

# NEW MEXICO HIGHER EDUCATION DEPARTMENT



SUSANA MARTINEZ  
NEW MEXICO GOVERNOR

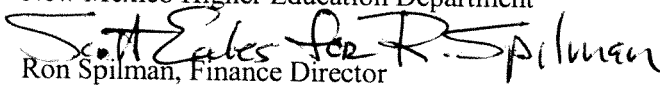
DR. BARBARA DAMRON  
CABINET SECRETARY - DESIGNATE

**Subject:** Santa Fe Community College  
Fiscal Review

**Date:** February 24, 2015

**To:** Dr. Barbara Damron, Cabinet Secretary Designate  
New Mexico Higher Education Department

**From:** Scott Eccles, Institutional Auditor  
New Mexico Higher Education Department

**Through:**   
Ron Spilman, Finance Director  
New Mexico Higher Education Department

Exercising the authority granted under NMSA 21-1-26, the New Mexico Higher Education Department's (HED) Institutional Finance Division, in conjunction with Department of Finance and Administration (DFA), conducted a review of Santa Fe Community College (SFCC or College) fiscal activities. The review was initiated in response to SFCC's disclosure that the College was facing serious financial difficulties. The intent of the review was to understand the factors that led to the liquidity issue, to assess institutional solvency and to have a firm basis to make informed decisions concerning the College.

## **Background**

On August 5, 2014, SFCC's Interim President announced that the school was facing a \$5 million deficit and proposed a financial stability plan which included expenditure reductions and sought emergency funding from the state. Proposed actions included a \$3 million permanent reduction in ongoing expenditures, a temporary roll-back of previously granted faculty and staff pay increases, curtailment of travel and supply expenditures, and not filling existing staff vacancies. To meet short-term liquidity needs, SFCC requested \$3 million in accelerated fiscal year (FY) 2015 allotments from DFA and a one-time emergency loan of \$500,000 from the State Board of Finance (SBOF). To address longer-term solvency issues, in addition to the cost cutting noted above, the College raised tuition effective the spring 2015 resulting in additional revenues of approximately \$250,000 per semester. HED endorsed and DFA agreed to advance SFCC the November and December 2014 allotment in October 2014 (\$2.4 million). The requested emergency loan from the SBOF was withdrawn by the College in October.

On October 16, reflective of late December receipt of local property tax transfers, SFCC officials requested an additional one-month advance of FY2015 state general fund allotment in order to cover payroll and vendor obligations through the end of calendar year 2014. This request required waiver of NMSA 1978, Section 6-3-6, commonly referred to as the "50 percent rule". This rule states that the expenditures for the first six-month period of odd-numbered FY's be limited to one-half of the appropriation or approved budget, whichever is less, for that FY. The purpose of this rule is to ensure that at least 50% of an agency's operating budget is available for a new

agency head or elected official taking office as a result of an election for statewide offices. This request was granted and payment was made to the college on November 25, in the amount of \$1.2 million.

## **Objectives**

The objectives of this review were to:

- Determine the cause of the College's fiscal deficit; and,
- Evaluate the College's current fiscal control environment.

## **Scope & Methodology**

To achieve the objectives, reviews of the laws, rules, and regulations applicable to higher education and community colleges were conducted. Organizational charts were used to understand the College's operational and reporting structures. Interviews and meetings were held with SFCC's President Randy Grissom and Operations Manager Amy Tilley to assemble background information, and to obtain and verify documents and data. Additionally, interviews were conducted with SFCC's former President Dr. Ana Guzman, former Vice President (VP) of Finance Meridee Walters, and Strata Information Group (SIG) Senior Consultant Anita Rainey who served as Interim Controller. Attempts to interview former Chief Financial Officer (CFO) Dr. Brian Ziemer were made, however Mr. Ziemer was unresponsive to requests.

The College's fiscal activities were assessed using Governing Board meeting videos and written minutes dated 2010 - 2013. Specific documents reviewed included: president's reports, financial reports, operating budgets, budget adjustment requests (BARS), key fiscal decisions, fiscal impact forecasts, actual fiscal impacts, fiscal staff competencies, and Board approvals. Examinations were conducted on SIG (Banner ERP System Consultants) work orders and emails over the same period to assess the degree of support provided and to identify significant fiscal issues and concerns.

The Banner Financial System post implementation assessment performed by the consultant firm Ellucian Technology Services was used to assess critical issues and determine the specific systems modules utilized and extent of utilization. Annual audit reports were reviewed for fiscal years 2008-2013 to obtain a historical perspective on the College's fiscal solvency, auditor opinions, and timeliness of the Administration and the Governing Board in addressing new and repetitive audit findings. We analyzed the FY 2012 audit corrective action plan issued by the independent accounting firm of Abeyta, Weiner, & Cherne detailing immediate actions to be taken by the College to mitigate significant audit findings. We documented the employment dates of key fiscal and administrative staff and performed general professional background reviews in order to assess past job experience and performance.

To evaluate the roles and responsibilities of the Governing Board and the President, we reviewed annual performance goals and the College's five-year strategic plan. Additionally, SFCC policies regarding code of conduct, administrative services, Governing Board duties, and annual goals of the President were reviewed. Board meeting agendas were examined to substantiate whether a detailed business plan was established, whether accurate fiscal impact forecasts were developed, and the extent of ongoing fiscal monitoring activities.

## **Part I - Findings**

### **Finding No. 1 – Management of Change**

Significant strategic changes effecting organization size, composition, and institutional compensation were implemented during the period reviewed. We were able to confirm that each initiative had been supported and approved by the Governing Board. A review of approval materials and minutes related to the College Administration's requests for Board authorization revealed key instances where communicated estimates of the fiscal impact were inaccurate, thereby underestimating the cost of the change. Additionally, an effective and timely monitoring process was not in place to gauge the actual financial impact of these changes. Effective change management requires that the impact of changes be fully understood and addressed, and that adequate monitoring is in place to ensure financial results are consistent with expectations. Such a process was not functional at the College and as a result, there were key instances where costs exceeded estimates and the College's inability to promptly identify the issues allowed the problem to go unchecked. Examples of key business decisions undertaken where estimated cost differed from actuals included:

- Faculty, Adjunct Faculty and Salary Increases – the estimated impact of the proposed new compensation bands was initially assessed at \$345,000. While the plan to provide raises was developed prior to Dr. Guzman's tenure, it was her decision to implement the maximum level. Actual cost of change was \$2,400,000;
- The Early Retirement Incentive Plan assumed 21 participants and forecasted the cost at \$600,000. When the program concluded, 47 employees participated and the actual cost was \$1,000,000; and,
- Hiring of full-time faculty and staff was pursued to enhance student success; and 15 positions were added; cost savings related to academic and administrative restructuring failed to offset the personnel increases of \$990,000.

### **Finding No. 2 – Fiscal Control Environment Diminished**

The College's financial control environment was weak and as a result it impacted both the reliability of data produced and the timeliness of that information. Areas of concern included:

- Twenty one audit findings reported in FY2012;
- Banner Financial System chart of accounts misconfigured;
- Banner Financial System budgeting tools non-functional;
- Banner Financial System reporting tools non-functional;
- Position control which links Banner Payroll/Human Resources to Banner Finance non-functional;
- Banner Fixed Assets module not being utilized;
- Financial staff lacked college and university accounting experience and Banner Financial System technical knowledge;
- Excessive number of reoccurring material accounting errors;
- Significant issues with plant funds & accounting structure for construction projects;
- Misclassification of \$785,500 in staff salaries;
- Unbudgeted positions totaling \$371,400;
- Use of non-integrated (stand-alone) manual fiscal systems; and,
- Continuing dependency upon consulting firm for Banner Financial System management and support.

### **Finding No. 3 – Key Fiscal Staff Turnover & Questionable Competencies**

Review of Governing Board meeting minutes highlighted a high level of turnover in key fiscal staff positions:

- Controller Betsy Ackerman dismissed March 2013;
- VP of Finance Meridee Walters retired July 2013;
- CFO Dr. Brian Ziemer hired August 2013;
- CFO Dr. Brian Ziemer's contract non-renewed June 2014;
- Senior Consultant Anita Rainey named Interim Controller July 2014; and,
- New VP of Finance Nick Telles hired November 2014.

Interviews indicated that the dismissal of the former Controller and the decision to discontinue the former CFO's annual employment contract were related to competency. Further reviews were conducted which revealed that the former CFO, whom was hired by President Guzman on an emergency basis without Governing Board approval, made the following significant misjudgments which compromised the College's already weakened fiscal position:

- Convinced College management that a \$2.8 million item had not been reported as revenue and was available to fund new activities when it actually had been recorded; and,
- Erroneously classified \$1.1 million in local taxes destined for debt service as being unrestricted current operating funds.

### **Part II - Conclusions**

#### **Cause of the Fiscal Deficit**

It is our belief that the following were the primary causes of the deficit: changes, some of which were developed prior to and implemented during the tenure of Dr. Guzman and which were, based on financial estimates of dubious quality; misrepresentation of available revenue; and an accounting system that failed to identify the erroneous estimates in a timely fashion. The inability of the existing financial system to react more quickly to the unexpected impact of these changes caused the College to incur greater financial damage by delaying needed corrective actions.

It is our opinion, that the weaknesses in the financial control environment, as noted in findings two and three, created an environment that was not able to manage change. While the objective "to make SFCC one of the best colleges in the nation" is laudable, both the Governing Board and Dr. Guzman failed to recognize that the financial management system at the College was extremely weak and could not effectively monitor the impact of changes and identify deviations from plan in a timely fashion. Failure to recognize the condition of the system of management controls and the inability to improve the state of those controls during the period significantly contributed to the problems currently faced by the College.

#### **Current Fiscal Control Environment**

The Governing Board and College Administration have recognized the importance of sound fiscal controls and actions are being taken to strengthen them. The College has developed a multi-year strategic recovery plan which included receiving accelerated state allotments in order to stabilize finances. If this plan is followed and achieved the College should return to sound financial footing in approximately three-years. Based upon recent Governing

Board meetings, consultant work orders and assessments, much work remains to strengthen controls as current areas of concerns noted include:

- The College's Banner Financial System chart of accounts has yet to be reconstructed which leaves open the risk for continued inability to appropriately capture financial transactions and retrieve information for financial reporting;
- Fiscal staff lacks knowledge of college accounting and the Banner Financial System budgeting process including development, adjustments, checking, and impact of budget availability;
- Fiscal staff lack technical understanding of Banner System security controls, as budgets have been loaded and adjustments made without appropriate approvals;
- The College's current purchasing system remains decentralized;
- The Banner Fixed Assets System is not being utilized resulting in fixed assets still being tracked on spreadsheets; and,
- Consultant post implementation assessment follow-up dated November 21, 2014, revealed 736 incomplete documents within the College's Banner Financial System including, for example:
  - ✓ 677 requisitions totaling over \$7 million; and,
  - ✓ 26 journal vouchers.

Recent changes made to enhance the college's fiscal controls and to mitigate fiscal risks include:

- Hired a new VP of Finance on November 10, 2014;
- The Governing Board established a Finance Sub-Committee consisting of two Board members, a faculty representative, a staff representative, and a key executive staff member. Training courses have been taken by members to better understand budgets and read financial statements;
- The President reviews fund and cash balances as part of the college's newly developed daily and weekly cash monitoring processes; and,
- Fiscal staff is receiving progressive training to advance knowledge, skills, and abilities with college accounting and use of the Banner Financial System.

### **Part III – Immediate Fiscal Concerns**

The HED/DFA approved FY 2015 operating budget for the College, if achieved, will begin the long journey to remediate the financial health of the institution. During this period there will be a need to closely monitor actual results against approved budget. The College's most recent financial results (January 2015) suggest that progress is being made to ensure expenditures do not exceed the approved budget given a non-linear expenditure pattern. Continued vigilance is warranted to ensure all required and anticipated cost savings are captured.

Additionally, on-going human resource related lawsuits and a high number of ongoing capital projects warrant close monitoring as there is little reserve available to compensate for unexpected legal settlements or project overruns.

### **Part IV - HED Recommendations**

Based upon the principle that neither quality academic programs nor student satisfaction can be sustained where serious financial difficulties prevail, effective institutional review and analysis of financial stability is critical to

ensuring future success. Accordingly, HED has designated SFCC to be a “high fiscal risk”, and as a result is requiring the College to submit monthly fiscal reports including:

- Revenue and expenditure budget comparisons;
- Cash position and associated bank reconciliations;
- Projected cash flows; and,
- Status of corrective actions to resolve open audit findings.

In addition, to maintain strict oversight of the College’s fiscal position, monthly meetings have been initiated in September 2013 between HED, DFA, and SFCC to discuss operating results, pending or proposed BARS and any potential financial issues.

## **Part V – Other Concern**

### **Open Meetings Act Violations**

On December 27, 2013, then SFCC Governing Board member Andrea Bermudez and current member Chris Abeyta filed a formal complaint with the State’s Attorney General (AG) alleging other Board members violated the Open Meetings Act (NMSA 1978, Sections 10-15-1 to 10-15-4). The AG’s responding investigation and report dated December 27, 2013, revealed the Board committed numerous violations during FY’s 2014 and 2015. Based upon these findings and in order to avoid future violations and the potential for sanctions being imposed by the AG, we urge the College’s Governing Board to ensure strict adherence with the act which will also add credibility to the shared governance process at SFCC.

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