjustment Request** to incorporate adjusted cash balances as of June 30 into the Operating Budget. Upon approval by the Public Education Department through OBMS (Operating Budget Management System), the District will adjust the budget and incorporate the changes into the Financial Management System.

## **BUDGET MAINTENANCE**

The budget ledgers are maintained in the Business Office using the financial management system used in concert with the cash balance and encumbrances to ensure that all spending is in accordance with budget authority. While budget object lines may be temporarily overspent, budget functions may not be overspent.

All Operating Budget increases, decreases, and adjustments to the Operating Budget are presented to the local Board of Education for approval and then submitted to the Public Education Department via the department's OBMS (Operating Budget Management System) for approval. Budget adjustments, which do not alter the total amount of the budget, are processed as follows:

**Intra-budget transfers**—Transfers between expenditure account codes within the same function are prepared as maintenance BARs and presented to the local Board of Education for approval at the monthly scheduled board meetings. Once approved by the local Board, the adjustments are recorded into the Financial Management System (FMS) and into the Operating Budget Management system (OBMS). No further approvals are needed from Public Education Department.

**Inter-budget transfers**—Transfers between expenditure account codes outside of the same function are presented to the local Board of Education for approval. The transfer requests are then submitted to the Public Education Department via OBMS for approval. Once all approvals are in place, the change is recorded to the Financial Management System as an adjustment to the Operating Budget.

All **original budget** documents are summarized and rolled up to the required elements in the account string maintained in the OBMS system. (See PSAB Supplement 3, Uniform Chart of Accounts.) Copies are distributed to the appropriate staff for recording to the Financial Management System and these documents are made available to the auditor annually.

## **PAYROLL**

The Assistant Superintendent for Human Resources is responsible for monitoring the hiring of personnel, authorizing salaries, initiating employment contracts, and maintaining the staffing levels approved in the annual budget. The Assistant Superintendent for Financial Operations verifies that budget is available for any staffing increases. The human resource Personnel Action Request (PAR) containing employment information (training and experience, fund to be paid from, and school information) is submitted to the payroll officer for new or replacement personnel by the human resources department. The payroll officer verifies the data supplied by the human resources department with the information entered or imported into the Financial System using the PAR in the applications section. The information is then transferred to the Payroll system. All payrolls are processed from the approved employment contracts. All additional payrolls are processed by exception and only with proper authorization from the Superintendent, Assistant Superintendents, and/or the principal at each site. These payroll payments can include substitutes, increments, noon duty, Saturday school, and/or additional services such as tutoring and summer school.

### **Sick Leave**

#### ***Absences for sick leave:***

Employees must call the ABC Substitute SubFinder System and notify the building secretary. All District employees do not have to submit printed leave forms for sick leave, but they must verify their absences with the building/department secretary upon their return to work.

#### ***Other types of leave:***

Other types of leave which require prior approval must be submitted on a printed green "application for leave" or a printed white "Professional Leave" form signed by the building principal or supervisor. The building/department secretary will enter the approved leave into the Sub Finder System.

The green leave forms, which are turned into the business office, are used to verify absences, which have been entered into the Sub Finder System. The green leave forms are also used to make deductions for leave and are used to dock pay when leave is taken without a sufficient leave balance. The pay docks are deducted from the employee's pay on the next scheduled check.

The Food Service Director is responsible for monitoring time worked and for preparing and approving timekeeping data for his/her employees. All other administrative department heads are responsible for monitoring time worked and appropriate data for his/her hourly employees. Any hourly employee falsifying data is subject to dismissal.

The payroll officer is responsible for maintenance of employee insurance, tax sheltered annuities, and other voluntary and mandatory payroll deductions. After the payroll data is entered into the Financial Management System, a pro forma payroll is run to verify data for accuracy. An excel spreadsheet is used for the verification process prior to the generation of the payroll checks. The information systems department, the Director of Business Services and Windsor Management back up the Financial Management System nightly.

The District maintains one payroll bank account, which is used as a clearing account for all checks issued. A payroll check register is generated to document all payments made for each payroll run. Additional reports are available for review and verification, and for audit purposes. A payroll summary sheet is produced from the Financial Management System is reviewed by the Director of Business Services before processing the direct deposits and federal tax payments.

All blank check stock is stored in a locked cabinet in the office of the Director of Business Services. Access to this office and locked cabinet is limited. All payroll checks are numbered sequentially by the financial management system (FMS) and encoded with a signature and this signature has limited access.

All contract employees are paid twice a month and payments are prorated according to the services rendered and to insure 24 checks throughout the calendar years.

The Business Office maintains all employee earnings, deduction, and leave records according to the regulations. (See PSAB Supplement 21, Records, Retention and Disposition.) Monthly, quarterly, and annual payroll tax-benefit reports required by the Federal, State, and local governmental agencies are prepared by the Payroll Officer and/or the Director of Business Services and are verified monthly by the Director of Business Services or the Assistant Superintendent for Financial Operations.

## **PURCHASING**

The Purchasing Specialist is responsible for assuring that all purchases against the assigned budgets are appropriate and necessary. The principals at each site primarily initiate the purchasing process. The requests for purchase orders (requisitions) is the initial electronic document submitted to the Business office and once approved by the Purchasing Specialist, the document is assigned a purchase order number from the FMS and the amount is encumbered into the encumbrance ledger. District policies and procedures are designed to meet all of the requirements of the Procurement Code in accordance with Chapter 13 of the New Mexico State Procurement Code. The District

has implemented local procedures as required by PSAB Supplement 13, Purchasing in the Manual of Procedures for Accounting and Budgeting, and requires all Purchase Orders to be approved based on budget access to account codes used as enumerated in PSAB Supplement 3, Uniform Chart of Accounts.

## **ENCUMBRANCES**

The initiating department forwards all requisitions over \$500 for respective fund approvals as designed in the Financial Management System's security. The person responsible for the various funds verifies account code, fund number and checks to see if all necessary approvals are in place. Then the purchase document is forwarded to the Purchasing Specialist, who gives final approval to enter Purchase order in the General Ledger and Accounts Payable modules. Once receipt of the order has been verified as complete and correct, a copy is returned to the Business Office. This "OK" is attached to the purchase documents (including applicable invoices) and the payment can be issued. All invoices should be mailed directly to the Business Office by the vendors.

## **RECEIVING**

The merchandise ordered is delivered directly to the end user. Individuals at the school site, instructors and/or secretaries verify receipt and indicate this on a copy of the Purchase Order. Once this document has been received by the Business Office, release of payment can be made to the vendor by the Accounts Payable personnel.

## **ACCOUNTS PAYABLE**

All vendor invoices are mailed to the Accounts Payable personnel in the Business Office. The vendor invoice is matched to the receiving copy of the Purchase Order. Once the documents are matched, the items invoiced are checked back to the items listed on the approved copies of the purchase order. Accounts Payable personnel check each invoice carefully to verify amounts due, shipping and handling costs, and any other applicable discounts, etc. After these verifications are in place, payment can be processed.

The Financial Management System generates a check register, a schedule of checks to be written, a purchase order report, and a journal of entries. These are completed for each fund as applicable. These reports are verified for accuracy before the checks are printed. The checks are then encoded by a signature with the name of the President of the School Board. (Authorized signatures cards reside at each banking institution handling District accounts.) Then, the checks are forwarded to the Assistant Superintendent for Financial Operations for review as fiscal officer designated by the Board of Education to be authorized for release of payment. A listing of all checks written is created from the Financial Management System and is presented to the Board for

approval. The Board also grants authorization for the Business Office to process the following months' vouchers.

## **BANK RECONCILIATIONS**

All bank accounts are reconciled on a monthly basis. The Assistant Superintendent for Financial Operations approves the bank reconciliation and approves any adjustments necessary to the general ledger. The Internal Auditor cancels all checks as the checks clear the bank (as indicated on each bank statement) in the Financial Management System bank reconciliation software and locates any discrepancies in the balances, and makes any journal entries necessary for correction. The monthly check registers, transactions journals, and general ledger are generated monthly and are stored in the Business Office and may be accessed from the Financial Management System for review by the Superintendent and other interested parties. All journal entries needed for correction are detailed on the edit report from the Financial Management System.

## **PER DIEM & MILEAGE ACT**

Employees and Board members of the District are entitled to reimbursement of registration fees, mileage, per diem, and other costs associated with authorized trips for official school business.

**In District Travel** - District employees may under certain circumstances, find it necessary to use their personal vehicles for travel within the school district in the performance of their duties. The rate of reimbursement is in accordance with DFA regulations and is reviewed by the Director of Business Services periodically.

**In-State Travel** - All in state trips must have administrative approval, prior to traveling. This approval is requested on the leave request form. The business purpose of the trip must be justified and all costs associated with the trip must be itemized, if reimbursement is expected. The Business Office will process the reimbursement travel form only with sufficient approvals and required documentation such as agendas and invoices attached to the reimbursement request.

**Out-of-State Travel** - All out of state travel requires prior approval by the Superintendent and the site principal, as applicable. The travel reimbursement form will be processed with sufficient documentation only and personnel will follow the same procedures as listed with in-state travel. If, in the event, personal vehicles are utilized, proof of insurance will be required and submitted to the Business Office **prior to the trip.** All reimbursements are processed in accordance with the Per Diem and Mileage act, as outlined in the DFA regulations. All receipts for out-of-pocket expenditures for transportation, registration, and miscellaneous expenses are required for reimbursement. Any meals and/or lodging cost included in the registration fee are deducted from the per diem reimbursement.

Pre-payment of up to 80% of any per diem related costs are allowed only under special circumstances and the Superintendent must review these circumstances at least 30 days prior to the trip. All District employees are eligible for reimbursement of travel related expenses upon return from their approved trip, but must submit reimbursement requests within 60 days of returning from the trip in accordance with the district's reimbursement plan. Any requests for reimbursement not made within this time frame are forfeited. The School Board must approve actual expenses.

## **CASH RECEIPTS**

All operational monies received are receipted in the Business Office with the exception of Activity Fund collections, which are receipted at the school sites. Food Service collections are deposited by cafeteria staff and verified and recorded by Cafeteria Central Office Staff. All monies are receipted using pre numbered receipts and are deposited into the district bank account within 24 hours, and according to the 24 hour rule. The Internal Auditor verifies all receipts posted as being deposited as part of the reconciliation of the bank account.

Business office personnel, under the supervision of the Director for Business Services, record all funds received in the Business Office to the Financial Management System. The recording of these receipts is rotated so that no one employee handles all receipts. Each receipt has a description of payment and has sufficient documentation for review by the IPA or Independent Public Accountant. These entries include the source, date, amount, fund, receipt number, and a description of the payment. For monies received by mail, the business office staff assigned to mail duty reviews the incoming mail and delivers a log of all receipts and the monies to the appropriate business office personnel who receipt the funds and record the amount to the appropriate fund. For monies received by ACH transfer and/or electronically, the same process is utilized, but the accompanying documents are generated by the bank and/or Public Education Department, and attached as appropriate. The original Financial Management System receipt is attached to the documents posted and recorded into the Financial Management System. There is no need for a separate, manually written receipt.

Monies received at the schools are receipted using pre-numbered receipts. Each school secretary is responsible for depositing all funds within 24 hours using the 24-hour rule. A monthly recap or revenue report is generated in the Business Office and reconciled with the bank statement. The Internal Auditor reviews the report and looks for discrepancies such as missing receipt numbers, or lack of a fund raising form on file. Fund raising activities by students must always provide the user with a product or service and the method of accounting for funds collected before the fund raiser form will be approved. Training is provided at each school site to ensure anyone handling funds is aware of correct procedures (See District Activity Manual and PSAB Supplement 18, Student Activity and Athletics.)



## **ACCOUNTS RECEIVABLE**

The accounts receivable system is maintained centrally. Each school site, including Maintenance, Food Service, Special Services and Support Services is responsible for forwarding all information about receivables to the Business Office on a timely basis. The Business Office is responsible for monitoring the collection of all amounts due from other departments and/or outside agencies inducting the Public Education Department. Cash Requests or reimbursement requests are mailed or faxed quarterly or entered in OBMS and a copy of the request is filed in the grant file and a copy is given to the Business Office Supervisor for receipt documentation. Invoices are prepared by the proper department and approved by the Assistant Superintendent for Financial Operations. The responsibility for the collection rests with the Business Office under the supervision of the Assistant Superintendent for Financial Operations and/or his/her designee (Business Office Supervisor).

## **PETTY CASH**

A petty cash fund will be established under the authorization of the Assistant Superintendent for Financial Operations. A petty cash fund will be intended for small purchases and set up utilizing the procedures set forth in the Manual of Procedures, Supplement 7, Cash Controls.

## **INVESTMENTS**

The ABC Schools #103 accounts for all monies placed in interest bearing accounts by fund. Excess cash balances in the bank accounts generate interest which is credited by the financial institution on a monthly basis. The amount of interest earned is receipted and recorded to the Financial Management System when the credit is received. Excess cash balances can also be invested using the State Investment Pool as authorized by the Board of Education. Investments are made by either issuing a check or by wire transfer. A paper trail is automatically produced with this procedure and the transaction is entered into the Financial Management System through the Accounts Payable System or by Business Office personnel other than the one generating the wire transfer. An investment register is maintained by the Director of Business Services and updated monthly. The register itemizes the type of investment, investment date, maturity date, investment institution, and the amount of investment. Interest to be earned is calculated at this time and made a part of the report. Correspondence with each banking institution is documented periodically and available for review by the district IPA on an annual basis.

A safekeeping receipts register is maintained by the Director of Business Services to track and monitor the pledging requirements for each financial institution, as required by state statute. The register itemizes the safekeeping receipt number, description of the security, maturity date, amount, market value, pledge date, release date and released securities. (Reference PSAB Supplement 4, Public Fund Deposits and Investments.)

## INVENTORY

All District equipment and items of tangible value (over \$1,000.00) are identified in a permanent way using bar-coded tags. It is the responsibility of the "Inventory Contact Person" assigned by the site administrator at each school site to ensure that all equipment delivered to their location is appropriately marked.

The Internal Auditor maintains fixed asset inventory records in the Business Office. The inventory database includes the inventory tag number, a description of the item, the serial number, the purchase order number, the acquisition date, the fund code, the location number and the building room/department number and the site code.

Annual review of the current years' purchases is made by the site administrator and the "inventory contact person". All adjustments to the records are forwarded to the Business Office for updating. All requests for removal of surplus property, deletions, and discards must be approved by the Board of Education if the amount is over \$10,000. The District utilizes the forms provided by the Department of Finance and Administration for processing these items. Items should never be removed, transferred, or sold without expressed written approval of the Business Office

Audits are conducted periodically during the year by the Internal Auditor periodically to verify assets are correctly recorded and available for inspection.

## SPECIAL REVENUE FUNDS

All proposals prepared by district staff for special funding require administrative approval from the Business Office in coordination with the program or support staff from special services and/or the principals at each school site. Original and approved proposals are then submitted to the Superintendent for final approval and signature. **These procedures must be adhered to ensure proper budget authorization is obtained in a timely manner and prior to the expenditure of any monies.**

Upon receipt of an award notice, a budget document is prepared and submitted to the Business Office for review and processing. New Budget Adjustment Requests are presented to the local Board of Education for approval monthly as applicable and then forwarded to the School Budget Finance and Analysis Bureau at the Public Education Department via OBMS for final approval as applicable.

Special revenue fund approvals are then entered into the Financial Management System of the District and monitored by the Assistant Superintendent for Financial Operations. The program manager (principal and/or and Assistant Superintendent for Financial Operations) is responsible for program compliance with regard to the nature of the grant guidelines and the Business Office Supervisor is responsible for the fiscal aspects of the award with oversight by the Assistant Superintendent for Finance.

## **DEBT SERVICE**

All authorized bond and interest payments are accounted for in the Debt Service Fund. A record of Bonded Indebtedness is maintained by the Director of Business Services and reconciled by the Assistant Superintendent for Financial Operations. This schedule lists the date of each bond issue, the original amount of the issue, principal and interest payments, and the total outstanding balance for each issue.

All bond payments statements issued are verified by the Director of Business Services for payment. Wire transfers are issued from the District's bank account and forwarded to the authorized paying agent as applicable on or before the due date.

The debt service portion of the property taxes collected by the county treasurer is receipted and deposited to the Debt Service bank account monthly or when received. Any excess cash balance in the district's bank account is invested per local investment procedures and in accordance with the Manual of Procedures, Supplement #8. The County Treasurer billing for the 1% administrative fee which is recorded to the Debt Service fund administrative account, is deducted by the County Treasurer prior to submitting the payment for collection. This fee is properly expensed and revenue is increased via journal entry by designated Business Office personnel.

## **INSURANCE**

The New Mexico Public School Insurance Authority provides insurance for employee benefits and property and liability coverage. Premiums are determined for health, vision, and dental coverage by the Authority and their staff with procedures set by statute. Property and Liability coverage are determined by a claims loss ratio established by the New Mexico Insurance Authority and their brokers, Poms and Associates. A Memorandum of Coverage is provided to the district and forwarded to the IPA (independent public accountant) for review annually.

## **REPORTING**

Monthly reports are prepared and maintained by the District. The Director of Business Services reviews bank statements and a monthly reconciliation is performed by the Internal Auditor. The Assistant Superintendent for Financial Operations then reconciles each fund's activities on a year to date basis to determine all adjustments have been made to the Financial Management System correctly. The Assistant Superintendent for Financial Operations is responsible for ensuring the reports are prepared accurately and timely. Any discrepancies are reported immediately to the appropriate business office staff member for correction. Access to the Financial Management System is limited and initiated by a password procedure established by the Director of Business Services. This limited access was established in an effort to ensure records will not be altered and accountability can be maintained. Reports are then filed and maintained as per the Schedule for Retention and Disposition of Records. A copy of the District's fiscal

quarterly report is forwarded to the Public Education Department, School Budget Finance and Analysis Bureau via the OBMS system, The Superintendent, and ABC School District's Board of Education receive both electronic and had copies of this report. The Assistant Superintendent for Finance reconciles discrepancies between state records and district funds, independently of personnel assigned to handle day to day transactions.

\*\* These procedures are reviewed periodically for applicable changes per legislative directives, etc.

## **JOURNAL ENTRIES**

The District limits access for journal adjustments outside of the automated Financial Management System adjustments to selected personnel who have adequate training in the operation of complex financial software for fund and allocation accounting. All journal entries are jointly approved by at least two of the authorized individuals.

## KEY WORDS INDEX

“	F
“Tone”, 1	Finance Subcommittee, 4
A	Financial Management System, 10, 16, 18, 19, 20, 22, 23, 25, 26, 27
Access Controls, 10	Financial Management System (FMS), 10, 19
Accrual Basis, 10	Financial Reporting, 1, 10, 15
Application Controls, 11, 12	Focal Point, 6
Audit Committee, 4, 5, 12	G
B	General Accounting Office (GAO), 1
Budget Committee, 17	Generally Accepted Accounting Practices (GAAP), 10
C	Generally Accepted Governmental Auditing Standards (GAGAS), 10
Cash Basis, 10	H
Committee of Sponsoring Organizations of The Treadway Commission, 1	Hardware, 11
Compliance, 1, 5, 10, 15, 26	I
Control Activities, 2	Incompatible Activities, 3
Control Environment, 2, 8, 11	Independent Public Accountant, 23
Control Environment, 2, 13	Inter-Budget Transfers, 19
Control Mechanisms, 1	Internal Audit, 5
Corrective Actions, 11	Internal Auditor, 17, 22, 23, 24, 25, 27
COSO, 1, 15	Internal Control, 1, 2, 3, 4, 8, 9, 10, 12, 13, 15
D	Intra-Budget Transfers, 18
Data Base, 11	Irregular Acts, 11
Data Files, 11	J
Data Origination, 12	Journal Entries, 22, 27
Debt Service Fund, 26	M
DFA, 22, 23	Managerial Hierarchy, 12
E	Monitoring, 3, 4, 6, 12, 16, 17, 19, 20, 24
Encumbrances, 21	
Ethical Values, 2	
Evaluation Of Employees, 12	

N

New Mexico Public School Insurance  
Authority, 27

O

OBMS (Operating Budget Management  
System), 18  
Operating Budget, 17, 18, 19  
Organizational Structure, 3, 4

P

Passwords, 11  
Per Diem, 22, 23  
Personnel Action Request (PAR), 19  
Policies and Procedures, 1, 2, 7, 15, 16, 21  
Procedures, 1, 6, 8, 9, 11, 12, 15, 17, 21, 23,  
24, 26, 27

R

Reasonable Assurance, 1, 8, 9, 15

Reconciliations, 8, 9  
Regulatory Requirements, 5  
Requisitions, 21  
Risk Analysis, 6  
Risk Assessment, 6, 7  
Risk Assessment, 2, 7, 10, 17  
Risk Identification, 6  
Risk Management, 6

S

Security of Assets, 8  
Segregation of Duties, 8  
Sequential Numbering, 8  
Software, 7, 10, 11, 12, 22, 27  
System of Authorization, 8

T

Timely Basis, 9, 10, 24

## TABLE OF AUTHORITIES

6.20.2.11, NMAC.....	1, 8
6.21.2, NMAC.....	12
6.21.2.10-11, NMAC.....	12
GAO publication, <u>Information Security Risk Assessment</u> .....	10
<u>GAO/AIMD-00-21.3.1</u> .....	2, 3
General Accounting Office (GAO) publication, <u>Standards for Internal Control in the Federal Government</u> .....	1
<u>OMB Circular A-123</u> .....	1
PSAB Supplement 14, Payroll.....	3
PSAB Supplement 6, Financial and Compliance Audit .....	12
Section 12-6-1, NMSA 1978 .....	5
Section 22-8-12.3, NMSA 1978 .....	4