

Central Accounting System

White Paper

Revised: May 2019

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Authority and the Propriety of Expenditures

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Section 6-5-3, NMSA, 1978, as amended, requires the New Mexico Department of Finance and Administration's Financial Control Division (FCD) to determine that all expenditures are for a purpose authorized by law. This white paper delineates the four criteria FCD uses to make that determination.

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Introduction

The Financial Control Division of the Department of Finance and Administration must determine that all expenditures are for a purpose authorized by law (Section 6-5-3, NMSA 1978). This white paper delineates the four criteria used to make that determination.

To simplify the information below, this paper uses the term “proper” to describe an expenditure authorized by law. For the same reason, it uses “agency” to refer to state agencies, departments, institutions, boards, bureaus, commissions, districts and committees of the government of the state and means every office or officer of the above.

Criteria for Determining the Propriety of an Expenditure

1. Constitutional, Statutory, and Contractual Mission

This criterion mandates that an agency’s expenditures be consistent with the agency’s mission. The State of New Mexico’s constitution and statutes, together with legally authorized contractual commitments, define an agency’s mission. They do this by delineating the agency’s functions, responsibilities, and duties.

For example, the Department of Finance and Administration’s mission includes financial control. Section 6-5-2, NMSA, 1978, as amended, creates a division to carry out that mission and describes the division’s functions, responsibilities, and duties as: The financial control division of the state department of finance and administration shall maintain a central system of state accounts, and shall devise, formulate, approve and control the accounting methods and procedures of all state agencies.

Given this mission, if the division were to publish accounting procedure manuals to distribute to agencies, the expenditure would be “proper.” On the other hand, expenditures to build a highway would not be.

In addition to the legislation that creates an agency, other legislation can contribute to the definition of an agency’s mission. For example, an appropriation act can include a provision that adds to an agency’s mission. Using the same example above, if the Department of Finance and Administration were to receive an

appropriation to build a highway, its mission, to the extent of the appropriation, would include building a highway.

Contractual agreements, if authorized by law, can also contribute to the definition of an agency's mission. Grants from private organizations are one example.

2. Public Benefit and Purpose

This criterion requires expenditures to contribute to an agency achieving its constitutional, statutory, or contractual mission. Expenditures can contribute in two ways: 1) by serving a "public purpose," and 2) by providing a "public benefit."

If expenditures aid or promote progress towards an agency achieving its constitutional, statutory, or contractual mission, the expenditures are for a public purpose. If expenditures result in an agency achieving that mission (either in whole or in part), the expenditures provide a public benefit.

For example, if the mission of an agency includes providing social worker services to the needy, expenditures to recruit a social worker are for a public purpose—they aid the agency's progress toward achieving its mission. On the other hand, expenditures for a social worker's salary would provide a benefit—they result in the agency achieving its mission.

Expenditures must always be for a public purpose.

Expenditures may or may not provide a public benefit. However, if they do not provide a public benefit, FCD may require an agency to document in writing why the expenditures are necessary (see "necessity" criteria below).

Furthermore, if the public purpose, public benefit, or both are not clear to FCD, FCD may require an agency to provide written clarification. It will use this clarification to make a final decision on whether to approve the expenditure.

However, if FCD concludes that an expenditure, by its very nature, does not provide a public purpose or benefit, FCD will not seek clarification and will simply disapprove the expenditure. Examples of this type of expenditure include reimbursement of an employee for alcoholic beverages the employee has consumed, or the cost of items (pictures of the employee, gifts, etc.) that will be used to promote (advertise) the employee.

3. Necessity

This criterion focuses on making the best choice between options. In other words, this criterion is not related to whether it is "necessary" for an agency to do something, such as hold a training. This criterion

instead relates to why this particular method of achieving the goal (in this case the training) is necessary. Therefore, when different means of achieving a mission exist, this criterion requires an agency to choose the means that will still provide, or contribute to providing, the public benefit desired but will do so for the least amount of expenditure possible.

To further the example, Agency X can either rent a training facility at a hotel for a cost of \$2,000 or use a training facility owned by the State for the cost of a \$25 cleaning fee. Assuming the Agency can provide the training effectively at either site, this criterion requires Agency X to use the facility costing \$25.

4. Appropriation, Budget, and Available Resources

This criterion requires the purpose of expenditures be consistent with their related appropriation, that total expenditures be within the budget established by law, and the budget established by law be supported by actual resources, including cash.

Appropriation:

An “appropriation” from the Legislature is the authority for an agency to make expenditures for a given purpose. Depending on an agency’s statutory mission, this purpose usually falls within one of the following broad categories:

- Legislative
- Judicial
- General control
- Regulation, licensing and economic development
- Natural resources
- Health and human resources
- Public Safety
- Transportation and Highways
- Education
- Higher Education
- Public School Support

The purpose of expenditures must be for the purpose intended by the appropriation. For example, an appropriation made for the purpose of transportation and highways should not be expended on health and human services. In addition to the broad categories above, the Legislature usually divides the purpose of appropriations into the following appropriation units:

- Personal Services and Employee Benefits
- Contractual Services
- Other

When the Legislature provides an appropriation to an agency, unless specifically stated otherwise in the appropriation act, the purpose intended by the appropriation is the constitutional and statutory mission of the agency. If the Legislature restricts the appropriation to the appropriation units listed above, the purpose of the appropriation is also defined by the amount the legislature allocates to those units.

Under this criterion, contractual commitments must be consistent with the authority given an agency by law. There are no exceptions.

Budget and Available Resources:

Budget is the bridge between appropriations and resources. The existence of a budget helps ensure that appropriations are supported by resources (i.e., by cash and earned revenue). Section 6-3-7 NMSA 1978 prohibits an agency from making expenditures that are not authorized by an approved budget.

This criterion requires an agency to stay within its budget when making expenditures. In addition, it requires an agency to request a Budget Adjustment Request and reduce its budget if the agency's projected revenues are not meeting projections.

Conclusion

Unless a proposed expenditure meets all of the four criteria above, it should not be incurred.