STATE OF NEW MEXICO

PUBLIC EDUCATION DEPARTMENT

Financial Statements
June 30, 2014

VOLUME II

AXIOM
Certified Public Accountants
and Business Advisors LLC

STATE OF NEW MEXICO PUBLIC EDUCATION DEPARTMENT
VOLUME II TABLE OF CONTENTS

VOLUME II

Volume II Table of Contents ..... Vol. II - 1

Schedule of Expenditures of Federal Awards ..... Vol. II - 2

Notes to Schedule of Expenditures of Federal Awards ..... Vol. II - 5

COMPLIANCE

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* ..... Vol. II - 20

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 ..... Vol. II - 24

Schedule of Findings and Questioned Costs ..... Vol. II - 27

Summary Schedule of Prior Audit Findings ..... Vol. II - 190

Exit Conference ..... Vol. II - 197

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Agency / Pass-Through Agency	Pass - Through	Federal CFDA Number	Federal Participating Expenditures
PUBLIC EDUCATION DEPARTMENT			
DEPARTMENT OF AGRICULTURE:			
Food and Nutrition Service:			
Child Nutrition Cluster:			
School Breakfast Program	Federal Direct	10.553	$ 39,351,410
National School Lunch Program	Federal Direct	10.555	91,714,660
Total Child Nutrition Cluster			131,066,070
New Meal Patterns	Federal Direct	10.560	154,580
Fresh Fruit and Vegetable Program	Federal Direct	10.582	1,753,610
Direct Certification Grant	Federal Direct	10.589	247,186
Team Nutrition Grants	Federal Direct	10.574	44,291
Total Department of Agriculture			133,265,737
U.S. DEPARTMENT OF EDUCATION:			
Office of Elementary and Secondary Education:			
Title I Grants to Local Educational Agencies	Federal Direct	84.010A	119,821,215
Total Title I Grants to Local Education Agencies			119,821,215
School Improvement Cluster:			
School Achievement Fund 1003(g)	Federal Direct	84.377A	3,503,759
ARRA - School Improvement Grants, Recovery Act	Federal Direct	84.388A	694,422
Total School Improvement Cluster			4,198,181
Education for Homeless Children and Youth	Federal Direct	84.196A	504,864
Total Education for the Homeless			504,864
Migrant Education - State Grant Program	Federal Direct	84.011A	804,079
Title I Program for Neglected and Delinquent Children	Federal Direct	84.013A	379,627
MEP Consort. Incentive Grants (Migrant Consortium)	Federal Direct	84.144F	152,910
Twenty-first Century Community Learning Centers	Federal Direct	84.287C	5,340,831
Rural Education	Federal Direct	84.358B	1,244,292
Title III English Language Acquisition Grants	Federal Direct	84.365A	3,738,042
Mathematics and Science Partnerships	Federal Direct	84.366B	1,567,348
Title II Improving Teacher Quality State Grants	Federal Direct	84.367A	16,635,752
Grants for State Assessments and Related Activities	Federal Direct	84.369A	4,990,879
Striving Readers	Federal Direct	84.371B	34,715
Total Office of Elementary and Secondary Education			159,412,735

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
For the Year Ended June 30, 2014

Federal Agency / Pass-Through Agency	Pass - Through	Federal CFDA Number	Federal Participating Expenditures
U.S. DEPARTMENT OF EDUCATION - continued:			
Office of Special Education and Rehabilitative Services:			
Special Education Cluster (IDEA)			
Special Education - Grants to States	Federal Direct	84.027A	88,145,853
Special Education - Preschool Grants	Federal Direct	84.173A	3,057,451
Total Special Education Cluster (IDEA)			91,203,304
Special Education - State Personnel Development	Federal Direct	84.323A	457,679
Office of Innovation and Improvement:			
Charter Schools	Federal Direct	84.282A	1,422,866
Advance Placement Program	Federal Direct	84.330B	145,531
Race to the Top	Federal Direct	84.412A	2,816,789
Total Office of Innovation and Improvement			4,385,186
Office of Vocation and Adult Education:			
Carl Perkins - Voc. Educ. - Basic Grants to States/Adult Educ. - State Grant Program	Federal Direct	84.048A	7,688,337
Total Office of Vocational and Adult Education			7,688,337
Florida Department of Education:			
PARCC - Support of Governing States	Federal Direct	84.395B	94,866
TOTAL U.S. DEPARTMENT OF EDUCATION			263,242,107
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Centers for Disease Control and Prevention:			
Centers for Disease Control and Prev. - Investigations and Tech. Assistance	Federal Direct	93.283	234,748
Office of the Secretary			
Pregnancy Assistance Fund Program	Federal Direct	93.500	1,569,592
TOTAL EXPENDITURES - PUBLIC EDUCATION DEPARTMENT			$ 398,312,184

See Notes to the Schedule of Expenditures of Federal Awards

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
For the Year Ended June 30, 2014

Federal Agency / Pass-Through Agency	Pass - Through	Federal CFDA Number	Federal Participating Expenditures
DIVISION OF VOCATIONAL REHABILITATION			
U.S. DEPARTMENT OF EDUCATION:			
Office of Special Education and Rehabilitative Services:			
Rehabilitation Services Cluster			
Rehabilitation Services - Vocational Rehabilitation Grants to States	Federal Direct	84.126A	$ 17,010,496
TOTAL REHABILITATION SERVICE CLUSTER			17,010,496
Independent Living State Grants	Federal Direct	84.169A	247,165
Rehab. Training - State Vocational Rehabilitation Unit In-Service Training	Federal Direct	84.265A	18,597
Supported Employment Services for Individuals with Severe Disabilities	Federal Direct	84.187A	238,404
TOTAL U.S. DEPARTMENT OF EDUCATION			17,514,662
SOCIAL SECURITY ADMINISTRATION:			
Disability Insurance	Federal Direct	96.001	9,293,655
TOTAL SOCIAL SECURITY ADMINISTRATION			9,293,655
TOTAL EXPENDITURES - DIVISION OF VOCATIONAL REHABILITATION			26,808,317
TOTAL FEDERAL EXPENDITURES			$ 425,120,501

See Notes to the Schedule of Expenditures of Federal Awards

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the State of New Mexico Public Education Department ("PED") under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* . Because the Schedule presents only a selected portion of the operations of PED, it is not intended to and does not present the financial position or changes in net position of PED.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* , wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3. NON-CASH ASSISTANCE

The Department did not receive any federal non-cash assistance during the year ended June 30, 2014.

NOTE 4. LOANS

The Department does not have any loans outstanding with the Federal government at June 30, 2014.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount
84.010	Title I Grants to Local Educational Agencies		
		ALAMOGORDO PUBLIC SCHOOLS	$ 1,414,691
		ALBUQUERQUE PUBLIC SCHOOLS	33,885,713
		ANIMAS PUBLIC SCHOOLS	104,898
		ARTESIA PUBLIC SCHOOLS	756,131
		AZTEC MUNICIPAL SCHOOLS DISTRICT #2	387,764
		BELEN CONSOLIDATED SCHOOLS	1,552,074
		BERNALILLO PUBLIC SCHOOLS	1,093,980
		BLOOMFIELD SCHOOLS	1,350,700
		CAPITAN MUNICIPAL SCHOOLS	79,535
		CARLSBAD MUNICIPAL SCHOOLS	964,102
		CARRIZOZO MUNICIPAL SCHOOLS	88,327
		CENTRAL CONSOLIDATED SCHOOLS #22	2,971,071
		CHAMA VALLEY INDEPENDENT	100,702
		CIMARRON MUNICIPAL SCHOOLS	79,264
		CLAYTON MUNICIPAL SCHOOLS	114,110
		CLOUDCROFT MUNICIPAL SCHOOLS	45,517
		CLOVIS MUNICIPAL SCHOOLS	2,282,434
		COBRE CONSOLIDATED SCHOOLS	518,723
		CORONA PUBLIC SCHOOLS	28,751
		CUBA INDEPENDENT SCHOOLS	837,706
		DEMING PUBLIC SCHOOLS	4,412,369
		DES MOINES MUNICIPAL SCHOOLS	118,747
		DEXTER CONSOLIDATED SCHOOLS	210,109
		DORA CONSOLIDATED SCHOOL	60,261
		DULCE INDEPENDENT SCHOOLS #21	257,502
		ELIDA MUNICIPAL SCHOOLS	14,718
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	1,662,573
		ESTANCIA BOARD OF EDUCATION	294,809
		EUNICE PUBLIC SCHOOLS	78,588
		FARMINGTON MUNICIPAL SCHOOLS	3,044,444
		FLOYD MUNICIPAL SCHOOLS	69,773
		FORT SUMNER MUNICIPAL SCHOOLS	101,845
		GADSDEN INDEPENDENT SCHOOL DISTRICT	9,203,443
		GALLUP MCKINLEY COUNTY SCHOOL	7,129,246
		GRADY MUNICIPAL SCHOOLS	32,208
		GRANTS/CIBOLA COUNTY SCHOOL	1,870,378
		HAGERMAN MUNICIPAL SCHOOLS	230,765
		HATCH VALLEY MUNICIPAL SCHOOLS	1,119,697
		HOBBS MUNICIPAL SCHOOLS	1,916,008
		HONDO VALLEY SCHOOLS	92,448
		HOUSE MUNICIPAL SCHOOL	1,298
		JAL PUBLIC SCHOOLS	85,665
		JEMEZ MOUNTAIN SCHOOL DISTRICT NO 53	104,245
		JEMEZ VALLEY PUBLIC SCHOOLS	123,908
		LAKE ARTHUR MUNICIPAL SCHOOLS	35,818
		LAS CRUCES SCHOOL DISTRICT #2	7,551,879
		LAS VEGAS CITY SCHOOLS	733,910
		LOGAN MUNICIPAL SCHOOL	32,469
		LORDSBURG MUNICIPAL SCHOOLS	252,372
		LOS LUNAS SCHOOLS	3,157,890
		LOVING MUNICIPAL SCHOOLS	111,920
		LOVINGTON MUNICIPAL SCHOOLS	479,730

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
		MAGDALENA MUNICIPAL SCHOOLS	278,380	
		MAXWELL MUNICIPAL SCHOOL	17,735	
		MELROSE MUNICIPAL SCHOOLS	60,779	
		MESA VISTA CONSOLIDATED SCHOOL	113,136	
		MORA INDEPENDENT SCHOOLS	235,410	
		MORIARTY MUNICIPAL SCHOOLS	752,813	
		MOSQUERO MUNICIPAL SCHOOLS	10,617	
		MOUNTAINAIR PUBLIC SCHOOLS	227,588	
		PECOS INDEPENDENT SCHOOLS	294,322	
		PENASCO INDEPENDENT SCHOOL DISTRICT	110,617	
		POJOAQUE VALLEY SCHOOLS	367,437	
		PORTALES MUNICIPAL SCHOOLS	983,122	
		QUEMADO INDEPENDENT SCHOOL	104,172	
		QUESTA INDEPENDENT SCHOOLS	145,016	
		RATON PUBLIC SCHOOLS	331,854	
		RESERVE SCHOOL DISTRICT	142,026	
		RIO RANCHO PUBLIC SCHOOLS	1,872,414	
		ROSWELL INDEPENDENT SCHOOL DISTRICT	4,135,195	
		ROY MUNICIPAL SCHOOLS	22,316	
		RUIDOSO MUNICIPAL SCHOOLS	646,169	
		SAN JON MUNICIPAL SCHOOLS	56,276	
		SANTA FE PUBLIC SCHOOLS	3,941,537	
		SANTA ROSA CONSOLIDATED SCHOOL	216,681	
		SILVER CITY CONSOLIDATED SCHOOLS	1,005,118	
		SOCORRO CONSOLIDATED SCHOOLS	802,417	
		SPRINGER MUNICIPAL SCHOOLS	69,465	
		T OR C MUNICIPAL SCHOOLS	815,689	
		TAOS MUNICIPAL SCHOOLS	1,193,524	
		TATUM MUNICIPAL SCHOOLS	66,178	
		TEXICO MUNICIPAL SCHOOL	196,267	
		TUCUMCARI PUBLIC SCHOOLS	495,104	
		TULAROSA MUNICIPAL SCHOOLS	797,808	
		VAUGHN MUNICIPAL SCHOOLS	36,733	
		WAGON MOUND PUBLIC SCHOOLS	124,619	
		WEST LAS VEGAS SCHOOL DISTRICT	822,102	
		ZUNI PUBLIC SCHOOL DISTRICT	1,258,340	
		Total for CFDA 84.010		115,996,204
84.377A	School Achievement Fund 1003(g)			
		ALAMOGORDO PUBLIC SCHOOLS	507,903	
		ALBUQUERQUE PUBLIC SCHOOLS	1,827,534	
		DEMING PUBLIC SCHOOLS	150,617	
		GALLUP MCKINLEY COUNTY SCHOOL	9,267	
		PECOS INDEPENDENT SCHOOLS	642,978	
		Total for CFDA 84.377A		3,138,299

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
84.011A	Migrant Education - State Grant Program			
		CLOVIS MUNICIPAL SCHOOLS	147,601	
		DEMING PUBLIC SCHOOLS	202,443	
		DEXTER CONSOLIDATED SCHOOLS	37,402	
		GADSDEN INDEPENDENT SCHOOL DISTRICT	112,244	
		HAGERMAN MUNICIPAL SCHOOLS	120,723	
		LAS CRUCES SCHOOL DISTRICT #2	11,722	
		PORTALES MUNICIPAL SCHOOLS	128,476	
		ROSWELL INDEPENDENT SCHOOL DISTRICT	412	
		T OR C MUNICIPAL SCHOOLS	29,284	
		Total for CFDA 84.011A		790,307
84.013A	Title I Program for Neglected and Delinquent Children			
		CENTRAL REGION EDUCATIONAL COOPERATIVE	376,937	
		Total for CFDA 84.013A		376,937
84.287C	Twenty-first Century Community Learning Centers			
		1ST CHOICE ENRICHMENT PROGRAMS	190,083	
		ALBUQUERQUE PUBLIC SCHOOLS	85,325	
		ATRISCO HERITAGE FOUNDATION	358,972	
		BERNALILLO PUBLIC SCHOOLS	182,970	
		CENTRAL CONSOLIDATED SCHOOLS #22	277,965	
		DULCE INDEPENDENT SCHOOLS #21	105,286	
		FARMINGTON MUNICIPAL SCHOOLS	75,815	
		GADSDEN INDEPENDENT SCHOOL DISTRICT	710,812	
		GALLUP MCKINLEY COUNTY SCHOOL	569,355	
		LAS CRUCES PUBLIC SCHOOLS	99,797	
		LAS VEGAS CITY SCHOOLS	49,862	
		NM COMMUNITY FOR LEARNING	229,110	
		REGIONAL EDUCATION CENTER #6	342,252	
		RIO GRANDE EDUCATIONAL COLLABORATIVE	352,351	
		SAN JUAN COUNTY PARTNERSHIP	179,068	
		SANTA FE PUBLIC SCHOOLS	330,436	
		SOCORRO CONSOLIDATED SCHOOLS	78,599	
		YOUTH DEVELOPMENT INC	448,761	
		Total for CFDA 84.287C		4,666,819
84.358B	Rural Education			
		ARTESIA PUBLIC SCHOOLS	83,147	
		CENTRAL CONSOLIDATED SCHOOLS #22	109,371	
		CLAYTON MUNICIPAL SCHOOLS	270	
		DEMING PUBLIC SCHOOLS	97,811	
		DULCE INDEPENDENT SCHOOLS #21	18,440	
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	96,285	
		GALLUP MCKINLEY COUNTY SCHOOL	184,940	
		GRANTS/CIBOLA COUNTY SCHOOL	70,157	
		HATCH VALLEY MUNICIPAL SCHOOLS	24,710	
		LAS VEGAS CITY SCHOOLS	24,041	
		LORDSBURG MUNICIPAL SCHOOLS	5,207	
		LOVINGTON MUNICIPAL SCHOOLS	12,599	
		PORTALES MUNICIPAL SCHOOLS	51,845	
		RATON PUBLIC SCHOOLS	33,032	
		RUIDOSO MUNICIPAL SCHOOLS	37,979	

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
		SANTA ROSA CONSOLIDATED SCHOOL	10,962	
		SILVER CITY CONSOLIDATED SCHOOLS	68,134	
		SOCORRO CONSOLIDATED SCHOOLS	53,312	
		T OR C MUNICIPAL SCHOOLS	40,361	
		TAOS MUNICIPAL SCHOOLS	54,668	
		TUCUMCARI PUBLIC SCHOOLS	18,070	
		TULAROSA MUNICIPAL SCHOOLS	17,109	
		WEST LAS VEGAS SCHOOL DISTRICT	28,323	
		ZUNI PUBLIC SCHOOL DIST	29,780	
		Total for CFDA 84.358B		1,170,553
84.365	Title III English Language Acquisition Grants			
		ALBUQUERQUE PUBLIC SCHOOLS	1,012,634	
		ARTESIA PUBLIC SCHOOLS	4,653	
		BELEN CONSOLIDATED SCHOOLS	24,210	
		BERNALILLO PUBLIC SCHOOLS	41,224	
		BLOOMFIELD SCHOOLS	18,858	
		CENTRAL CONSOLIDATED SCHOOLS #22	41,551	
		CLOVIS MUNICIPAL SCHOOLS	52,825	
		COBRE CONSOLIDATED SCHOOLS	9,750	
		CUBA INDEPENDENT SCHOOLS	20,105	
		DEMING PUBLIC SCHOOLS	146,063	
		DEXTER CONSOLIDATED SCHOOLS	13,512	
		DULCE INDEPENDENT SCHOOLS #21	7,318	
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	1,156	
		FARMINGTON MUNICIPAL SCHOOLS	111,689	
		GADSDEN INDEPENDENT SCHOOL DISTRICT	519,585	
		GALLUP MCKINLEY COUNTY SCHOOL	181,908	
		GRANTS/CIBOLA COUNTY SCHOOL	164	
		HATCH VALLEY MUNICIPAL SCHOOLS	37,831	
		HOBBS MUNICIPAL SCHOOLS	110,486	
		JEMEZ MTN SCHOOL DIST NO 53	6,191	
		LAS CRUCES SCHOOL DISTRICT #2	199,912	
		LAS VEGAS CITY SCHOOLS	8,132	
		LOS ALAMOS PUBLIC SCHOOLS	9,673	
		LOS LUNAS SCHOOLS	64,991	
		LOVINGTON MUNICIPAL SCHOOLS	31,562	
		MESA VISTA CONSOLIDATED SCHOOL	6,157	
		MORIARTY MUNICIPAL SCHOOLS	16,248	
		PECOS INDEPENDENT SCHOOLS	13,025	
		POJOAQUE VALLEY SCHOOLS	41,914	
		PORTALES MUNICIPAL SCHOOLS	16,568	
		RATON PUBLIC SCHOOLS	4,348	
		REGION IX EDUCATION COOP	17,395	
		REGIONAL EDUCATIONAL CENTER #7	11,346	
		RIO RANCHO PUBLIC SCHOOLS	54,284	
		ROSWELL INDEPENDENT SCHOOL DISTRICT	89,494	
		SANTA FE PUBLIC SCHOOLS	460,789	
		T OR C MUNICIPAL SCHOOLS	12,782	
		TAOS MUNICIPAL SCHOOLS	26,704	
		WEST LAS VEGAS SCHOOL DISTRICT	44,336	
		ZUNI PUBLIC SCHOOL DISTRICT	23,358	
		Total for CFDA 84.365		3,514,731

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount
84.367A	Title II Improving Teacher Quality State Grants		
		ALAMOGORDO PUBLIC SCHOOLS	449,785
		ALBUQUERQUE PUBLIC SCHOOLS	3,193,922
		ANIMAS PUBLIC SCHOOLS	27,814
		ARTESIA PUBLIC SCHOOLS	181,044
		AZTEC MUNICIPAL SCHOOLS DISTRICT #2	145,192
		BELEN CONSOLIDATED SCHOOLS	389,122
		BERNALILLO PUBLIC SCHOOLS	188,037
		BLOOMFIELD SCHOOLS	179,175
		CAPITAN MUNICIPAL SCHOOLS	25,449
		CARLSBAD MUNICIPAL SCHOOLS	225,341
		CARRIZOZO MUNICIPAL SCHOOLS	12,889
		CENTRAL CONSOLIDATED SCHOOLS #22	593,620
		CHAMA VALLEY INDEPENDENT	26,117
		CIMARRON MUNICIPAL SCHOOLS	19,561
		CLAYTON MUNICIPAL SCHOOLS	15,875
		CLOUDCROFT MUNICIPAL SCHOOLS	13,750
		CLOVIS MUNICIPAL SCHOOLS	370,482
		COBRE CONSOLIDATED SCHOOLS	105,536
		CORAL COMMUNITY CHARTER	3,200
		CORONA PUBLIC SCHOOLS	7,114
		CUBA INDEPENDENT SCHOOLS	168,826
		DEMING PUBLIC SCHOOLS	283,998
		DES MOINES MUNICIPAL SCHOOLS	4,895
		DEXTER CONSOLIDATED SCHOOLS	46,329
		DORA CONSOLIDATED SCHOOL	5,483
		DULCE INDEPENDENT SCHOOLS #21	47,301
		ELIDA MUNICIPAL SCHOOLS	2,331
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	139,576
		ESTANCIA BOARD OF EDUCATION	41,979
		EUNICE PUBLIC SCHOOLS	14,773
		FARMINGTON MUNICIPAL SCHOOLS	425,777
		FLOYD MUNICIPAL SCHOOLS	7,852
		FORT SUMNER MUNICIPAL SCHOOLS	4,820
		GADSDEN INDEPENDENT SCHOOL DISTRICT	1,089,681
		GALLUP MCKINLEY COUNTY SCHOOL	1,002,646
		GRADY MUNICIPAL SCHOOLS	750
		GRANTS/CIBOLA COUNTY SCHOOL	289,120
		HAGERMAN MUNICIPAL SCHOOLS	26,884
		HATCH VALLEY MUNICIPAL SCHOOLS	109,801
		HOBBS MUNICIPAL SCHOOLS	366,146
		HONDO VALLEY SCHOOLS	9,575
		HOUSE MUNICIPAL SCHOOL	2,757
		JAL PUBLIC SCHOOLS	6,681
		JEMEZ MTN SCHOOL DIST NO 53	16,867
		JEMEZ VALLEY PUBLIC SCHOOLS	48,681
		LAKE ARTHUR MUNICIPAL SCHOOLS	5,406
		LAS CRUCES SCHOOL DISTRICT #2	1,266,824
		LAS VEGAS CITY SCHOOLS	114,995
		LOGAN MUNICIPAL SCHOOL	14,388
		LORDSBURG MUNICIPAL SCHOOLS	39,781
		LOS ALAMOS PUBLIC SCHOOLS	58,549
		LOS LUNAS SCHOOLS	262,505

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
		LOVING MUNICIPAL SCHOOLS	22,748	
		LOVINGTON MUNICIPAL SCHOOLS	113,092	
		MAGDALENA MUNICIPAL SCHOOLS	62,058	
		MAXWELL MUNICIPAL SCHOOL	3,026	
		MELROSE MUNICIPAL SCHOOLS	11,978	
		MORA INDEPENDENT SCHOOLS	50,383	
		MORIARTY MUNICIPAL SCHOOLS	124,710	
		MOUNTAINAIR PUBLIC SCHOOLS	7,548	
		NEW AMERICA SCHOOL LAS CRUCES	1,250	
		PECOS INDEPENDENT SCHOOLS	69,926	
		PENASCO INDEPENDENT SCHOOL DISTRICT	39,677	
		POJOAQUE VALLEY SCHOOLS	40,669	
		PORTALES MUNICIPAL SCHOOLS	192,194	
		QUEMADO INDEPENDENT SCHOOL	2,105	
		QUESTA INDEPENDENT SCHOOLS	37,575	
		RATON PUBLIC SCHOOLS	41,281	
		REGIONAL EDUCATION CENTER #6	24,916	
		RESERVE SCHOOL DISTRICT	16,729	
		RIO RANCHO PUBLIC SCHOOLS	312,381	
		ROSWELL INDEPENDENT SCHOOL DISTRICT	608,543	
		ROY MUNICIPAL SCHOOLS	985	
		RUIDOSO MUNICIPAL SCHOOLS	84,493	
		SAN JON MUNICIPAL SCHOOLS	7,776	
		SANTA FE PUBLIC SCHOOLS	453,363	
		SANTA ROSA CONSOLIDATED SCHOOL	103,778	
		SILVER CITY CONSOLIDATED SCHOOLS	321,445	
		SOCORRO CONSOLIDATED SCHOOLS	162,612	
		SPRINGER MUNICIPAL SCHOOLS	6,138	
		T OR C MUNICIPAL SCHOOLS	51,626	
		TAOS MUNICIPAL SCHOOLS	177,709	
		TATUM MUNICIPAL SCHOOLS	17,523	
		TEXICO MUNICIPAL SCHOOL	25,436	
		TUCUMCARI PUBLIC SCHOOLS	95,445	
		TULAROSA MUNICIPAL SCHOOLS	114,167	
		VAUGHN MUNICIPAL SCHOOLS	893	
		WAGON MOUND PUBLIC SCHOOLS	11,340	
		WEST LAS VEGAS SCHOOL DISTRICT	164,829	
		ZUNI PUBLIC SCHOOL DIST	135,477	
		Total for CFDA 84.367A		15,816,826
84.027A	Special Education - Grants to States			
		ALAMOGORDO PUBLIC SCHOOLS	1,423,095	
		ALBUQUERQUE PUBLIC SCHOOLS	22,358,778	
		ALBUQUERQUE SIGN LANGUAGE ACADEMY	109,868	
		ANIMAS PUBLIC SCHOOLS	57,660	

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount
		ARTESIA PUBLIC SCHOOLS	814,840
		AZTEC MUNICIPAL SCHOOLS DISTRICT #2	812,099
		BELEN CONSOLIDATED SCHOOLS	794,532
		BERNALILLO PUBLIC SCHOOLS	784,661
		BLOOMFIELD SCHOOLS	950,819
		CAPITAN MUNICIPAL SCHOOLS	152,380
		CARLSBAD MUNICIPAL SCHOOLS	1,418,193
		CARRIZOZO MUNICIPAL SCHOOLS	27,859
		CENTRAL CONSOLIDATED SCHOOLS #22	1,333,512
		CENTRAL REGION EDUCATIONAL COOPERATIVE	161,494
		CHAMA VALLEY INDEPENDENT	92,840
		CIEN AGUAS INTERNATIONAL SCHOOL	39,353
		CIMARRON MUNICIPAL SCHOOLS	126,517
		CLAYTON MUNICIPAL SCHOOLS	104,931
		CLOUDCROFT MUNICIPAL SCHOOLS	81,228
		CLOVIS MUNICIPAL SCHOOLS	1,835,814
		COBRE CONSOLIDATED SCHOOLS	359,290
		CORONA PUBLIC SCHOOLS	44,988
		CUBA INDEPENDENT SCHOOLS	230,615
		DEMING PUBLIC SCHOOLS	955,013
		DES MOINES MUNICIPAL SCHOOLS	32,892
		DEXTER CONSOLIDATED SCHOOLS	264,947
		DORA CONSOLIDATED SCHOOL	76,568
		DULCE INDEPENDENT SCHOOLS #21	160,103
		ELIDA MUNICIPAL SCHOOLS	23,548
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	1,028,219
		ESTANCIA BOARD OF EDUCATION	175,308
		EUNICE PUBLIC SCHOOLS	117,491
		FARMINGTON MUNICIPAL SCHOOLS	2,451,847
		FLOYD MUNICIPAL SCHOOLS	70,953
		FORT SUMNER MUNICIPAL SCHOOLS	88,561
		GADSDEN INDEPENDENT SCHOOL DISTRICT	3,338,286
		GALLUP MCKINLEY COUNTY SCHOOL	2,587,210
		GRADY MUNICIPAL SCHOOLS	20,958
		GRANTS/CIBOLA COUNTY SCHOOL	806,838
		HAGERMAN MUNICIPAL SCHOOLS	139,376
		HATCH VALLEY MUNICIPAL SCHOOLS	320,998
		HOBBS MUNICIPAL SCHOOLS	1,592,274
		HONDO VALLEY SCHOOLS	41,894
		HOUSE MUNICIPAL SCHOOL	19,530

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount
		JAL PUBLIC SCHOOLS	116,537
		JEMEZ MTN SCHOOL DIST NO 53	37,108
		JEMEZ VALLEY PUBLIC SCHOOLS	107,826
		LAKE ARTHUR MUNICIPAL SCHOOLS	68,215
		LAS CRUCES SCHOOL DISTRICT #2	5,879,537
		LAS VEGAS CITY SCHOOLS	477,052
		LOGAN MUNICIPAL SCHOOL	66,804
		LORDSBURG MUNICIPAL SCHOOLS	149,092
		LOS ALAMOS PUBLIC SCHOOLS	804,019
		LOS LUNAS SCHOOLS	2,023,159
		LOVING MUNICIPAL SCHOOLS	172,755
		LOVINGTON MUNICIPAL SCHOOLS	718,582
		MAGDALENA MUNICIPAL SCHOOLS	106,969
		MAXWELL MUNICIPAL SCHOOL	49,428
		MELROSE MUNICIPAL SCHOOLS	61,754
		MESA VISTA CONSOLIDATED SCHOOL	98,464
		MORA INDEPENDENT SCHOOLS	164,239
		MORIARTY MUNICIPAL SCHOOLS	928,611
		MOSQUERO MUNICIPAL SCHOOLS	15,797
		MOUNTAINAIR PUBLIC SCHOOLS	87,338
		NEW MEXICO SCHOOL FOR THE ARTS	26,647
		NEW MEXICO SCHOOL FOR THE DEAF	33,649
		NM INTERNATIONAL SCHOOL, THE	21,036
		NM SCHL FOR THE BLIND &VISUALLY IMPAIRED	35,068
		PECOS INDEPENDENT SCHOOLS	167,394
		PENASCO INDEPENDENT SCHOOL DISTRICT	117,494
		POJOAQUE VALLEY SCHOOLS	480,809
		PORTALES MUNICIPAL SCHOOLS	734,733
		QUEMADO INDEPENDENT SCHOOL	12,124
		QUESTA INDEPENDENT SCHOOLS	104,019
		RATON PUBLIC SCHOOLS	317,784
		RESERVE SCHOOL DISTRICT	54,089
		RIO RANCHO PUBLIC SCHOOLS	3,099,697
		ROSWELL INDEPENDENT SCHOOL DISTRICT	2,363,725
		ROY MUNICIPAL SCHOOLS	28,293
		RUIDOSO MUNICIPAL SCHOOLS	500,191

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
		SAN JON MUNICIPAL SCHOOLS	29,217	
		SANTA FE PUBLIC SCHOOLS	3,179,356	
		SANTA ROSA CONSOLIDATED SCHOOL	194,721	
		SILVER CITY CONSOLIDATED SCHOOLS	1,047,768	
		SOCORRO CONSOLIDATED SCHOOLS	466,624	
		SPRINGER MUNICIPAL SCHOOLS	65,913	
		T OR C MUNICIPAL SCHOOLS	380,162	
		TAOS MUNICIPAL SCHOOLS	752,914	
		TATUM MUNICIPAL SCHOOLS	160,946	
		TEXICO MUNICIPAL SCHOOL	128,037	
		TUCUMCARI PUBLIC SCHOOLS	314,954	
		TULAROSA MUNICIPAL SCHOOLS	272,092	
		UPLIFT COMMUNITY SCHOOL	45,212	
		VAUGHN MUNICIPAL SCHOOLS	25,096	
		WAGON MOUND PUBLIC SCHOOLS	38,460	
		WEST LAS VEGAS SCHOOL DISTRICT	371,288	
		ZUNI PUBLIC SCHOOL DIST	396,251	
		Total for CFDA 84.027A		76,527,229
84.173	Special Education - Preschool Grants			
		ALAMOGORDO PUBLIC SCHOOLS	59,529	
		ALBUQUERQUE PUBLIC SCHOOLS	354,634	
		ARTESIA PUBLIC SCHOOLS	37,626	
		AZTEC MUNICIPAL SCHOOLS DISTRICT #2	10,345	
		BELEN CONSOLIDATED SCHOOLS	21,298	
		BERNALILLO PUBLIC SCHOOLS	25,783	
		BLOOMFIELD SCHOOLS	23,637	
		CAPITAN MUNICIPAL SCHOOLS	3,264	
		CARLSBAD MUNICIPAL SCHOOLS	47,541	
		CARRIZOZO MUNICIPAL SCHOOLS	2,417	
		CENTRAL CONSOLIDATED SCHOOLS #22	68,624	
		CHAMA VALLEY INDEPENDENT	2,770	
		CIMARRON MUNICIPAL SCHOOLS	12,994	
		CLAYTON MUNICIPAL SCHOOLS	11,286	
		CLOVIS MUNICIPAL SCHOOLS	79,291	
		COBRE CONSOLIDATED SCHOOLS	5,900	
		CORONA PUBLIC SCHOOLS	374	
		CUBA INDEPENDENT SCHOOLS	8,678	
		DEMING PUBLIC SCHOOLS	24,574	
		DES MOINES MUNICIPAL SCHOOLS	933	
		DEXTER CONSOLIDATED SCHOOLS	9,903	
		DORA CONSOLIDATED SCHOOL	14,888	

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount
		DULCE INDEPENDENT SCHOOLS #21	6,343
		ELIDA MUNICIPAL SCHOOLS	3,159
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	21,473
		ESTANCIA BOARD OF EDUCATION	13,293
		EUNICE PUBLIC SCHOOLS	7,093
		FARMINGTON MUNICIPAL SCHOOLS	61,690
		FLOYD MUNICIPAL SCHOOLS	13,262
		FORT SUMNER MUNICIPAL SCHOOLS	4,578
		GADSDEN INDEPENDENT SCHOOL DISTRICT	79,319
		GALLUP MCKINLEY COUNTY SCHOOL	94,315
		GRADY MUNICIPAL SCHOOLS	1,139
		GRANTS/CIBOLA COUNTY SCHOOL	10,921
		HAGERMAN MUNICIPAL SCHOOLS	6,455
		HATCH VALLEY MUNICIPAL SCHOOLS	14,226
		HOBBS MUNICIPAL SCHOOLS	50,709
		HONDO VALLEY SCHOOLS	248
		HOUSE MUNICIPAL SCHOOL	3,820
		JAL PUBLIC SCHOOLS	11,808
		JEMEZ VALLEY PUBLIC SCHOOLS	5,062
		LAKE ARTHUR MUNICIPAL SCHOOLS	2,885
		LAS CRUCES SCHOOL DISTRICT #2	129,921
		LAS VEGAS CITY SCHOOLS	8,071
		LOGAN MUNICIPAL SCHOOL	5,129
		LORDSBURG MUNICIPAL SCHOOLS	22,164
		LOS ALAMOS PUBLIC SCHOOLS	22,039
		LOS LUNAS SCHOOLS	56,156
		LOVING MUNICIPAL SCHOOLS	6,982
		LOVINGTON MUNICIPAL SCHOOLS	40,883
		MAGDALENA MUNICIPAL SCHOOLS	7,670
		MAXWELL MUNICIPAL SCHOOL	2,392
		MELROSE MUNICIPAL SCHOOLS	4,433
		MESA VISTA CONSOLIDATED SCHOOL	4,196
		MORA INDEPENDENT SCHOOLS	6,584
		MORIARTY MUNICIPAL SCHOOLS	37,167
		MOSQUERO MUNICIPAL SCHOOLS	2,481
		MOUNTAINAIR PUBLIC SCHOOLS	852
		PECOS INDEPENDENT SCHOOLS	3,234
		PENASCO INDEPENDENT SCHOOL DISTRICT	3,484
		POJOAQUE VALLEY SCHOOLS	2,208
		PORTALES MUNICIPAL SCHOOLS	18,407
		QUEMADO INDEPENDENT SCHOOL	1,146
		QUESTA INDEPENDENT SCHOOLS	3,675
		RATON PUBLIC SCHOOLS	29,042
		RESERVE SCHOOL DISTRICT	7,847
		RIO RANCHO PUBLIC SCHOOLS	51,530
		ROSWELL INDEPENDENT SCHOOL DISTRICT	96,440
		RUIDOSO MUNICIPAL SCHOOLS	35,284
		SAN JON MUNICIPAL SCHOOLS	4,438
		SANTA FE PUBLIC SCHOOLS	44,265
		SANTA ROSA CONSOLIDATED SCHOOL	9,453
		SILVER CITY CONSOLIDATED SCHOOLS	39,221
		SOCORRO CONSOLIDATED SCHOOLS	12,316
		SPRINGER MUNICIPAL SCHOOLS	6,512

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
		T OR C MUNICIPAL SCHOOLS	12,827	
		TAOS MUNICIPAL SCHOOLS	23,174	
		TATUM MUNICIPAL SCHOOLS	20,565	
		TEXICO MUNICIPAL SCHOOL	8,586	
		TUCUMCARI PUBLIC SCHOOLS	20,246	
		TULAROSA MUNICIPAL SCHOOLS	9,325	
		VAUGHN MUNICIPAL SCHOOLS	649	
		WAGON MOUND PUBLIC SCHOOLS	886	
		WEST LAS VEGAS SCHOOL DISTRICT	12,612	
		ZUNI PUBLIC SCHOOL DIST	3,825	
		Total for CFDA 84.173		2,076,404
84.048A	Carl Perkins - Voc. Educ. - Basic Grants to States/Adult Educ. - State Grant Program			
		ALAMO NAVAJO SCHOOL BOARD INC	28,095	
		ALAMOGORDO PUBLIC SCHOOLS	59,676	
		ALBUQUERQUE PUBLIC SCHOOLS	1,221,474	
		AZTEC MUNICIPAL SCHOOLS DISTRICT #2	17,834	
		BELEN CONSOLIDATED SCHOOLS	103,642	
		BERNALILLO PUBLIC SCHOOLS	96,944	
		BLOOMFIELD SCHOOLS	35,023	
		CARLSBAD MUNICIPAL SCHOOLS	107,066	
		CENTRAL CONSOLIDATED SCHOOLS #22	44,138	
		CENTRAL NEW MEXICO COMMUNITY COLLEGE	1,031,172	
		CLOVIS COMMUNITY COLLEGE	116,876	
		CLOVIS MUNICIPAL SCHOOLS	79,681	
		DEMING PUBLIC SCHOOLS	40,242	
		DEXTER CONSOLIDATED SCHOOLS	27,239	
		EASTERN NEW MEXICO UNIVERSITY-ROSWELL	134,375	
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	67,753	
		FARMINGTON MUNICIPAL SCHOOLS	112,528	
		GADSDEN INDEPENDENT SCHOOL DISTRICT	324,956	
		GALLUP MCKINLEY COUNTY SCHOOL	38,861	
		GRANTS/CIBOLA COUNTY SCHOOL	59,511	
		HOBBS MUNICIPAL SCHOOLS	73,575	
		LAKE ARTHUR MUNICIPAL SCHOOLS	224	
		LAS CRUCES PUBLIC SCHOOLS	95,428	
		LAS CRUCES SCHOOL DISTRICT #2	181,834	
		LOS ALAMOS PUBLIC SCHOOLS	1,201	
		LOS LUNAS SCHOOLS	76,796	
		LOVING MUNICIPAL SCHOOLS	17,250	
		MORA INDEPENDENT SCHOOLS	46,275	
		NEW MEXICO JUNIOR COLLEGE	10,521	
		NORTHEAST REGIONAL EDUCATION	49,448	
		NORTHERN NEW MEXICO COLLEGE	78,645	
		PECOS VALLEY REGIONAL EDU CTR8	13,728	
		PORTALES MUNICIPAL SCHOOLS	38,549	
		REGENTS OF NEW MEXICO STATE UNIVERSITY	613,329	
		REGION IX EDUCATION COOP	81,616	
		RIO RANCHO PUBLIC SCHOOLS	166,911	
		ROSWELL INDEPENDENT SCHOOL DISTRICT	116,877	
		SAN JUAN COLLEGE	333,464	
		SANTA FE COMMUNITY COLLEGE	175,336	
		SANTA FE PUBLIC SCHOOLS	159,927	

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
		SOCORRO CONSOLIDATED SCHOOLS	22,059	
		T OR C MUNICIPAL SCHOOLS	21,493	
		TAOS MUNICIPAL SCHOOLS	38,136	
		THE UNIVERSITY OF NEW MEXICO	294,096	
		WESTERN NEW MEXICO UNIVERSITY	99,870	
		ZUNI PUBLIC SCHOOL DIST	40,793	
		Total for CFDA 84.048A		6,594,467
TOTAL U.S. DEPARTMENT OF EDUCATION				$ 230,668,776
DEPARTMENT OF AGRICULTURE				
10.555	National School Lunch Program			
		ALAMO NAVAJO SCHOOL BOARD INC	250,755	
		ALAMOGORDO PUBLIC SCHOOLS	1,807,749	
		ALBUQUERQUE ACADEMY	60,149	
		ALBUQUERQUE PUBLIC SCHOOLS	27,936,779	
		ANIMAS PUBLIC SCHOOLS	60,987	
		ARTESIA PUBLIC SCHOOLS	975,174	
		AZTEC MUNICIPAL SCHOOLS DISTRICT #2	976,255	
		BELEN CONSOLIDATED SCHOOLS	2,356,748	
		BERNALILLO PUBLIC SCHOOLS	1,794,080	
		BERNALILLO, COUNTY OF	93,043	
		BLOOMFIELD SCHOOLS	1,304,623	
		CAPITAN MUNICIPAL SCHOOLS	174,667	
		CARLSBAD MUNICIPAL SCHOOLS	2,639,440	
		CARRIZOZO MUNICIPAL SCHOOLS	75,402	
		CENTRAL CONSOLIDATED SCHOOLS #22	3,317,440	
		CHAVES COUNTY	19,977	
		CHRIST LUTHERAN CHURCH	3,197	
		CIMARRON MUNICIPAL SCHOOLS	204,067	
		CLAYTON MUNICIPAL SCHOOLS	181,825	
		CLOUDCROFT MUNICIPAL SCHOOLS	48,613	
		CLOVIS MUNICIPAL SCHOOLS	3,462,318	
		COBRE CONSOLIDATED SCHOOLS	789,102	
		CORONA PUBLIC SCHOOLS	37,788	
		CUBA INDEPENDENT SCHOOLS	267,354	
		CURRY COUNTY	15,181	
		CYFD	364,247	
		DEMING PUBLIC SCHOOLS	3,360,141	
		DES MOINES MUNICIPAL SCHOOLS	29,999	
		DEXTER CONSOLIDATED SCHOOLS	633,519	
		DOI BUREAU OF INDIAN EDUCATION	3,438,433	
		DONA ANA COUNTY	22,454	
		DORA CONSOLIDATED SCHOOL	56,124	
		DULCE INDEPENDENT SCHOOLS #21	349,483	
		DZILTH-NA-O-DITH-HLE COMMUNITY	110,506	
		ELIDA MUNICIPAL SCHOOLS	55,152	
		ESPANOLA PUBLIC SCHOOL DISTRICT #55	1,738,992	
		ESTANCIA BOARD OF EDUCATION	329,243	
		EUNICE PUBLIC SCHOOLS	244,877	
		FAMILIES AND YOUTH INC	4,566	
		FARMINGTON MUNICIPAL SCHOOLS	3,051,149	
		FLOYD MUNICIPAL SCHOOLS	101,450	

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount
		FORT SUMNER MUNICIPAL SCHOOLS	123,409
		GADSDEN INDEPENDENT SCHOOL DISTRICT	9,122,354
		GALLUP CATHOLIC	11,405
		GALLUP MCKINLEY COUNTY SCHOOL	5,307,079
		GRADY MUNICIPAL SCHOOLS	32,426
		GRANTS/CIBOLA COUNTY SCHOOL	1,738,829
		HAGERMAN MUNICIPAL SCHOOLS	245,346
		HATCH VALLEY MUNICIPAL SCHOOLS	814,820
		HOBBS MUNICIPAL SCHOOLS	2,605,988
		HOLY CROSS SCHOOL SC	14,386
		HOLY GHOST SCHOOL	10,514
		HONDO VALLEY SCHOOLS	64,532
		HOUSE MUNICIPAL SCHOOL	12,378
		IMMANUEL LUTHERAN CHURCH/SCHOOL	14,714
		JAL PUBLIC SCHOOLS	124,647
		JEMEZ MTN SCHOOL DIST NO 53	139,203
		JEMEZ VALLEY PUBLIC SCHOOLS	232,471
		LAKE ARTHUR MUNICIPAL SCHOOLS	87,287
		LAS CRUCES CATHOLIC SCHOOL INC	12,966
		LAS CRUCES SCHOOL DISTRICT #2	8,605,314
		LAS VEGAS CITY SCHOOLS	632,229
		LEA COUNTY	15,796
		LOGAN MUNICIPAL SCHOOL	97,162
		LORDSBURG MUNICIPAL SCHOOLS	255,035
		LOS ALAMOS PUBLIC SCHOOLS	74,520
		LOS LUNAS SCHOOLS	3,837,782
		LOVING MUNICIPAL SCHOOLS	369,413
		LOVINGTON MUNICIPAL SCHOOLS	983,716
		MAGDALENA MUNICIPAL SCHOOLS	179,859
		MAXWELL MUNICIPAL SCHOOL	40,010
		MELROSE MUNICIPAL SCHOOLS	55,856
		MESA VISTA CONSOLIDATED SCHOOL	198,078
		MESCALERO APACHE SCHOOL	243,845
		MORA INDEPENDENT SCHOOLS	311,213
		MORIARTY MUNICIPAL SCHOOLS	853,457
		MOSQUERO MUNICIPAL SCHOOLS	8,513
		MOUNTAINAIR PUBLIC SCHOOLS	135,156
		NA NEELZHIIN JI OLTA INC	114,988
		NEW MEXICO SCHOOL FOR THE ARTS	14,967
		NEW MEXICO SCHOOL FOR THE DEAF	75,832
		NM DEPARTMENT OF MILITARY AFFAIRS	92,306
		NM SCHL FOR THE BLIND &VISUALLY IMPAIRED	17,400
		NM SCHOOL FOR ARCHITECTURE CONSTRUCTION	79,838
		OHKAY OWINGEH COMMUNITY SCHOOL	56,723
		OUR LADY OF ASSUMPTION	10,247
		OUR LADY OF FATIMA	7,489
		PECOS INDEPENDENT SCHOOLS	353,782
		PENASCO INDEPENDENT SCHOOL DISTRICT	216,500
		POJOAQUE VALLEY SCHOOLS	702,316
		PORTALES MUNICIPAL SCHOOLS	1,217,861
		PUBLIC ACADEMY PERFORMING ARTS	50,955
		PUEBLO OF LAGUNA DEPARTMENT OF EDUCATION	165,818
		QUAY COUNTY	3,955

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2014

Note 5 - Subrecipients of Grant Awards

U.S. DEPARTMENT OF EDUCATION

Federal CFDA Number	Program Name	Subrecipient Name	Amount	
		QUEEN OF HEAVEN SCHOOL	6,832	
		QUEMADO INDEPENDENT SCHOOL	64,836	
		QUESTA INDEPENDENT SCHOOLS	236,724	
		RAMAH NAVAJO SCHOOL BOARD INC	99,500	
		RATON PUBLIC SCHOOLS	479,689	
		REHOBOTH CHRISTIAN SCHOOL	118,777	
		RESERVE SCHOOL DISTRICT	62,716	
		RIO RANCHO PUBLIC SCHOOLS	3,402,259	
		ROSWELL INDEPENDENT SCHOOL DISTRICT	5,366,528	
		ROY MUNICIPAL SCHOOLS	13,472	
		RUIDOSO MUNICIPAL SCHOOLS	834,236	
		SAN DIEGO RIVERSIDE SCHOOL	68,067	
		SAN FELIPE DE NERI SCHOOL	37,206	
		SAN JON MUNICIPAL SCHOOLS	43,292	
		SAN JUAN, COUNTY OF	74,838	
		SANTA FE INDIAN SCHOOL INC	203,051	
		SANTA FE PUBLIC SCHOOLS	4,673,107	
		SANTA FE, COUNTY OF	33,665	
		SANTA ROSA CONSOLIDATED SCHOOL	399,917	
		SANTO NINO REGIONAL CATHOLIC SCHOOL	41,296	
		SEQUOYAH ADOLESCENT CENTER	27,580	
		SHIPROCK ALTERNATIVE SCHOOLS INC	186,088	
		SILVER CITY CONSOLIDATED SCHOOLS	1,049,865	
		SOCORRO CONSOLIDATED SCHOOLS	1,004,990	
		SPRINGER MUNICIPAL SCHOOLS	98,479	
		ST ANTHONY INDIAN SCHOOL INC	74,379	
		ST BONAVENTURE INDIAN MISSION AND SCHOOL	123,367	
		ST CHARLES BORROMEO SCHOOL	26,476	
		ST FRANCIS OF ASSISI SCHOOL	42,121	
		ST FRANCIS SCHOOL	32,858	
		ST JOSEPH MISSION SCHOOL	19,730	
		ST MARY SCHOOL	58,686	
		ST MARY SCHOOL LUNCH PROGRAM	16,135	
		ST THERESE CATHOLIC SCHOOL	21,001	
		ST. TERESA OF AVILA SCHOOL, INC.	26,636	
		ST. THOMAS AQUINAS SCHOOL	28,584	
		T OR C MUNICIPAL SCHOOLS	642,031	
		TAOS MUNICIPAL SCHOOLS	1,247,928	
		TATUM MUNICIPAL SCHOOLS	93,499	
		TEXICO MUNICIPAL SCHOOL	154,764	
		TOHAJILEE COMMUNITY SCHOOL BOA	194,026	
		TUCUMCARI PUBLIC SCHOOLS	541,364	
		TULAROSA MUNICIPAL SCHOOLS	441,610	
		UNIVERSITY OF NEW MEXICO HOSPITAL	24,342	
		UPLIFT COMMUNITY SCHOOL	31,580	
		VAUGHN MUNICIPAL SCHOOLS	62,618	
		WAGON MOUND PUBLIC SCHOOLS	29,291	
		WALATOWA CHARTER HIGH SCHOOL	29,041	
		WEST LAS VEGAS SCHOOL DISTRICT	1,018,948	
		YOUTH DEVELOPMENT INC	19,135	
		ZUNI PUBLIC SCHOOL DIST	814,592	
		Total for CFDA 10.555		127,977,485
TOTAL DEPARTMENT OF AGRICULTURE				$ 127,977,485
TOTAL SUBRECIPIENT FUNDS PASSED THROUGH				$ 358,646,261

COMPLIANCE

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To Hanna Skandera, Secretary of Education
New Mexico Public Education Department
and Mr. Tim Keller
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each discretely presented component unit (New Mexico state chartered charter schools), each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general and major special revenue funds of the New Mexico Education Department ("Department"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and the Department's nonmajor governmental funds and fiduciary funds, and the budgetary comparison for all nonmajor funds presented as supplementary information in the accompanying combining and individual fund financial statements, and have issued our report thereon dated July 1, 2015. We modified our opinion on one component unit's Statement of Net Position and disclaimed our opinion on seven component unit's full or partial statements. See our opinion beginning on page 9 of this volume for further detail.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies, described in the accompanying schedule of findings

and questioned costs, to be material weaknesses.

Entity	Material Weakness Reference
Public Education Department	2011-001, 2013-002
Academy of Trades and Technology Foundation	2012-002
Amy Biehl Charter High School	2014-004
Creative Education Preparatory Institute	2009-024, 2011-001, 2011-003, 2014-001
Estancia Valley Classical Academy	2014-002
Estancia Valley Classical Academy Foundation	2014-003
Gilbert L. Sena Charter High School	2014-001
La Jicarita Community School	2014-003
La Resolana Leadership Academy	2014-001
McCurdy Charter School	2014-002
Ralph J Bunche Academy	2009-164
Southwest Aeronautics, Mathematics, and Science Academy	2014-001
Southwest Intermediate Learning Center	2014-001
Southwest Primary Learning Center	2014-001
Southwest Secondary Learning Center	2014-001

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in the accompany schedule of findings and questioned costs, to be significant deficiencies.

Entity	Significant Deficiency Reference
Public Education Department	2013-001, 2014-001, 2014-009
Division of Vocational Rehabilitation	2012-002, 2014-003
Anthony Charter School	2014-004
Cien Aguas International School	2014-004
Creative Education Preparatory Institute	2014-003
East Mountain High School	2014-001, 2014-002
J. Paul Taylor Academy	2014-001
La Jicarita Community School	2014-002, 2014-004
La Promesa Early Learning Center	2014-001
La Tierra Montessori School for the Arts and Sciences	2014-001
The Master's Program	2014-002
McCurdy Charter School	2014-001, 2014-004, 2014-005, 2014-006
Mission Achievement and Success	2014-001
New Mexico Connections Academy	2014-004
New Mexico International School	2014-001
Sage Montessori Charter School	2014-001
Uplift Community School	2014-001

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items:

Entity	Compliance and Other Matters Reference
Public Education Department	2012-005, 2013-003, 2013-005, 2014-002, 2014-008, 2014-010
Division of Vocational Rehabilitation	2013-002, 2014-004
Academy of Trades and Technology Foundation	2013-001
Academy of Trades and Technology	2014-001
ACE Leadership High School	2014-001
Albuquerque Institute for Mathematics and Science	2014-001
Albuquerque School of Excellence	2014-001, 2014-002
Albuquerque Sign Language Academy	2014-001, 2014-002
Aldo Leopold High School	2011-007
Alma D'Arte Charter High School	2014-001, 2014-002
Amy Biehl Charter High School	2014-001, 2014-002, 2014-003
Anthony Charter School	2014-001, 2014-002, 2014-003
The Ask Academy	2013-001
Cesar Chaves Community School	2013-001, 2014-001, 2014-002
Cien Aguas International School	2013-001, 2013-002, 2014-001, 2014-002, 2014-003
Coral Community Charter School	2014-001, 2014-002
Cottonwood Classical Preparatory School	2014-001, 2014-002, 2014-003
Creative Education Preparatory Institute	2011-002, 2012-003, 2013-001, 2013-002, 2014-002, 2014-004, 2014-005
East Mountain High School	2014-003
Estancia Valley Classical Academy	2014-001
Gilbert L. Sena Charter High School	2014-002
Health Leadership High School	2014-001, 2014-002
Horizon Academy West	2014-001, 2014-002, 2014-003, 2014-004, 2014-005
The International School at Mesa Del Sol	2013-001, 2014-001, 2014-002
La Jicarita Community School	2013-002, 2014-001
La Promesa Early Learning Center	2014-002, 2014-003
The Master's Program	2014-001, 2014-003
McCurdy Charter School	2013-002, 2014-003, 2014-007
Media Arts Collaborative Charter School	2014-001
Mission Achievement and Success	2014-002
Montessori Elementary	2010-030, 2010-031

Entity	Compliance and Other Matters Reference
New America School	2012-002, 2014-001
New America School of Las Cruces	2014-001, 2014-002
New Mexico Connections Academy	2014-001, 2014-002, 2014-003, 2014-005, 2014-006
New Mexico International School	2014-002, 2014-003, 2014-004, 2014-005
New Mexico School for the Arts	2014-001, 2014-002, 2014-003
North Valley Academy	2014-001, 2014-002, 2014-003
Ralph J Bunche Academy	2014-001, 2014-002, 2014-003, 2014-004
Red River Valley Charter School	2014-001, 2014-002
Sage Montessori Charter School	2014-002, 2014-003
School of Dreams Academy	2014-001
Southwest Aeronautics, Mathematics, and Science Academy	2014-002
Southwest Intermediate Learning Center	2014-002
Southwest Primary Learning Center	2014-002
Southwest Secondary Learning Center	2014-002
Taos Academy	2014-001
Taos Integrated School of the Arts	2014-001
The Learning Community Charter School	2009-003, 2013-002, 2014-001, 2014-002, 2014-003
Tierra Adentro	2014-001
Uplift Community School	2013-002, 2014-002, 2014-003, 2014-004
Walatowa High Charter School	2013-001, 2013-004, 2013-008, 2014-001, 2014-002
William W. & Josephine Dorn Charter Community School	2014-001, 2014-002, 2014-003, 2014-004, 2014-005

Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Albuquerque, New Mexico
July 1, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To Hanna Skandera, Secretary of Education
New Mexico Public Education Department
and Mr. Tim Keller
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Education Department's ("Department") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect on each of the Department's major federal programs for the year ended June 30, 2014. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Basis for Modified Opinion on the Rehabilitation Services CFDA 84.126A Program

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding CFDA 84.126A Rehabilitation Services as described in finding number 2014-006 for Period of Availability. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

Modified Opinion on the Rehabilitation Services CFDA 84.126A Program
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.126A Rehabilitation Services for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs
In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters
The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-006 and 2014-005. Our opinion on each major federal program is not modified with respect to these matters.

The Department's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance
Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the

deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-006 to be a material weakness.

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-007 to be a significant deficiency.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Albuquerque, New Mexico
July 1, 2015

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified, disclaimer on multiple aggregate discretely presented component units

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Noncompliance material to financial statements Noted? ☒ Yes ☐ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Type of Auditor's Report issued on compliance for major programs: Modified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of Major Programs

CFDA Numbers	*Name of Federal Program or Cluster*
10.553/10.555	Child Nutrition Cluster
84.010A	Title I Grants to Local Educational Agencies
84.027A/84.173A	Special Education Cluster
84.377A/84.388A	School Improvement Grants Cluster
84.126A	Rehabilitation Services
96.001	Social Security – Disability Insurance

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

Section II – Findings – Financial Statement Audit

The State of New Mexico Public Education Department is made up of two distinct appropriated entities and 55 state authorized chartered schools: the Public Education Department and the Division of Vocational Rehabilitation, and the various State authorized charter schools.

PUBLIC EDUCATION DEPARTMENT FINDINGS

2011-001 [PED 2011-01] Financial Close and Reporting (Material Weakness)

Condition: During our testwork over the financial close and reporting process it was noted that the Department does not have policies and procedures in place to ensure that balance sheet accounts are reconciled on a monthly basis. The following items were noted:

- During our testwork over the cash receipts process, it was noted that cash payments received through the CyberSource online payment system are not reconciled with payments recorded in SHARE.

- During our testwork over cash it was noted that there is no monthly proof of cash reconciliation performed at the Agency level to ensure that cash balances reported in SHARE are correctly stated at month end and year end.

- During our testwork over accounts receivable we noted the following accounts receivable were unreconciled and required the following adjustments:

    - Fund 05700 was materially overstated in the amount of $403,726.
    - Fund 79000 was materially overstated in the amount of $445,416.
    - Fund 45800 was overstated in the amount of $25,733.
    - Fund 81600 was overstated in the amount of $20,972.
    - Additional entry in the amount of $3,054,033 to fund 89200 to correct overstatement of revenues.

Criteria: The Manual of Accounting Practices requires that all state agencies "perform monthly reconciliations" and "Maintain accounts and information as necessary to show the sources of state revenues and the purpose for which expenditures are made and provide proper accounting control to protect state finances". Additionally, Section 6-5-2, NMSA 1978 states that "State agencies shall comply with the Model Accounting Practices established by the Financial Control Division of the Department of Finance and Administration and the administrative head of each agency shall ensure that the Model Accounting Practices are followed."

Effect: Without timely reconciliations and dispositions of old balances, there is an increased risk of error or fraud in the financial records.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2011-001 [PED 2011-01] Financial Close and Reporting (Material Weakness)(Continued)

Cause: The Department has not had adequate resources to develop well-established policies and procedures over financial close and reporting. Additionally, the Department has limited staffing resources to complete timely reconciliations and research old account balances.

Recommendation: We recommend that the Department continue to develop policies and procedures to outline the requirements, timeliness and responsibilities over the financial close and reporting process, obtain the necessary staffing to carry this out, this includes reconciling all balances and determining the appropriate disposition of old balances.

Management's Response: Management concurs with the finding. The Department has implemented policies and procedures to perform a monthly proof of cash. During the monthly proof of cash process, the Department reviews balance sheet items for accuracy. The monthly proof of cash is then reviewed and approved by the Department's Chief Financial Officer. Additionally, the Audit and Accounting Bureau in collaboration with the Licensure Bureau has developed a reconciliation process for CyberSource revenue. The Licensure Bureau is now performing quarterly reconciliations throughout the year with the exception of periods of high volume licensure renewals when, the reconciliations will be performed monthly.

Outstanding accounts receivable balances have been recorded on the Department's financial statements since the inception of SHARE. Policies and procedures are now in place to research and reconcile the outstanding balances and adjustments to SHARE have been completed. As part of the Department's monthly proof of cash procedures, the Audit and Accounting Bureau now reviews accounts receivable balances and ensures collections have occurred. At the end of the fiscal year, the Audit and Accounting Bureau will perform an overall review of balance sheet items to ensure the balances are accurately stated.

2012-005 [PED 2012-05] Review of Security Logs and Monitoring of Scheduled Jobs (Other Matter and Non Compliance)

Condition: During our review of internal controls over IT, we noted that the Department does review certain security logs and job processing such as the daily schedule. However, reports or logs are only reviewed when security events are identified.

Criteria: Per State of NM Statewide Guideline "Enterprise IT Security Policy", S-GUIDE00.003, "the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality, privacy, accessibility, availability, and integrity.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2012-005 [PED 2012-05] Review of Security Logs and Monitoring of Scheduled Jobs (Other Matter and Non Compliance) (Continued)

ISACA's Control Objectives for Information and related Technology (COBIT) framework, Security Testing, Surveillance and Monitoring (DS5.5), provides for test and monitoring of IT security implementation in a proactive way. IT security should be reaccredited in a timely manner to ensure that the approved enterprise information security baseline is maintained. A logging and monitoring function will enable the early prevention and/or detection and subsequent timely reporting of unusual and/or abnormal activities that may need to be addressed.

Effect: The lack of continuous and proactive monitoring of the network weakens the overall system security, the lack of monitoring of schedule jobs will result in loss of financial and other data.

Cause: The Department did not have a network specialist during the year to perform these duties.

Recommendation: We recommend that the Department proactively review security logs and available report and alerts from the network monitoring tools in order to identify security risks on a timely basis. In addition, scheduled jobs/processing should be monitored to avoid potential loss of data.

Management's Response: Management partially concurs with the finding. Daily monitoring does take place but was not regularly documented as having occurred. The systems analysis group is now fully staffed and daily monitoring is taking place with back-up staffing in place. In addition, the PED monitors scheduled backups at least twice a day, and receives notifications via email on the status of the various systems. The department has implemented policies and procedures to ensure ongoing, daily monitoring of all network operations.

2013-001 [PED 2013-01] Error in Funding Calculation for State Equalization Grant Funds (Significant Deficiency)

Condition: During our testing of State Equalization Grant (SEG) Disbursements it was noted that for 1 out of 18 disbursements tested, an incorrect T&E (Training & Experience) adjustment amount was used resulting in a school being underpaid by $117,285.

Criteria: The SEG distribution is required by law, NMSA 22-8-25(G) "The state equalization guarantee distribution shall be distributed prior to June 30 of each fiscal year". Sound cash management and internal controls necessitate that funding calculations be reviewed in detail to prevent potential errors.

Effect: The error resulted in a school being underpaid in the amount of $117,285.

Cause: The process to allocate State Equalization Grants utilized a manual spreadsheet. The disbursement incorrectly used a Training and Experience adjustment that did not agree to supporting documentation or the manual spreadsheet.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2013-001 [PED 2013-01] Error in Funding Calculation for State Equalization Grant Funds (Significant Deficiency) (Continued)

Recommendation: We recommend that the Department implement procedures to ensure that all calculations are reviewed in detail by multiple levels. Additionally, we recommend that management consider implementing procedures to automate the calculation process.

Management's Response: Management concurs with this finding. The PED has implemented a four step process to ensure the accuracy of the computation. This involves two independent reviews of the data, separate reviews of the computation and a third review if differences are noted. Once all reviewers are in agreement, the Director of the School Budget and Finance Analysis Bureau will conduct a final review and issue final approval. The existing process for the data to be provided to districts and charter schools for their review will continue.

The Operating Budget and Management System (OBMS) is currently being modified to include a new module that will automate the calculation of the State Equalization Guarantee. The Department will continue to work on this process automation to ensure OBMS accuracy in the calculation of the SEG.

2013-002 [PED 2013-02] Fund Balance Restatement (Material Weakness)

Condition: During fiscal year 2014, the Department determined that the fiscal year 2013 accounts receivable was understated by approximately $23,118,000 in fund 79000 and accounts payable was understated by approximately $3,118,000 in fund 57300 requiring a prior period adjustment to correct beginning fund balance and net position.

Criteria: Good accounting practices calls for accurate and timely records and NMSA 1978 6-5-2 specifies that agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect: Opening fund balance was restated for two funds.

Cause: Prior year audit adjustments were erroneously recorded.

Recommendation: We recommend that the Department perform all general ledger reconciliations on a timely basis. Additionally, as a final step to reviewing the yearend financial statements, we recommend the Department thoroughly review the year-end financial for completeness, presentation, and disclosure prior to the submission to the New Mexico Office of the State Auditor.

Management Response: Management concurs that the condition exists but does not concur that the condition was the result of agency actions. In fiscal year 2013, in accordance with the recommendation above, the Department posted two adjustments in fund 79000 for $20M and $3,118,000 respectfully. In addition, the Department posted an adjustment in fund 57300 as a due to other funds for $3,118,000.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2013-002 [PED 2013-02] Fund Balance Restatement (Material Weakness) (Continued)

After these actions were taken by the PED, the department's previous auditors reversed both entries resulting in inaccurate fund balances for fiscal year 2014 and requiring a prior period adjustment to correct the error.

The Department has a proof of cash reconciliation process in place and will work with the independent auditors in the future to ensure they understand the process to prevent such errors from occurring.

2013-003 [PED 2013-03] Improve Other IT General Controls (Other Matter and Non Compliance)

Condition: During our review of IT security controls, we noted the following:

- We noted 3 accounts (users) in the network whose passwords are set not to expire. These users have access to powerful systems and applications.
- HR department is not timely in providing termination forms to the IT Department.
- PED does not have an offsite storage location for backup data.
- PED has been using an outdated/obsolete version of SQL Server to maintain their database.

Criteria: Per State of NM Statewide Guideline "Enterprise IT Security Policy", S-GUIDE00.003, "the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality, privacy, accessibility, availability, and integrity.

Effect: The deficiencies identified decrease the overall network security and are considered area that can be exploited by a potential hacker.

Cause: This has been a practice within the Department for the past several years.

Recommendation: We recommend the following:

- Password policies should be applied to all users without exception. This should also be applied to administrator accounts in all applications.
- HR Department should provide termination forms in a timely manner to ensure that access for terminated employees is removed on a timely basis.
- Computer files should be backed up at least weekly, be properly labeled, and stored off premises in a fireproof vault to ensure safe storage of computer information.
- Upgrade to most recent version of SQL Server to maintain database.

Management's Response: Management concurs with this finding and has since changed the account settings for the accounts that were set not to expire. All accounts are set to follow the password change policy.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2013-003 [PED 2013-03] Improve Other IT General Controls (Other Matter and Non Compliance) (Continued)

Termination forms are prepared by each bureau's manager or director. The Department has provided guidance and training to managers and directors to ensure that termination forms are turned in to all applicable bureaus, including IT. The HR bureau has also been instructed to inform IT whenever an employee processes out.

2014-001 Journal Entry (Significant Deficiency)

Condition: During our testing of journal entries it was noted that for 14 out of 22 journal entries tested, the journal entry lacked proper approval by a responsible employee and also did not document the preparer of the entry. It was also noted that 8 out of 22 journal entries tested did not contain adequate supporting documentation for the journal entry.

Criteria: Appropriate and accurate journal entries are essential in correcting errors, facilitating the month-end closing process, and preparing accurate financial statements. Journal entries should be reviewed by someone other than the preparer and that has the accounting knowledge to determine that the entry is appropriate and correct. The entry should be accompanied by supporting documentation to facilitate the review process. The review should be performed prior to the entry being recorded in the accounting records to reduce the need for additional correcting journal entries.

Effect: Journal entries that are not reviewed or approved by someone with the appropriate level of accounting knowledge may result in entries made in error and could lead to a misstatement of the financial statements. Additionally, a significant amount of time is required to research and correct erroneous journal entry postings.

Cause: The Department has not had adequate resources to develop well-established policies and procedures over the journal entry process.

Recommendation: We recommend that the Department adopt a policy whereby all journal entries will be approved by a designated member of management with the appropriate level of accounting knowledge. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. All journal entries should be accompanied by a fully explanation and by reference to adequate supporting documentation.

Management's Response: The Department concurs with this finding. Although the review process was being performed in accordance with generally accepted accounting principles, the audit and accounting department did not document the review. The Bureau has implemented procedures to ensure that all journal entries are signed by the preparer, reviewed, and approved by the bureau chief or CFO. The 14 journal entries noted in this finding related to year end accrual entries for financial statement purposes and were not entered into SHARE.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2014-002 Internal Controls Over Cash Disbursements (Other Matter)

Condition: During our testing of internal controls over the cash disbursement process we noted the following:

- In 1 out of 40 disbursements the reimbursement included a $4.00 personal item.

- In 3 out of the 40 disbursements tested, the purchase order date was subsequent to the expenditure. The after the fact purchase justification form was signed by the employee but not approved by the supervisor.

Criteria: 6-5-2C NMSA 1978 states that an entity shall implement internal controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect: Lack of documentation related to disbursements raises the risk for improper use of public monies or increases risk for erroneously processed transactions.

Cause: Department did not ensure that the Department's policies and procedures were being followed.

Recommendation: We recommend that the Department evaluate its current procedures related to disbursements and ensure that disbursements are compliant with all applicable laws, regulations and internal policies.

Management's Response: The Department concurs with this finding. Training has been provided to all bureaus within the Department related to procurement and purchasing procedures. Ongoing quarterly refresher training is provided to managers to ensure management review is conducted in accordance with established procurement procedures. The training included reinforced direction on proper forms required when submitting payment packets to the purchasing bureau.

The personal item reimbursed to the employee was removed from itemized receipt but not from the total, a review oversight. The purchasing department manager has reviewed the issue with staff to ensure more thorough reviews of all reimbursements to employees.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS

2012-002 [DVR 2012-02] Financial Close and Reporting (Significant Deficiency)

Condition: During our testwork over the financial close and reporting process it was noted that the Division had not completed the October 2013 reconciliation until January 28th, 2014 and it was not reviewed/approved until February 21, 2014. It was also noted that the June 2014 reconciliation was not completed until September 17th, 2014 and was not reviewed/approved until October 3rd, 2014. We also noted that the September 2013 cash reconciliation was missing appropriate review and approval.

Additionally, during our testing of accounts receivable it was noted that "Unbilled AR" had a balance of $62,310 reported as a receivable as of June 30, 2014. Upon additional testing and inquiry it was noted that this was a system generated entry with no supporting documentation. An adjusting entry was required to remove this receivable balance.

Criteria: The Manual of Accounting Practices requires that all state agencies "perform monthly reconciliations" and "Maintain accounts and information as necessary to show the sources of state revenues and the purpose for which expenditures are made and provide proper accounting control to protect state finances". Additionally, Section 6-5-2, NMSA 1978 states that "State agencies shall comply with the Model Accounting Practices established by the Financial Control Division of the Department of Finance and Administration and the administrative head of each agency shall ensure that the Model Accounting Practices are followed."

Effect: Without timely reconciliations and dispositions of old balances, there is an increased risk of error or fraud in the financial records.

Cause: The Division has not had adequate resources to develop well-established policies and procedures over financial close and reporting. Additionally, the Division has limited staffing resources to complete timely reconciliations and research old account balances.

Recommendation: We recommend that the Division continue to develop policies and procedures to outline the requirements, timeliness and responsibilities over the financial close and reporting process, obtain the necessary staffing to carry this out, this includes reconciling all balances and determining the appropriate disposition of old balances.

Management's Response: Management concurs with this finding. The General Ledger (GL) Unit has been expanded to include two employees. Expectations have been set for general ledger monthly reconciliations to be performed and completed one month after the period closes. Reconciliations consist of reviewing transaction activity and balances in Assets, Liabilities, Equity, Revenue and Expense type accounts. Throughout the monthly period, the GL Unit reviews payroll postings to ensure that chart field is accurate. DFA publishes the closing schedule and DVR uses this schedule to run final SHARE reports. All reports are run from period zero to the month being reconciled. General Ledger Staff are also the key contacts for the independent audits. The audits are made the priority to facilitate and

DIVISION OF VOCATIONAL REHABILITATION FINDINGS (Continued)

2012-002 [DVR 2012-02] Financial Close and Reporting (Significant Deficiency) (Continued)

provide audit deliverables to the independent auditors. The September 2013 reconciliation for all funds was performed and completed on Jan. 2, 2014 by the General Ledger staff. However, the management review and approval were erroneously missed. Management will be more diligent in verifying that all monthly reconciliations are reviewed and signed. All monthly reconciliations will be returned to the general ledger for verification of all required signatures prior to filing.

2014-003 Improve IT General Controls (Significant Deficiency)

Condition: During our review of internal controls over IT, we noted the following:

- DVR does not have an offsite storage location for backup data.
- DVR does not have well-defined, written disaster recovery procedures.
- Passwords are not set to expire for master, domain, and administrator accounts.
- Lack of monitoring of SHARE user access.

Criteria: Per the State of New Mexico Statewide Guideline "Enterprise IT Security Policy", S-GUIDE-00.003, "the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity".

Effect: The deficiencies identified decrease the overall network security and are considered areas that can be exploited by a potential hacker.

Cause: This has been a practice within the Division for the past several years.

Recommendation: We recommend the following:

- Computer files should be backed up at least weekly, be properly labeled, and stored off premises in a fireproof vault to ensure safe storage of computer information.
- Management should develop a disaster recovery plan that includes, but is not limited to, the following matters:
    - Location of, and access to, off-site storage.
    - A listing of all data files that would have to be obtained from the off-site storage location.
    - Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing.
    - Responsibilities of various personnel.
    - Priority of critical applications and reporting requirements during the emergency period.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS (Continued)

2014-003 Improve IT General Controls (Significant Deficiency) (Continued)

- Password policies should be applied to all users without exception. This should also be applied to administrator accounts in all applications.
- Develop and implement SHARE user access monitoring controls to ensure that only necessary personnel possess appropriate access to SHARE.

Management's Response: Management concurs that it currently does not have an offsite storage location for backup data. DVR is working with the PED to identify vendor pricing for both equipment and off site storage. DVR currently is backing up its data daily and replication is happening between both duplication units. Daily backups are stored on a disk-to-disk storage unit for two weeks, and DVR is also performing weekly full backups which are stored for two months. The disk-to-disk system is a newer technology which eliminates the need for a fireproof vault, since no tapes are being utilized.

Regarding written disaster recovery procedures, DVR has contracted with a vendor for the development of a Disaster Recovery Plan which will be specific to DVR's needs. The plan and procedure will be in place within the next few months. With regard to passwords, DVR concurs with this finding as the service accounts were set by previous managers not to expire. This risk has been mitigated and now follows the same 45-day policy as the standard user accounts. Regarding SHARE user access, DVR is authorized by DFA to appointed IT staff after receiving appropriate training. This allows for the creation of new users, resetting of passwords, and modification of permissions. DVR has identified two staff members who possess the needed training and skill to support the agency.

2014-004 Internal Controls Over Cash Disbursements (Other Matter)

Condition: During our testing of internal controls over the cash disbursement process, it was noted that the Division does not have policies and procedures in place to ensure that goods or services were received/performed prior to payment being made.

Criteria: 6-5-2C NMSA 1978 states that an entity shall implement internal controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.

Effect: Lack of documentation related to disbursements raises the risk for improper use of public monies or increases risk for erroneously processed transactions.

Cause: Division did not ensure that the Division's policies and procedures were being followed.

Recommendation: We recommend that the Division evaluate its current procedures related to disbursements and ensure that disbursements are made subsequent to verification of the goods/services being received/performed.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS (Continued)

2014-004 Internal Controls Over Cash Disbursements (Other Matter) (Continued)

Management's Response: In State Fiscal Year 2015, DVR has instituted a revised process for invoice certifications and a memorandum was disseminated by the Administrative Services Director to all agency staff. The administrative type payments require a certification stamp on the invoice that is signed and dated by an employee with direct knowledge of the receipt and acceptance of the goods and services. The case management type payments already have a certification section that is signed and dated by a Vocational Rehabilitation Counselor or Program Manager. They are certifying that goods and services were rendered. They are also certifying that payment is to be released.

Section III – Findings and Questioned Costs – Major Federal Award Programs Audit

PUBLIC EDUCATION DEPARTMENT FINDINGS

2013-006 [PED 2013-06] Final Approved Grant Application Not Posted to Website (Other Matters and Non-Compliance)

Federal Program Information:

Funding Agency:	*U.S. Department of Education*
Title:	*School Improvement Cluster*
CFDA Number:	*84.377/84.388*
Award year and number:	*2014, H126A1400045*

Condition: During our testwork we noted that 3 out of 3 schools tested did not have the final approved Grant application posted to its website.

Criteria: Per Federal Register Volume 75, Number 208, Section B3, a State Educational Agency (SEA) must post on its website, within 30 days of awarding School Improvement Grants to Local Educational Agencies (LEA), all final LEA applications.

Questioned Costs: None.

Effect: The public was not given proper notification of all final LEA applications as well as a summary of those Grants, as required by the U.S. Department of Education.

Cause: The Department did not have a formal process in place to ensure compliance is met on a timely basis and that all final LEA applications are posted to the Department's website.

Recommendation: We recommend the Department develop a procedure for posting the approved applications and summary of grants on a timely basis as required.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2013-006 [PED 2013-06] Final Approved Grant Application Not Posted to Website (Other Matters and Non-Compliance) (Continued)

Management's Response: Management concurs with the finding. The final 2014 applications were not posted to the NM PED/Priority Schools Bureau as per the requirements of the grant. In the future, our procedure includes the following:

A. Within 15 days of SIG applications being approved, a request will be made to IT to post applications to the Priority Schools Bureau Webpage.
B. Within 20 days of SIG applications being approved, a web page review will take place to assure applications have been posted.
C. The Audit manager will review the webpage to ensure applications are posted as per the procedures established above.

*10 days are available for any delays that may occur.

2014-005 Timely Filing of Data Collection Form (Other Matters and Non-Compliance)

Federal Program Information:

Funding Agency:	*U.S. Department of Education (CFDA# 84.010, 84.027/84.173, 84.377/84.388)* *U.S. Department of Agriculture (CFDA#10.553/10.555)*
Title:	*CFDA# 84.377/84.388 – School Improvement Cluster* *CFDA# 84.010 Title I – Grants to Local Educational Agencies* *CFDA# 84.027/84.173 – Special Education Cluster* *CFDA# 10.553/10.555 – Child Nutrition Cluster*
Award year and number:	*2014, H126A1400045*

Condition: The Department did not file its Data Collection Form to the Federal Audit Clearinghouse by the required due date of March 31, 2015.

Criteria: OMB Circular A-133 §_.320(a) requires that the audit be completed and the data collection form and reporting package be submitted by the earlier date of either 30 days after the receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period date is agreed to in advance by the cognizant or oversight Department for audit.

Questioned Costs: None.

Effect: The Department is in violation of federal requirements.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2014-005 Timely Filing of Data Collection Form (Other Matters and Non-Compliance) (Continued)

Cause: The Department was unable to submit the June 30, 2014 Data Collection Form and reporting package on a timely basis as the Department was required to change auditors and was unable to have the audit completed by the due date.

Recommendation: We recommend that the Department ensure that all future audit reports are filed in a timely manner.

Management's Response: Management concurs with this finding. As noted under "Cause" above, the PED was unable to submit the June 30, 2014 Data Collection Form and reporting package on a timely basis as the PED was required to change auditors and was unable to have the audit completed by the due date. Management has taken steps to ensure that the Departments audits will be performed on time in the future. The Audit and Accounting Bureau Chief will submit the fiscal year 2014 Data Collection Form upon the release of the audit from the State Auditor's Office.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS

2014-006 Period of Availability (Material Weakness, Material Non-Compliance)

Federal Program Information:

Funding Agency:	*U.S. Department of Education*
Title:	*Rehabilitation Services – Vocational Rehabilitation Grants to States*
CFDA Number:	*84.126*
Award year and number:	*2014, H126A1400045*

Condition: During our testwork we noted two adjustments totaling $2,269,002 to request reimbursements from previous grants in which the funding period had expired.

Criteria: 34 CFR 361.64, (a) Except as provided in paragraph (b) of this section, any Federal funds, including re-allotted funds, that are appropriated for a fiscal year to carry out a program under this part that are not obligated by the State by the beginning of the succeeding fiscal year and any program income received during a fiscal year that is not obligated by the State by the beginning of the succeeding fiscal year remain available for obligation by the State during that succeeding fiscal year. (b) Federal funds appropriated for a fiscal year remain available for obligation in the succeeding fiscal year only to the extent that the State met the matching requirement for those Federal funds by obligating, in accordance with 34 CFR 76.707, the non-Federal share in the fiscal year for which the funds were appropriated.

Questioned Costs: None.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS (Continued)

2014-006 Period of Availability (Material Weakness, Material Non-Compliance) (Continued)

Effect: There is an increased likelihood that the Division could incur unallowable or questioned costs without them being detected. Additionally, this could have a future impact on funding as the Federal government may reduce funding for the Rehabilitation Services program, which may have a significant impact on the operations of the program.

Cause: There was inconsistent oversight and review of requests for reimbursement to ensure that cash draws were performed on appropriate grant awards within the correct funding period.

Recommendation: We recommend that DVR implement current controls with additional oversight or design and implement revised procedures that allow for proper monitoring to ensure that requests for reimbursement are for approved transactions and are within the correct period of availability and funding period.

Management's Response: NMDVR is aware of this issue and has implemented corrective actions, as of July 1, 2014, for State Fiscal Year 2015. As of that date, the period of eligibility criteria was implemented and applied to all federal grant expenditures. All grant expenditures, and the associated match, were recorded in the year of appropriation, which is the twelve-month initial grant period. This reclassification of expenses to the correct grant year resulted in no net change to expense. To accomplish this, NMDVR implemented revised accounting processes to enable the recording of federal grant expenditures and associated state match expenditures, as well as program income and funds transfers from other agencies that also are used as match, in the state SHARE accounting system. NMDVR considers this finding resolved for State Fiscal Year 2015.

2014-007 Eligibility (Significant Deficiency, Non-Compliance)

Federal Program Information:

Funding Agency:	*U.S. Department of Education*
Title:	*Rehabilitation Services – Vocational Rehabilitation Grants to States*
CFDA Number:	*84.126*
Award year and number:	*2014, H126A1400045*

Condition: During our testing of eligibility controls and compliance it was noted that for 1 out of 40 individuals tested the eligibility determination was not properly signed for approval by the counselor approving eligibility for the individual.

For 2 out of the 40 individuals tested it was noted that the eligibility determination was not included in the individual's case file, therefore we were unable to determine if the eligibility determination had been properly signed for approval by the counselor and if it was approved within the required 60 days.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS (Continued)

2014-007 Eligibility (Significant Deficiency, Non-Compliance) (Continued)

For 3 out of the 40 individuals tested it was noted that the eligibility determination was not properly approved within the required 60 days.

Criteria: 29 USC 722(a)(6), the designated State unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless – (A) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or (B) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B).

Questioned Costs: None.

Effect: There is an increased likelihood that an ineligible individual could receive benefits without them being detected. Eligible individuals may not receive vocational rehabilitation benefits timely and in accordance with program requirements. Additionally, this could have a future impact on funding as the Federal government may reduce the funding for the New Mexico Rehabilitation Services program, which may have a significant effect on the operations of the program.

Cause: There was inconsistent oversight and review of eligibility determinations performed at the field office locations.

Recommendation: We recommend that DVR implement current controls with additional oversight from the Administrative Office or design and deploy revised procedures that allow for proper oversight between positions at the field offices. We also recommend that DVR establish monitoring procedures to ensure that eligibility determinations are completed timely in accordance with program requirements.

Management's Response: During August 2015, during field review of payment packets, the Field Operation Specialists (FOS) now check to ensure that eligibility determinations are signed appropriately by vocational rehabilitation counselors, filed in the case files, and approved within the required 60-day timeframe before payment packets are approved and submitted to Accounts Payable Unit for processing. If the FOS identifies any of the three deficiencies cited above, the payment packet is be held at the Field Office level until the deficiency is remedied. The FOS will also notify Program Managers (PMs) of the deficiency so that the PM can conduct remedial training, start corrective action, or impose disciplinary action depending on the severity and frequency of deficiencies. In addition, beginning in August 2015, Field Operation Directors will instruct PMs to have their staff conduct file reviews by September 2015 to identify and remedy any discrepancies found with eligibility determinations. PMs will provide FODs a report on eligibility discrepancies and actions taken to remedy eligibility deficiencies. DVR HR also is currently working to advertise the vacant DVR Internal Auditor position. Once the

DIVISION OF VOCATIONAL REHABILITATION FINDINGS (Continued)

2014-007 Eligibility (Significant Deficiency, Non-Compliance) (Continued)

position is again filled, the FOD will work with the incumbent to develop a statewide plan for agency audit review on a routine basis, under which every counselor's case files receives at least one audit per fiscal year.

Section IV – Other Findings, as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978

PUBLIC EDUCATION DEPARTMENT FINDINGS

2013-005 [PED 2013-05] Untimely Reversions (Non-Compliance)

Condition: During our testing of reversions we noted the Department failed to revert timely $3,131,926 of unexpended appropriations related to fiscal year 2013.

Criteria: Section 6-5-10(A) NMSA 1978 requires all unreserved, undesignated fund balances in reverting funds as of June 30 to be reverted to the New Mexico State General Fund by September 30 and subsequently adjusted within 45 days of the completion of the annual audit.

Effect: The Department is not in compliance with Section 6-5-10(A) NMSA 1978.

Cause: Management was not aware of the 45 day deadline after the completion of the annual audit.

Recommendation: We recommend the Department establish procedures, controls, and monitoring to ensure timely calculation and submission of reversions to the New Mexico State General Fund.

Management Response: Management concurs with this finding. The Audit and Accounting bureau has implemented procedures to ensure that the Department is in compliance with Section 6-5-10(A) NMSA 1978 and will perform reversions timely.

2014-008 Capital Assets (Non Compliance)

Condition: During our testing of capital assets it was noted that an annual inventory was not completed.

Criteria: 2.2.2.10V(2) of the 2014 OSA Audit Rule and The Manual of Model Accounting Practices, FIN 6.6 Annual Physical Inventory of Capital Assets, requires that all state agencies "shall perform a physical inventory of capital assets at the end of each fiscal year in compliance with the annual inventory statutory requirement for chattels and equipment," and "Any capital assets determined to be missing should be documented in writing for reporting to the Office of the State Auditor". Additionally, Section

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2014-008 Capital Assets (Non Compliance)

6-5-2 NMSA 1978 states that "State agencies shall comply with the model accounting practices established by the Financial Control Division and the administrative head of each agency shall ensure that the model accounting practices are followed".

Effect: The Division is not in compliance with the 2014 OSA Audit Rule and FIN 6.6.

Cause: Physical inventory was not completed in accordance with State Statutes.

Recommendation: We recommend that the Department perform a physical inventory count of capital assets at least annually in accordance with State Statutes.

Management's Response: Management concurs with this finding. The Audit and Accounting bureau has implemented procedures to ensure that the Department is in compliance with the State Audit Rule and State Statutes. The Department has since performed a physical inventory and is reconciling the physical inventory to the Departments fixed asset listing.

2014-009 Agency Fund Disbursements (Significant Deficiency and Non Compliance)

Condition: During our testing of Trust and Agency funds it was noted that required State Equalization Guarantee payments were not disbursed as required by State statute.

Criteria: NMSA 66-5-44 states that "There shall be paid to the department a driver safety fee of $3.00 for each driver's license or duplicate driver's license, except that for a driver's license issued for an eight-year period, a fee of $6.00 shall be paid to the department. The fee shall be distributed to each school district for the purpose of providing defensive driving instruction through the state equalization guarantee distribution made annually pursuant to the general appropriations act".

Effect: The Department is not in compliance with NMSA 66-5-44.

Cause: The Department does not have the proper policies and procedures in place to ensure that Agency funds are disbursed in accordance with State statute.

Recommendation: We recommend that the Department design and implement policies and procedures to ensure that all Agency fund disbursements are made in accordance with State statute.

Management's Response: Management concurs with this finding. The Audit and Accounting bureau has implemented procedures to ensure that the Department is in compliance with NMSA 66-5-44.

PUBLIC EDUCATION DEPARTMENT FINDINGS (Continued)

2014-010 Due Date of Audit Report (Other Matter)

Conditions: The June 30, 2014 audit report was not filed timely as required by State Auditor Rule NMAC 2.2.2.9.A.

Criteria: Per State Auditor Rule NMAC 2.2.2.9.a, the audited financial statements of local governmental entities are due by December 1 following the fiscal year-end, thus requiring the June 30, 2014 report to be filed by December 1, 2014.

Effect: The Department is in violation of State Auditor Rule NMAC 2.2.2.9.A for the fiscal year ended June 30, 2014. This issue may result in not having accurate financial information for budget preparation or other financial projections. Also, it causes the Department to be placed on the State of New Mexico's "At-Risk Listing" and it may impact funding received from the State.

Cause: There was a change in auditors near the deadline causing the late submission of the audit.

Recommendation: The Department needs to implement a plan to ensure timely submission of the 2015 audit.

Management's Response: Management concurs with this finding. An independence dispute occurred with the firm that was contracted to perform the fiscal year 2014 audit. The dispute resulted in the firm withdrawing from the Departments audit in November 2014. The Department was forced to procure a new audit firm and producing a late audit report.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS

2013-002 [DVR 2013-02] Capital Assets (Non Compliance)

Condition: During our testing over internal controls related to capital assets it was noted that the Division completed a physical inventory which identified assets that did not exist. However the Division did not adjust the capital asset listing or general ledger to remove these assets.

Criteria: The Manual of Model Accounting Practices, FIN 6.6 Annual Physical Inventory of Capital Assets, requires that all state agencies "shall perform a physical inventory of capital assets at the end of each fiscal year in compliance with the annual inventory statutory requirement for chattels and equipment," and "Any capital assets determined to be missing should be documented in writing for reporting to the Office of the State Auditor". Additionally, Section 6-5-2 NMSA 1978 states that "State agencies shall comply with the model accounting practices established by the Financial Control Division and the administrative head of each agency shall ensure that the model accounting practices are followed".

Effect: The Division is not in compliance with the Manual of Model Accounting Practices, FIN 6.6.

DIVISION OF VOCATIONAL REHABILITATION FINDINGS (Continued)

2013-002 [DVR 2013-02] Capital Assets (Non Compliance) (Continued)

Cause: The Division was not following policies and procedures related to the disposal of capital assets.

Recommendation: We recommend that the Division continue to monitor controls and better communicate and train employees on policies and procedures to ensure the Division is in compliance with the State Statute and DFA requirements.

Management's Response: DVR complied with MAPs by completing annual physical inventories at each area office by the end of each fiscal year, and although some offices listed items that were not physically located, they were noted on the annual inventory report given to the previous CFO and also added to the fixed asset listing provided to previous auditors. Items that no longer could be physically accounted for have been reported to the Office of the State Auditor year, and in the future any assets determined to be missing will be documented in writing and reported to State Auditor. DVR will continue to monitor capital assets and communicate and train employees on policies and procedures to ensure compliance with State statutes and DFA. In addition, a new capital asset policy and procedure has been put into place and has been submitted to the agency director for approval.

Discretely Presented Component Unit Findings

ACADEMY OF TRADES AND TECHNOLOGY

2014-001 Internal Control Over Cash Disbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: In a sample of sixty expenditures there were two instances ($459.96 and $422.12) in where the checks were only signed by one authorized signer, when they should have been signed by two authorized signers. In a sample of sixty expenditures, there was one instance of $435.97 in where not all supporting documentation is available.

Criteria: NMAC 2.42.6.20.2.11 requires that schools establish and maintain an internal control structure to provide management with reasonable assurance that assets are safeguards against loss from unauthorized use. "The internal control structure shall include written administrative controls (rules, procedures, practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP." The Academy of Trades and Technology has established an internal control policy that requires all checks to be signed by two authorized check signers.

Effect: The Academy of Trades and Technology violated its own internal policy in regards to check signing. Unsupported cash disbursements put the School at risk for unauthorized purchases.

ACADEMY OF TRADES AND TECHNOLOGY (Continued)

2014-001 Internal Control Over Cash Disbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Continued)

Cause: A second authorized check signer was not available when the checks were being processed for mailing to the vendors. Supporting documentation for a cash disbursement was misfiled.

Auditors' Recommendation: The School should follow its own internal policy of having two authorized signers sign all checks. All cash disbursements should be properly supported.

Management's Response: Academy of Trades policy requires that all checks have two authorized signers. Management will ensure that all checks processed have the supporting documentation attached, and that two authorized signers have signed all checks.

ACADEMY OF TRADES AND TECHNOLOGY FOUNDATION

2013-001 [CS 2013-01-A] Composition of Board - Repeated (Non Compliance)

Condition: The Foundation does not have the required members on their Board.

Criteria: Per the Foundation bylaws, the Board shall consist of no less than three members.

Effect: The Foundation does not have proper oversight, which could result in errors going undetected.

Cause: Management made several attempts to solicit the required members.

Auditors' Recommendation: We recommend that the Foundation ensure that the Board has the necessary members.

Management's Response: Foundation management did not provide a response.

2012-002 [CS 2012-02-A] Internal Control Structure - Repeated and Modified (Material Weakness)

Condition: During our fieldwork we noted:

- The receivable associated with the lease purchase agreement with the School was not properly recorded by the Foundation. Payments associated with the mortgage payable are not being properly recorded by the Foundation on its general ledger. The Foundation continued to hold capital assets on their books.

- There is no documentation that the bank reconciliations were being reviewed.

ACADEMY OF TRADES AND TECHNOLOGY FOUNDATION (Continued)

2012-002 [CS 2012-02-A] Internal Control Structure - Repeated and Modified (Material Weakness) (Continued)

- The Foundation does not have adequate segregation of duties over the processing of invoices and cash receipts. The Foundation's President processes all accounting transactions without any review or approval of any other individuals.

- There is a general lack of accounting records at the Foundation.

Criteria: Per sound accounting standards an entity shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP. Additionally, good internal controls require that an organizational structure be in place which separates incompatible activities to preclude control by any individual. Bank reconciliations should be reviewed and approved by someone other than the preparer.

Effect: The internal financial statements were not properly stated. The potential for misappropriation of funds is present when one person is responsible for all phases of an accounting process.

Cause: The foundation does not have any staff limiting the processes/transactions that are performed by the Treasurer.

Auditors' Recommendation: We recommend the Foundation develop and implement internal controls to properly record all transactions that occur during the year. We recommend that the Foundation fill the empty places on the Board so that accounting duties could be separated.

*Management's Response***:** Foundation management did not provide a response.

ACE LEADERSHIP HIGH SCHOOL

2014-001 Composition of Board – Noncompliance in Accordance with the New Mexico State Auditor's Rule (Other Matters)

Condition: During our review of the Audit Committee Member listing we noted the ACE Leadership High School did not meet the requirement for a parent volunteer member

ACE LEADERSHIP HIGH SCHOOL (Continued)

2014-001 Composition of Board – Noncompliance in Accordance with the New Mexico State Auditor's Rule (Other Matters) (Continued)

Criteria: Per NMSA 22-8-12.3 (D), each school local school board shall appoint an audit committee that includes one volunteer member who is a parent of a student attending that school district.

Effect: The ACE Leadership High School does not have the proper over-sight as required by NMSA 22-8-12.3. Errors could go undetected.

Cause: Management has been unsuccessful recruiting a parent volunteer for the audit committee.

Auditor's Recommendation: We recommend that the ACE Leadership High School find the required members to be in compliance with the State requirement.

Management's Response: Management agrees with this finding and have named a parent to the audit/finance committee for the FY15 school year.

ALBUQUERQUE INSTITUTE FOR MATHEMATICS & SCIENCE

2014-001 New Mexico Educational Retirement Board And Retiree Health Care Act Contributions Testing (Other Matter)

Condition: Through testing procedures performed, we identified the following instances of noncompliance:

- For one employee tested, the employee's approved contract exceeded $20,000 for the year; however, educational retirement contributions were withheld at the percentage rate for employees who make less than $20,000, resulting in an under-withholding for the employee contribution portion.
- A return-to-work employee's wages were incorrectly excluded from educational retirement remittance calculations for the months of August and September, resulting in under-reported gross wages of $442 in August, and $1,014 in September.
- A return-to-work employee's wages were incorrectly excluded from retiree health care remittance calculations for the months of August, September, October, and November, resulting in under-reported gross wages of $442 in August, $1,014 in September, $455 in October, and $416 in November.

Criteria: Criteria for the various instances of noncompliance discussed above are as follows:

- Section 22-11-21 NMSA 1978 states that from July 1, 2013 through June 30, 2014, for a member whose annual salary is greater than twenty thousand dollars ($20,000), the member

ALBUQUERQUE INSTITUTE FOR MATHEMATICS & SCIENCE (Continued)

2014-001 New Mexico Educational Retirement Board And Retiree Health Care Act Contributions Testing (Other Matter) (Continued)

contribution rate shall be ten and one-tenth percent of the member's annual salary. For a member whose annual salary is twenty thousand dollars ($20,000) or less, the member contribution rate shall be seven and nine-tenths percent of the member's annual salary.

- Section 22-11-25.1.E NMSA 1978 states that a retired member who returns to employment shall pay to the fund an amount equal to the member contributions that would be required pursuant to Section 22-11-21 NMSA 1978 if the retired member was a non-retired employee and the local administrative unit employing the retired member shall pay to the fund an amount equal to the local administrative unit contributions that would be required pursuant to that section.
- Section 22-11-25.1.G NMSA 1978 states that both the retired member who returns to employment and the local administrative unit that employs the retired member shall make contributions to the retiree health care fund in the amount specified in Subsections A and B of Section 10-7C-15 NMSA 1978.

Effect: Remittances to the educational retirement fund and retiree health care fund were incorrect.

Cause: The employees were incorrectly coded in the accounting system.

Recommendation: We recommend that the Albuquerque Institute of Mathematics & Science review their policies and procedures to ensure that policies and procedures are in place to support the proper coding of employees in the accounting system.

Management Response: Management accepts the recommendation and will review its internal control procedures to ensure that ERB and RHC are reported correctly.

ALBUQUERQUE SCHOOL OF EXCELLENCE

2014-001 Personnel Files and Payroll Approval (Non Compliance)

Condition: During internal control testwork over a sample of 25 payroll transactions we noted the following:

- We noted one instance of an incomplete Form I-9 as only section 1 was complete. Section 2, the employer review and verification was not complete.
- We noted one instance where Form I-9 wasn't properly verified by the employer. For employer review and verification, the School reviewed a foreign passport but did not review and document the temporary I-551 stamp or temporary I-551 printed notation.

ALBUQUERQUE SCHOOL OF EXCELLENCE (Continued)

2014-001 Personnel Files and Payroll Approval (Non Compliance) (Continued)

- The Albuquerque School of Excellence (ASE) Principal signs-off on the payroll register to document his review and approval. For two pay periods tested, the Principal's sign-off was not included with the payroll register.

Criteria: NMAC 6.20.2.18 requires the ASE to establish written payroll policies and procedures which comply with state and federal regulations on payroll as well as maintaining strict internal controls, close supervision and financial accounting in accordance with GAAP. The ASE should maintain and have available for inspection certain employee records, including employment eligibility verification forms. NMAC 6.20.2.11 states every school shall establish and maintain an internal control structure that will provide reasonable assurance that transactions are executed in accordance with management's authorization.

Effect: The ASE is not in compliance with NMAC 6.20.2.11 with respect to assuring that transactions are executed in accordance with management's authorization and with NMAC 6.20.2.18 with respect to Form I-9.

Cause: Internal controls were not in place to ensure a properly completed Form I-9 was on file for all employees and to ensure Principal approval for payroll was obtained.

Auditors' Recommendation: Personnel files should be periodically reviewed to ensure all required personnel file documents have been obtained and are complete and accurate. The ASE should ensure the Principal's approval is obtained for all payroll registers.

Management's Response: Management will work with the School to ensure there is a clear understanding of the allowable documents necessary to complete the Form I-9. Management will also implement a review process for HR files at least once a year independent of the required audit. The Albuquerque School of Excellence has adopted policies that ensure a system of checks and balances are in place for all financial procedures including the processing of payroll. In extenuating circumstances the payroll will be processed on verbal authority when evidence of review and approval is not possible. In these situations management will ensure that the payroll is subsequently noted for review and approval.

ALBUQUERQUE SCHOOL OF EXCELLENCE (Continued)

2014-002 Travel and Per-Diem (Non Compliance)

Condition: During fiscal year 2014, the ASE used the IRS standard rate for mileage reimbursements. We reviewed two mileage reimbursements for an employee's private vehicle and both reimbursements were paid at the IRS standard rate.

Criteria: NMAC 2.42.2.11(b)(1) states that public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Effect: The ASE is not in compliance with the Per Diem and Mileage Act and is overpaying employees for travel on behalf of the School.

Cause: The ASE did not have internal controls in place to ensure mileage reimbursements were paid in accordance with the New Mexico Per Diem and Mileage Act.

Auditors' Recommendation: The ASE should follow the Per Diem and Mileage Act for local governments when paying for mileage reimbursements.

Management's Respon*se:* The Albuquerque School of Excellence has experienced numerous inconsistencies surrounding the interpretation of NMAC 2.42.2.11(b)(1). The school will amend their Travel and Per-Diem policies once again to reflect a maximum rate of 80% of the current federal mileage reimbursement rate for the given calendar year.

ALBUQUERQUE SIGN LANGUAGE ACADEMY

2014-001 Travel and Per-Diem (Non Compliance)

Condition: During fiscal year 2014, the Albuquerque Sign Language Academy (ASLA) used the Internal Revenue Service (IRS) standard rate for mileage reimbursements. We reviewed two mileage reimbursements for travel in a privately owned vehicle and both reimbursements were paid at the IRS standard rate.

ALBUQUERQUE SIGN LANGUAGE ACADEMY (Continued)

2014-001 Travel and Per-Diem (Non Compliance) (Continued)

Criteria: NMAC 2.42.2.11(b)(1) states that public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile at 80% of the IRS standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Effect: The ASLA is not in compliance with the Per Diem and Mileage Act and is overpaying employees for travel on behalf of the School.

Cause: The ASLA did not have internal controls in place to ensure mileage reimbursements were paid in accordance with the New Mexico Per Diem and Mileage Act.

Auditors' Recommendation: The ASLA should follow the Per Diem and Mileage Act for local governments when paying for mileage reimbursements.

Management's Response: The School has changed its mileage reimbursement policy. The School will reimburse mileage at the effective rate of 80% of the IRS standard mileage rate as set on January 1 of the previous year for each mile traveled. This was approved by the Governing Council at its June 15, 2015 meeting.

2014-002 Staff Qualifications (Non Compliance)

Condition: During internal control testwork over a sample of 25 payroll transactions we noted one educational assistant that did not have a license from the Public Education Department (PED). We attempted to locate this individual's license on the PED website and were unsuccessful.

Criteria: NMAC 6.63.9 states that all persons who perform services as educational assistants (EAs) must hold valid, educational assistants licensure issued by the PED and also provides additional provisions that must be met, including education requirements.

Effect: The School is not in compliance with the educational assistant requirements set forth by NMAC 6.63.9.

Cause: The School did not have internal controls in place to ensure all required documentation was obtained prior to hiring this EA and a process is not in place that would provide periodic reviews of employee personnel files to ensure they are complete.

ALBUQUERQUE SIGN LANGUAGE ACADEMY (Continued)

2014-002 Staff Qualifications (Non Compliance) (Continued)

Auditors' Recommendation: Develop and implement internal control procedures to ensure all required documents are obtained prior to hiring.

Management's Response: The School's business office will conduct a thorough file review on all employees to ensure accuracy and completeness before the 40th day of every school year.

ALDO LEOPOLD HIGH SCHOOL

2011-007 [CS 2011-07-E] State Cash Report- Noncompliance in accordance with the New Mexico State Audit Rule (Other Matter)

Condition: When reviewing the PED Cash Report, we noted the ending cash balance did not agree to the general ledger. We noted differences of $2,347 for the Operational Fund and $1,005 for the State Direct Funds.

Criteria: Per NMAC Title 6, Chapter 20, Part 2.14J states the school district shall maintain a cash control ledger for each fund/subfund where all transactions affecting cash are recorded. Cash balances reported to the department shall be the same as the district's cash control ledger and annual audit. Per state audit rule the audit report of each school district shall include a cash reconciliation schedule which reconciles the cash balances as of the end of the previous year to the cash balance as of the end of the current fiscal year. According to State Regulation 6.20.2.11 (B) (6), NMAC and Regulation SBE-6, the reports sent to the New Mexico Public Education Department (PED) must agree to the general ledger.

Effect: The PED does not have an accurate accounting of the School's activity.

Cause: A prior year reconciling item is affecting the balances on the PED cash report.

Auditors' Recommendation: The School should seek guidance from PED on how to correct this matter on future PED cash reports.

Management's Response: We are investigating the sources of these discrepancies and will make every effort to bring the General Ledger into agreement with the PED Cash Report during FY15.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

ALMA D'ARTE CHARTER HIGH SCHOOL

2014-001 Timely Deposits - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During our cash receipts testing we noted that deposits were not being made within twenty-four (24) hours after being received. In nine of 10 tested we noted $13,654 was not deposited timely.

Criteria: Per NMAC 6.20.2.14.C states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day.

Effect: The Alma D'Arte Charter High School (ADCHS) is not in compliance with State statute and has exposed itself to possible misappropriation of funds.

Cause: There is a lack of good controls over cash and check receipts.

Recommendation: We recommend that the ADCHS set policies and procedures in place to ensure that all cash receipts are deposited within 24 hours.

Management Response: Management will ensure deposits are made within 24 hours.

2014-002 Budgetary Conditions – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: The ADCHS has expenditure functions where actual expenditures exceeded budgetary authority for the following fund:

Food Services 21000	
Food service operation	$4,093

Criteria: Per NMAC 6.20.2.9(A) every school district shall follow budget requirements stated in Sections 22-8-5 through 22-8-12.2 NMSA 1978, and procedures of the department in preparing, submitting, maintaining and reporting budgetary information. Budgetary control shall be at the function level. Over-expenditure of a function shall not be allowed.

Effect: The ADCHS is out of compliance with New Mexico state statute and the control established by the use of budgets has been compromised, which could result in deficit fund balances and unnecessary usage of operating funds to cover the over-expenditures.

Cause: Actual expenditures were not being adequately monitored by management.

Recommendation: We recommend the ADCHS establish a policy of budgetary review by the governing council or finance committee at the end of each quarter and have the governing council approve the necessary budgetary adjustments to ensure funds are not over expended.

ALMA D'ARTE CHARTER HIGH SCHOOL

2014-002 Budgetary Conditions – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Management Response: The Finance Committee will review all expenditures quarterly and make the appropriate budget adjustments as needed.

AMY BIEHL CHARTER HIGH SCHOOL

2014-001 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: For the year ended June 30, 2014, it was noted that the Amy Biehl Charter High School (ABCHS) reimbursed employees for mileage at a rate of fifty six cents per mile.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The ABCHS is not in compliance with New Mexico State Statutes in regards to mileage reimbursement. 08

Cause: The ABCHS contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the ABCHS contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Recommendation: The ABCHS should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management Response: Amy Biehl High School disputes this finding. In March, 2010 the Finance Director at Amy Biehl High School received a determination from the Office of the State Auditor after posing the question: "There is one question that I have regarding the mileage reimbursement rate: When a charter school is authorized by the Public Education Commission, is the school considered a state agency or a local public body?" Their answer is: "Regardless of who chartered the school, charter schools fall under the definition of local public bodies."

AMY BIEHL CHARTER HIGH SCHOOL (Continued)

2014-001 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

The New Mexico Administrative Code, 2.42.2.11 (D) states: Local Public Bodies: Public officers and employees of local public bodies may be reimbursed for mileage accrued in the use of a private conveyance in the discharge of official duties, at the statutory rates unless such rates have been reduced by the governing bodies of the local public body pursuant to Section 10.8.5(D) NMSA 1978. That statute states, in regards to local public bodies: The governing body of any local public body may eliminate or may reduce the rates set for the per diem and mileage for all or any class of public officials and employees of the local public body at any time the local public body deems it to be in the public interest, and such reduction shall not be construed to permit payment of any other compensation, perquisite or allowance. The local public body shall exercise this power of reduction in a reasonable manner and shall attempt to achieve a standard rate for all public officers and employees of the same classification. Based on the statute and regulation noted above, the statutory rate for local public bodies is 100% of the IRS rate unless the governing body of the local public body reduces or eliminates that rate. The Governing Board of Amy Biehl High School has not reduced or eliminated that rate. Therefore, Amy Biehl High School is allowed to reimburse 100% of the IRS mileage rate.

2014-002 Authorized Rate of Pay – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: One of ten employees selected for payroll testing did not have any written authorization such as a contract or personnel/payroll action form indicating what the employee's rate of pay is.

Criteria: NMAC 6.20.2.18 requires that schools maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, employment eligibility verification (Federal Form I-9), federal and state withholding certificates, pay deduction authorizations, pay or position change notices, Educational Retirement Act plan application, and direct deposit authorizations.

Effect: The ABCHS is not in compliance with New Mexico State Statutes in regards to employee record documentation.

Cause: The employee in this matter was a volunteer at the ABCHS prior to becoming a part-time employee. Upon becoming a part-time employee, not all of the required documentation was placed in the employee's personnel file.

Recommendation: The ABCHS should review all personnel files to ensure that required documentation required by NMAC 6.20.2.18 is available.

AMY BIEHL CHARTER HIGH SCHOOL (Continued)

2014-002 Authorized Rate of Pay – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Management Response: Amy Biehl High School agrees with this finding. At the time the volunteer transitioned to a paid employee, the paperwork acknowledging the rate of pay for this employee was either overlooked or misfiled. The school will continue to perfect its practices around assembling personnel files and managements review of said files.

2014-003 Personnel Files – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: Two personnel files of Foundation staff were examined as a part of payroll testing. One of the employees selected for payroll testing did not have any written authorization such as a contract or personnel/payroll action form indicating what the employee's rate of pay is. The other employee's personnel file was missing the Federal Form I-9.

Criteria: Good internal controls require that entities maintain and have available for inspection the following employee record documentation: employment contract, personnel/payroll action forms, certification records, employment eligibility verification (Federal Form I-9), federal and state withholding certificates, pay deduction authorizations, pay or position change notices, and direct deposit authorizations.

Effect: The Foundation is not in compliance with good internal controls in regards to employee record documentation.

Cause: There was a transition of staff in fiscal year 2014 and personnel files were not monitored as closely as they could have been.

Recommendation: The Foundation should review all personnel files to ensure that all appropriate payroll documentation is on file.

Management Response: The Amy Biehl High School Foundation agrees with this finding. The Foundation has updated the current employee personnel file to include a Federal Form I-9. The employee with the missing contract is no longer employed by Foundation.

AMY BIEHL CHARTER HIGH SCHOOL (Continued)

2014-004 Lack of Segregation of Duties – (Material Weakness)

Condition: The Assistant Director of Advancement at the Foundation receives payments, records the payments on the general ledger, makes the bank deposits, and prepares the monthly bank reconciliation.

Criteria: Good internal controls require that an organizational structure be in place which separates incompatible activities to preclude control by any individual.

Effect: The potential for misappropriation of funds is present when one person is responsible for all phases of an accounting process.

Cause: The Foundation operates with a limited staff size.

Recommendation: The Foundation should implement a system in where accounting activities are separated to the extent possible with its small staff size.

Management Response: The Amy Biehl High School Foundation agrees with this finding. Due to our small staff, the Foundation will work with school staff to separate accounting activities to the extent possible. The Executive Director will receive payments and review and initial deposits, the Assistant Director of Advancement will record payments in the general ledger and prepare monthly bank statements, and school Finance Office staff will make bank deposits for the Foundation.

ANTHONY CHARTER SCHOOL

2014-001 Timely Deposits (Non Compliance)

Condition: During our cash receipts testing we noted that deposits were not being made within twenty-four (24) hours after being received.

Criteria: Per NMAC 6.20.2.14.C states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day.

Effect: The School is not in compliance with State statute and has exposed itself to possible misappropriation of funds.

Cause: There is a lack of good controls over cash and check receipts.

Recommendation: We recommend that the School set policies and procedures in place to ensure that all cash receipts are deposited within 24 hours.

ANTHONY CHARTER SCHOOL (Continued)

2014-001 Timely Deposits (Non Compliance) (Continued)

Management Response: The school's administrative assistant and the faculty member responsible for collecting the majority of student activity funds are now aware of this requirement and the administrative assistant is responsible to ensure that she deposits all receipts within 24hrs with the school's bank.

2014-002 Mileage Reimbursements – (Non Compliance)

Condition: For the year ended June 30, 2014, it was noted that the School reimbursed employees for mileage at a rate of fifty six cents per mile.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The School is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The School contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management Response: The school's principal/Superintendent will ensure that he does not submit or approve any incorrect reimbursement requests for payment to the school's business manager.

2014-003 Audit Committee – (Non Compliance)

CONDITION: The School does not have the required members on their audit committee. Currently the committee consists of three Board of Governance members.

ANTHONY CHARTER SCHOOL (Continued)

2014-003 Audit Committee – (Non Compliance) (Continued)

Criteria: Per NMSA 22-8-12.3 Each local school board shall appoint an audit committee that consists of two board members, one volunteer member who is a parent of a student attending the school district and one volunteer member who has experience in accounting or financial matters.

Effect: The School is not in compliance with New Mexico State Statutes in regards to the appointment of audit committee members.

Cause: The School has been unable to solicit the required members to date.

Recommendation: We recommend that the school review state compliance requirements and ensure that the audit committee consists of the members necessary.

*Management Response: T*he school continues to struggle to meet this requirement but is actively pursuing the appropriate representation in order to comply with this requirement.

2014-004 Supporting Documentation – (Significant Deficiency)

Condition: During our test-work the following items were noted:

- In a sample of sixty expenditures, there were eight disbursements ($200.28, $200.28, $256.75, $1,006.98, $1,193.60, $606.64, $4,788.94, $1,081.96), where the school could not provide any supporting documentation.
- In a sample of seven travel and per diem expenditures tested three of the items ($175.86, $116.24, and $926.48) were not properly supported.

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

Effect: It could not be determined if the expenditures were properly recorded on the general ledger.

Cause: The School misplaced the supporting documentation.

ANTHONY CHARTER SCHOOL (Continued)

2014-004 Supporting Documentation – (Significant Deficiency) (Continued)

Recommendation: The School should put in place internal controls so that documentation for all financial activity is available for examination both by school personnel and external parties such as the auditors.

Management Response: The school has adopted new internal control procedures to ensure that all disbursements are properly supported and approved and that it maintains complete files for all transactions.

THE ASK ACADEMY

2013-001 [CS 2013-01-CC] Timely Deposits (Other Matter)

Condition: Deposits of cash receipts did not have indication of date received.

Criteria: NMAC 6.20.2.14 (C) states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day.

Effect: Cash could go missing causing students to not retain the benefit of the funds received.

Cause: The ASK Academy (ASK) did not maintain a log to properly document date of receipt.

Recommendation: We recommend that ASK maintain a manual log to formally document the date of all receipts.

Management Response: ASK has processes and procedures in place to properly log all cash receipts and to ensure that all cash received is deposited with 24 hours. These processes and procedures will be reviewed with the appropriate personnel.

CESAR CHAVEZ COMMUNITY SCHOOL

2014-001 Educational Retirement Board (ERB) and Retiree Health Care (RHC) Contributions- Noncompliance in Accordance with the New Mexico State Audit Rule- (Other Matter)

Condition: During our test work, we noted the following:

- ERB calculations and payments for the year did not include all additional compensation paid to employees.
- RHC calculations and payments for the year did not include all additional compensation paid to employees.

CESAR CHAVEZ COMMUNITY SCHOOL (Continued)

2014-001 Educational Retirement Board (ERB) and Retiree Health Care (RHC) Contributions-Noncompliance in Accordance with the New Mexico State Audit Rule- (Other Matter) (Continued)

Criteria: Per the ERB rules, the electronic reports, consisting of salaries and contributions and demographic information, should include the total gross payroll. Monthly contributions to the Retiree Health Care (RHC) should report 100% of payroll, per NMSA 1978 10-7C-15.

Effect: The total amount of applicable salaries is not being reported to ERB and RHC.

Cause: The amount remitted to ERB and RHC does not include 100% of payroll; therefore incorrect amounts are being reported to ERB and RHC which could result in penalties. The School is not including applicable stipends when calculating ERB and RHC amounts.

Auditors' Recommendation: We recommend the School implement procedures to ensure all gross salaries and wages are properly included in the ERB and RHC calculations and there is a thorough review process in place to ensure payments are properly calculated and reconciled.

Management's Response: The School is seeking further legal guidance in the interpretation of statute NMSA 1978 10-7C.

2014-002 Payroll Documents-Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During our test work over a sample of 25 payroll transactions, we found that two employees only provided one acceptable document for employment eligibility verification on the federal form I-9, when two were required.

Criteria: Per State Regulation 6.20.2.18, the local board shall establish written payroll policies and procedures which comply with state and federal regulations on payroll as well as maintaining strict internal controls, close supervision and financial accounting in accordance with GAAP. School districts shall maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, employment eligibility verification (federal form I-9 for citizenship certification), federal and state withholding allowance certificates, pay deduction authorizations, pay or position change notices, Educational Retirement Act plan application, and direct deposit authorizations.

Effect: The School is not in compliance with NMAC 6.20.2.18 with respect to Form I-9.

Cause: Internal controls were not in place to ensure Form I-9 was properly completed for all employees.

Auditors' Recommendation: We recommend that School review requirements for required payroll forms and review payroll files for completeness annually.

CESAR CHAVEZ COMMUNITY SCHOOL (Continued)

2014-002 Payroll Documents-Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Continued)

Management's Response: The School will review the I-9s in question and use the procedures found in the I-9 Handbook for Employers to correct any issues.

2013-001 [CS 2013-01-H] Disposition of Capital Assets- Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During the annual inventory of capital assets, a laptop computer was identified as missing and was reported as a capital asset disposal at year-end. A letter dated June 11, 2014 was sent to the New Mexico Office of the State Auditor from the School to inform them of the intent to dispose of the laptop computer.

Criteria: The Manual of Model Accounting Practices, FIN 6.6 Annual Physical Inventory of Capital Assets, requires that "Any capital assets determined to be missing should be documented in writing for reporting to the Office of the State Auditor".

Effect: The School is not in compliance with the Manual of Model Accounting Practices.

Cause: The School did not follow applicable requirements for the missing laptop as it was not reported as missing.

Auditors; Recommendation: We recommend that internal controls be established to ensure that capital asset disposals, including items that are missing, follow all required regulations.

Management's Response: The School has reviewed the process for reporting missing inventory items and procedures have been put in place to ensure that any future missing items will be reported to the Office of the State Auditor.

CIEN AGUAS INTERNATIONAL SCHOOL

2014-001 Travel and Per Diem - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During test work over three travel reimbursements we noted that in each instance the employee was reimbursed for meals expense based on the U.S. General Services Administration per diem rate for the locale where the employees traveled. Meal reimbursements were made in the amounts of $66 per day for travel to Colorado Springs and $71 per day for travel to Los Angeles.

CIEN AGUAS INTERNATIONAL SCHOOL (Continued)

2014-001 Travel and Per Diem - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Continued)

Criteria: NMAC 2.42.2.9, *Reimbursement of Actual Expenses in Lieu of Per Diem Rates,* at section B.(2) states "actual expenses for meals are limited to a maximum of $30.00 for in-state travel and $45.00 for out-of-state travel for a 24-hour period.

Effect: The school is not in compliance with per diem regulations set forth by NMAC 2.42.2.9.

Cause: Policies and procedures are not in place to ensure compliance with the rules noted above.

Auditors' Recommendation: Develop and implement policies and procedures that will ensure compliance with the travel and per diem requirements as set-forth by NMAC 2.42.2.9.

Management's Response: The current business manager has implemented two travel forms, one of which requests the approval to travel and the second requesting reimbursement for travel expenses. The internal policies and procedures will be updated with the new travel process and shared with the staff, at the beginning of the school year, to ensure compliance with the State statute.

2014-002 Personnel Files and Benefits Documentation – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During internal control test work over a sample of 25 payroll transactions we noted the following:

- We noted two instances where an employee's benefit election form was not available for our review.
- We noted two instances where employees received additional compensation for afterschool program services, however, there was no evidence of approval for this additional work and the amount of compensation paid in the employees personnel file.
- Leave is not currently being tracked for the school's director.

Criteria: The School's payroll processing and payment procedures included in the School's financial policies and procedures manual states that each employee file will include an insurance deduction authorization form. The form also has an area for the employee to indicate that they are declining to receive a particular benefit(s). NMAC 6.20.2.18 also requires various employee records and documentation to be maintained and available for inspection, including personnel/payroll action forms that properly document employee compensation. The School's payroll processing and payment procedures also have policies and procedures for tracking individual employee leave.

Effect: The School is not in complete compliance with its payroll processing and payment policies and procedures and NMAC 6.20.2.18.

CIEN AGUAS INTERNATIONAL SCHOOL (Continued)

2014-002 Personnel Files and Benefits Documentation – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Continued)

Cause: The School's policies and procedures are not being enforced.

Auditors' Recommendation: Personnel files should be periodically reviewed to ensure all required personnel file documents have been obtained and are complete and accurate, including benefit election forms and compensation documentation. Lastly, leave for all employees should be tracked in accordance with the School's own policies and procedures.

Management's Response: All employee files will be checked on a semi-annual basis to ensure that all forms are in the employee file. A rate sheet for stipends and/or additional compensation will be created and referenced when paying employees for additional work they completed. Leave will be tracked for all employees including the school director.

2014-003 Staff Qualifications - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During internal control test work over a sample of 25 payroll transactions we noted one educational assistant that did not have a license from the Public Education Department (PED). Additionally, the employee file did not contain proof of the individual's education. We attempted to locate this individual's license on the PED website and were unsuccessful.

Criteria: NMAC 6.63.9 states that all persons who perform services as educational assistants (EAs) must hold valid, educational assistants licensure issued by the PED and also provides additional provisions that must be met, including education requirements.

Effect: The School is not in compliance with the educational assistant requirements set forth by NMAC 6.63.9.

Cause: The School did not ensure all required documentation was obtained prior to hiring this educational assistant and a process in not in place that would provide for periodic reviews of employee personnel files to ensure they are complete.

Auditors' Recommendation: Develop and implement internal control procedures to ensure all required documents are obtained prior to hiring personnel and that provide for periodic reviews of employee files to ensure all required documents have been obtained and are complete and accurate.

Management's Response: All required documents such as licensure, education, etc. will be obtained prior to hiring any employee. A checklist will be included in each personnel file to verify that all documents have been received. All employee files will be reviewed on a quarterly basis to ensure that all forms have been received, completed and that they are accurate.

CIEN AGUAS INTERNATIONAL SCHOOL (Continued)

2014-004 Segregation of Duties – Noncompliance in Accordance with the New Mexico State Audit Rule (Significant Deficiency)

Condition: During our review of the School's internal control procedures over significant transaction cycles we noted the following internal control deficiencies:

- The School Director reviews the payroll register prior to processing by the business manager but does not perform a review after it is processed to ensure no changes were made or changes were limited to those the Director has approved.
- The School's Business Manager adds vendors to the accounting system, can create purchase orders, make purchases, prints checks for payment, is an authorized check signer, prepares the outgoing mail, records cash receipts, prepares the deposit and takes the deposit to the bank.
- The School's two administrative assistants are responsible for collecting school lunch payments and "after school" program fees and also are responsible for maintaining and reconciling amounts due from each child.

Criteria: Per NMAC 6.20.2.11 every school district shall establish and maintain an internal control structure that will provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Effect: Inadequate segregation of duties increases the risk that errors or fraud could occur and not be discovered timely.

Cause: Management has not conducted a basic risk assessment to identify duties that should be segregated to reduce the risk of errors and fraud.

Auditors' Recommendation: Management should review the current assignment of accounting functions and where feasible, duties should be segregated to reduce the risk of errors or fraud. Other review procedures should be implemented to strengthen the School's internal control. For instance, the Director should review the payroll register after the payroll has been processed. The business manager should not be an authorized check signer and checks prepared by the business manager should not be returned to her for mailing, but should be mailed by some other appropriate individual. The cash receipt process should be changed to ensure no one individual handles all or a majority of the cash receipts transaction process. Individuals responsible for collecting cash receipts should not be responsible for reconciling accounts. Vendor and employee system master files should be reviewed periodically for any unusual items.

CIEN AGUAS INTERNATIONAL SCHOOL (Continued)

2014-004 Segregation of Duties – Noncompliance in Accordance with the New Mexico State Audit Rule (Significant Deficiency) (Continued)

Management's Response: A review process will be implemented to strengthen the internal control process and to reduce the risk of fraud and errors by further segregating duties. All payroll registers and supporting documents will be reviewed before and after processing payroll to ensure no unauthorized changes were made. Checks will be mailed by the school director or their designee (not the business manager). A random sample of the vendor and employee system master files will be reviewed every quarter by the school director or their appropriate designee to test for inaccuracies.

2013-001 [CS 2013-01-I] Contracting – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During test work over the School's food service contract we noted that required language was not included in the contract.

Criteria: Per CFR 7.210 and 7.250 there are multiple provisions relating to the proper storage of donated food, services to be provided and other criteria required by the U.S. Department of Agriculture.
Effect: Due to missing required language the School is not in compliance with federal laws and regulations related to their school lunch program.

Cause: The School was unaware that they were required to use a contract which satisfies federal regulations in their procurement of food services.

Auditors' Recommendation: The School should review the applicable federal regulations related to food service and ensure that future contracts contain the necessary language to remain compliant with federal regulations.

Management's Response: This item has been corrected for the current fiscal year (2014-2015). A new food services vendor who utilizes the State Public Education Department standard contract template and which contains all required language has been selected to provide services.

2013-002 [CS 2013-02-I] Audit Committee – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: The School does not have the required members on their audit committee.

Criteria: Per NMSA 22-8-12.3 each local school board shall appoint an audit committee that consists of two board members, one volunteer member who is a parent of a student attending the school district and one volunteer member who has experience in accounting or financial matters.

Effect: The school is not in compliance with the above noted statute.

CIEN AGUAS INTERNATIONAL SCHOOL (Continued)

2013-002 [CS 2013-02-I] Audit Committee – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Continued)

Cause: The School has and continues to make attempts to solicit the required audit committee members but has not been successful in its recruiting efforts.

Auditors' Recommendation: Continue to solicit members to serve on the audit committee and ensure adequate efforts are being made to effectively recruit.

Management's Response: The Governing Council understands the concern and continues to actively search for a parent and community member to join the audit committee.

CORAL COMMUNITY CHARTER SCHOOL

2014-001 Timely Deposits -Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition- During our cash receipts test work we noted Coral Community Charter School did not keep and maintain a cash receipt log that documents the date of cash receipts. We were unable to obtain sufficient audit evidence to confirm that deposits were being completed within the 24-hour required timeframe.

Criteria- NMAC 6.20.2 states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day."

Effect- Coral Community Charter School was not in compliance with State Statute. Additionally the School has exposed itself to possible misappropriation of assets.

Cause- Coral Community Charter School does not receive a significant amount of cash receipts in the mail and during the year they were not issuing any kind of receipts at the front desk.

Auditor's Recommendation- We recommend that Coral Community Charter School utilize a cash receipt log to document the date and amount of receipt and create a procedure to ensure that all funds are properly deposited within 24 hours.

Management's Response- For school year FY14/15, we have already changed procedure on how we record and deposit money. We now have a receipt book that we fill out the transaction and deposits are made within the 24 hour time frame.

CORAL COMMUNITY CHARTER SCHOOL (Continued)

2014-002 Internal Control Structure -Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition- Coral Community Charter School shared its location in the previous year with another charter school. When that other charter school moved to another location it appears that there were several utility bills outstanding in the amount of $2,038. These outstanding bills were sent to the other charter school and subsequently paid by this school. Subsequently, Coral paid this school for these outstanding invoices. However, they were paid per request from the other school and not per the actual invoices from the utility company.

Criteria- Per sound accounting standards an entity shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use of disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Effect- Coral Community Charter School could be overpaying for goods and services since the School did not pay off the actual invoice.

Cause- During the transaction of this other school, there was a miscommunication between this school and Coral which resulted in the services not being changed over from this school to Coral.

Auditor's Recommendation- Coral Community Charter School should follow their internal controls and procedures which require all vendor invoices to be matched to the receiving copy of the purchase order. Additionally, accounts payable personnel should 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.

Management's Response- This was a unique situation as the utilities did not properly get shut off correctly with the school that was in the building before Coral Community Charter and their name was on our bill and the bill was being set to their new address. The Business Manager contacted a utilities representative to make sure the amount that Coral Community Charter owed for utilities was correct before sending out a check. But the utilities company would not give Coral Community Charter an invoice since their name was not on the bill. This will not happen again as this was a unique situation that happened when moving to a new building.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

COTTONWOOD CLASSICAL PREPARATORY SCHOOL

2014-001 Compliance with Bond Covenants – (Compliance/other matter)

Condition: Audit report was not timely filed to the trustee or to the Office of the State Auditor

Criteria: Pursuant to the bond covenants, the Foundation is required to file its annual audited financial statements to the trustee on an annual basis

Effect: The foundation is not compliant with its bond covenants

Cause: The FY 2014 audit was not submitted on time due to issues outside of the Foundations control

Recommendation: We recommend that the Board continue to monitor its other existing compliance requirements and maintain those that are under its control

Management Response: The audit was on schedule until issues between the State and prior auditors arose. The bond holders were notified and kept up to date on the issue. The foundation will work to ensure the audit is timely and meets all covenants.

2014-002 Compliance with Payroll Recordkeeping – (Compliance/other matter)

Condition: Out of 25 items tested for controls over payroll, the following exceptions were noted: Two instances of the employee contract not being properly executed and/or in agreement with payroll records; and one instance of I-9 not on file.

Criteria: Pursuant to 6.20.2.18 NMAC, I-9's, among other documents, are required to be included in personnel files.

Effect: Non-compliance with the aforementioned statute with the potential of hiring a non-eligible employee.

Cause: Improper oversight over the maintenance of personnel records

Recommendation: We recommend a periodic re-inspection of personnel files to ensure continuous compliance with the statutory requirements

Management Response: The school has implemented a periodic review of its files to ensure compliance with all regulatory requirements.

COTTONWOOD CLASSICAL PREPARATORY SCHOOL (Continued)

2014-003 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters)

Condition: The School has entered into a Pledge and Covenant Agreement with a third party lender to secure debt of a legally separate entity (the Cottonwood Classical Foundation, a 501(c)(3) organization). Under the terms of the debt agreement, the lender required the School to pledge, transfer, and grant a security interest in and assign to the lender all funds, monies, grants or other distributions received by the School from the State of New Mexico.

Furthermore, the Pledge and Covenant Agreement identified that the School establish and maintain a depository account with the lender into which all education funding received by the School from the Public Education Department (including Equalization Guarantee Funding, Lease Reimbursement Program payments, and other special funds and federal pass-through funding constituting Adjusted Pledged Revenues) shall be deposited into. The lender is authorized to withdraw from this account upon default by the Cottonwood Classical Foundation.

Criteria: Pursuant to Article IX, Section 14 of the New Mexico State Constitution (Anti-Donation Clause), neither the state nor any county, school district or municipality shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association or public or private corporation.

Effect: As the School has pledged revenues to secure debt payments on an obligation not owed by the School and is in violation of state statute. As a result of this violation, the debt could be considered invalid.

Cause: The School was unaware that the securitization of debt was a violation of state statute. Furthermore, the School did not seek approval by the Public Education Department to ensure compliance with New Mexico State Law.

Recommendation: We recommend that the School seek immediate assistance from the Public Education Department for guidance on communication between the Foundation and Lender to re-negotiate the terms of the debt agreement to exclude any future pledging by the School. It is further recommended that the revised and final debt agreement be reviewed and accepted by the Public Education Department General Counsel to ensure compliance with New Mexico State Law.

Management Response: We disagree with this finding. Two separate law firms within the State of New Mexico served as legal counsel for the transaction; one for the Cottonwood Classical Preparatory School (School) and one for the Cottonwood Classical Preparatory School Foundation (Foundation). Legal counsel was hired to ensure compliance with all applicable State of New Mexico laws and regulations.

COTTONWOOD CLASSICAL PREPARATORY SCHOOL (Continued)

2014-003 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

Discussions with the school legal counsel note the following. The school did not pledge with the third party lender (bondholders) to secure the debt of the Foundation. The Pledge and Collateral Agreement's sole purpose is to assure that the School will pay its lease payments. The trustee bank is only allowed to withdraw funds for payment of the School's obligation under the lease and, only from sources eligible to be used for lease payments. There is no agreement for the School to pay any obligation of the Foundation.

In addition, the School did submit a lease purchase agreement to the NM Public Education Department (PED) for approval in compliance with department rules and regulations. The PED was provided with much of the information from this transaction. The School received a letter dated August 8, 2014 from Secretary Hanna Skandera approving the lease purchases agreement. Copied on the Secretary's letter were the PED Deputy Secretary, Finance & Operations; and, PED General Counsel. No discussion or questions were ever given to the School on the transaction during this process.

The School is willing to work with the NM PED, and the Foundation to address any compliance issues.

CREATIVE EDUCATION PREPARATORY INSTITUTE

2009-024 [CS 2009-24-K] PED Cash Report- Repeated and Modified (Material Weakness and Compliance)

Condition: During our test work, it was noted that beginning balances do not agree to the prior year audited financial statements. Revenues do not tie to the general ledger. Expenditures do not tie to the general ledger. Ending cash balances do not tie to the general ledger.

The June 30, 2014 bank reconciliation shows outstanding items of $148,714.36. The PED cash report at June 30, 2014 shows outstanding items of $60,339.89. The variance is $88,374.47.

Criteria: According to State regulation 6.20.2.11 (B) (6), NMAC and Regulation SBE-6, the reports sent to the New Mexico Public Education Department (PED) must agree to the general ledger. Per the New Mexico State Audit Rule, the audit report of each school district shall include a cash reconciliation schedule which reconciled the cash balance as of the end of the previous fiscal year to the cash balance at the end of the current fiscal year.

Effect: The Creative Education Preparatory Institute (CEPI) reporting to PED is not correct and PED does not have accurate reflection of the schools cash basis.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2009-024 [CS 2009-24-K] PED Cash Report- Repeated and Modified (Material Weakness and Compliance) (Continued)

Cause: The CEPI is not reconciling to the general ledger to what is being reported on the audited financial statements.

Auditor's Recommendation: The CEPI must reconcile the general ledger to the audited financial statements. We recommend the school work with the PED to correct their cash report.

Management's Response: The CEPI will work closely with PED to correct the variance and to make sure that reports are accurate. The CEPI's Finance Committee will review the reports prior to being submitted. The CEPI will contract out for additional business support in order to correct and maintain accuracy in reporting.

2011-001 [CS 2011-01-K] Internal Control Structure- Repeated and Modified (Material Weakness and Compliance)

Condition: During our fieldwork we noted the following:

- The CEPI posted numerous journal entries to fund balance during the fiscal year. The CEPI was not able to provide supporting documentation for these fund balance journal entries. The CEPI was also unable to provide support for other journal entries made during the fiscal year. There is also no indication that journal entries are being reviewed and approved by someone other than the preparer of the journal entries.
- The CEPI was unable to provide documentation on how accrued liabilities were calculated at June 30, 2014.
- In a sample of sixty cash disbursements, there were thirteen instances in where the school was not able to locate all the supporting documentation. The amounts of these cash disbursements were: $31,685.00, $24,951.00, $3,770.00, $2,600.00, $1,888.04, $1,013.10, $856.00, $856.00, $856.00 $750.00, $642.00, $520.00, and $520.00.
- Total Retire Health Care expenditures did not agree to the general ledger. We noted a difference of $883.
- The employer's share of FICA and Medicare contributions on the Forms 941 did not agree to the general ledger. We noted a difference of $1,378.

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2011-001 [CS 2011-01-K] Internal Control Structure- Repeated and Modified (Material Weakness and Compliance) (Continued)

affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP." Per NMAC 6.20.2.14 (F).1 Cash Control Standards, "posting errors are not to be erased, crossed out, or in any other manner eliminated from the ledger. A separate entry is required to incorporate necessary corrections. Cross-referencing of a correcting entry to the original error should be inserted under the "description" column of the ledger."

Effect: Financial statements could be misstated.

Cause: The school does not have an effective set of procedures in place to review documentation being generated for financial related matters.

Auditor's Recommendation: All journal entries should be supported by the documentation needed to make those entries. Journal entries should be reviewed and approved by someone other than the preparer. We recommend the CEPI develop and implement internal controls over recording expenditures to the proper general ledger account. Expenditures submitted for reimbursement should be recorded to the corresponding fund and function related to the expense. The Forms 941 and Retiree Health Care reports should be reconciled to the general ledger prior to them being filed.

Management's Response: The school will work with additional business support to ensure that the school is preparing journal entries accurately and that support is attached. Journal entries will be reviewed by the Finance Committee prior to being posted. The school will review, revise & implement policies related to the internal controls including controls related to recording expenditures to the proper general ledger account. The school will also develop and implement policy over the review of monthly, quarterly & annual reports prior to them being submitted.

2011-002 [CS 2011-02-K] Budgetary Conditions – Repeated and Modified (Non Compliance)

Condition: The School has an expenditure function where actual expenditures exceeded budgetary authority:

Operational	
Support Services	$82,780

Criteria: Sound financial management and 6.20.2.9 (A) NMAC and 22-8-5 through 22- 8-12.2 NMSA 1978 require that budgets not be exceeded at the legal level of control. For school districts the function is the legal level of control.

Effect: The school is out of compliance with State Law and the control established by the use of budgets has been compromised.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2011-002 [CS 2011-02-K] Budgetary Conditions – Repeated and Modified (Non Compliance)

Cause: A budget adjustment request was never submitted to account for the additional expenditures incurred for the Operational fund.

Auditor's Recommendation: The School should establish a policy of budgetary review at year-end and make the necessary budgetary adjustments.

Management's Response: The School along with the Finance Committee will establish a policy of budgetary review at the end of each Quarter and check that the necessary budgetary adjustments have been made.

2011-003 [CS 2011-03-K] Bank Accounts- Repeated and Modified (Material Weakness)

Condition: During our test work over cash we noted the following:

- The CEPI's bank reconciliation for June 30, 2014 showed an "Actual GL" amount of $4,283.20 as the reconciled amount. The amount on the general ledger provided to the auditors showed a total amount of $5,521.00, resulting in a variance of $1,237.80.
- The CEPI could not provide a listing of outstanding checks and deposits ($148,714.36) at June 30, 2014.
- Bank reconciliations for the entire fiscal year were examined. It was noted that the "Expected GL" and "Actual GL" did not match in any month. The smallest variance was $22,519.28, the largest variance was $81,185.04, and the average variance was $36,065.56.
- There was no evidence of the bank reconciliations being reviewed.

Criteria: All bank accounts shall be reconciled on a monthly basis. Reconciled bank statements are to be reviewed by someone other than the preparer for accuracy.

Effect: It cannot be determined if cash balances are correct at June 30, 2014.

Cause: There is a lack of understanding over how the bank reconciliation report is generated and how to clear items that have cleared. This has led to erroneously identified outstanding items.

Auditor's Recommendation: We recommend that CEPI personnel obtain additional training in how to reconcile the cash accounts using the APTAfund accounting software.

Management's Response: The School has signed up for additional training from APTAfund. At least one member of the Finance Committee will attend this training along with the Business Manager.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2012-003 [CS 2012-03-K] ERB Contributions- Repeated and Modified (Non Compliance)

Condition: During our fieldwork we noted the following:

- Total ERB expenditures reported did not agree to the general ledger. We noted a difference of $4,579.
- The ERB report was submitted late for month ending August 31, 2013.

Criteria: Per the ERB rules, the electronic reports, consisting of salaries and contributions and demographic information, must be sent by the 15th of the month following the month covered by the Report. The form must be faxed the same day that the contributions are electronically submitted, no later than the 15th of the month following the month covered by the Report. The amounts reported on the ERB forms should reconcile with the general ledger.

Effect: Per the Educational Retirement Act, penalties will be assessed to the administrative unit when contributions and/or reports are not remitted by the due date. It is unclear if the correct amounts were contributed to the Educational Retirement Board.

Cause: The Business manager missed deadlines for submission. Adjustments were made to general ledger accounts causing the ERB to have a difference.

Auditor's Recommendation: We recommend School implement a monthly review by the finance committee of all payments to ensure that ERB payments are processed and paid in a timely manner and all copies of the reports are retained. The School establish procedures to reconcile the amounts on the ERB reports and the general ledger.

Management's Response: The school will develop and implement policy over the review of monthly, quarterly & annual reports prior to them being submitted. Reports will be reviewed by the Finance Committee prior to being submitted.

2013-001 [CS 2013-01-K] Procurement Code and Related Contract with Vendor - Repeated (Non-Compliance in Accordance with the New Mexico State Audit Rule)

Condition: During our procurement test work, we noted the CEPI did not go out to bid for vendors who provide software licensing.

Criteria: Per NMAC 6.20.2.17 PURCHASING**:** A. Each school district shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. Purchasing policies and procedures for grant funding shall comply with requirements established within the grant and the Procurement Code. An internal control structure over purchasing shall be established and maintained to assure compliance with school district policy, and state and federal regulations.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2013-001 [CS 2013-01-K] Procurement Code and Related Contract with Vendor - Repeated (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Continued)

Effect: The CEPI could be overpaying for goods and services.

Cause: The school contends that these vendors provide sole source goods as the software is tailored to meet specific teaching goals.

Auditor's Recommendation: We recommend that the School designate a procurement agent who would be accountable for maintaining records and ensuring State procurement policies are being implemented and followed.

Management's Response: The GradPoint software that CEPi uses is only available from Pearson, the developer of GradPoint. All other software licenses compliant with the Procurement Code. The school has designated a procurement agent.

2013-002 [CS 2013-02-K] IDEA-B - Cash Management- Repeated (Non-Compliance in Accordance with the New Mexico State Audit Rule)

Condition: The Following bullet point below is from prior year. During current year, there was not sufficient documentation available to determine if the finding has been corrected.

- We noted that the school did not properly reconcile the IDEA-B expenditures. We noted the school had reported excess expenditures of $4,239 than total amount funded for IDEA B. An adjustment was required to balance funds. School did not properly expense $1,998 of Title I School Improvement funds. Expenditures were posted to the operating fund. An adjustment was required to balance funds.

Criteria: According to *Part 3 of the A-133 Compliance Supplement,* "When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government." Per *OMB Circular A-110, _.21 Subpart C- Post-Award Requirements*, "Recipients' financial management systems shall provide for the following:

- Accurate, current and complete disclosure of the financial results of each federally sponsored project or program in accordance with the reporting requirements set forth in Section_.52Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
- Effective control over and accountability for all funds, property and other assets.
- Comparison of outlays with budget amounts for each award.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2013-002 [CS 2013-02-K] IDEA-B - Cash Management- Repeated (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Continued)

- Procedures for determining the reasonableness and allowability of costs in accordance with the provisions of the applicable Federal Cost Principles and the terms and conditions of the award.
- Accounting records including cost accounting records that are supported by source documentation."

Effect: The CEPI ability to effectively manage its operations in order to meet the compliance requirement of the grant was impaired. The risk that errors or fraud could go undetected was significantly increased.

Cause: The school did not reconcile grant funds at year-end to amounts budgeted.

Auditor's Recommendation: We recommend the school implement policies to ensure that all reimbursement requests have the correct expenses in the correct funds and that all reimbursed funds are properly reconciled.

Management's Response: The school will work with additional business support to ensure that the school is preparing reimbursements accurately and that support is attached. Request for Reimbursements will be reviewed by the Finance Committee prior to being entered into OBMS. The school will review, revise & implement policies related to the RFRs including controls related to recording expenditures to the proper general ledger account. The school will also develop and implement policy over the review of RFRs prior to them being submitted.

2014-001 Lack of Segregation of Duties – (Material Weakness)

Condition: The CEPI Business Manager, records payments on the general ledger and prepares the monthly bank reconciliation. For checks under $1,000 the Business Manager can sign checks without another check signer.

Criteria: NMAC 6.20.2.12 requires that an organizational structure be in place which separates incompatible activities to preclude control by any individual.

Effect: The potential for misappropriation of funds is present when one person is responsible for all phases of an accounting process.

Cause: The CEPI operates with a limited staff size.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2014-001 Lack of Segregation of Duties – (Material Weakness)

Recommendation: The School should implement a system in where accounting activities are separated to the extent possible with its small staff size. The Business Manager should not be an authorized signer on checking accounts.

Management Response: The School will develop and implement financial policies and procedures that will ensure segregation of duties. The School has already added two board members as signers on the School's checking account.

2014-002 Retiree Health Care Contributions – (Non Compliance)

Condition: During our fieldwork we noted that for the months of July 2013, August 2013, October 2013, November 2013, December 2013, March 2014, and June in 2014, the monthly contributions were made after the tenth day of the subsequent month.

Criteria: Monthly contributions to the Retiree Health Care (RHC) are required to be remitted no later than the 10th of the following month per NMSA 1978 10-7C-15.

Effect: The CEPI is not in compliance with New Mexico State Statutes in regards to Retiree Health Contributions being submitted timely.

Cause: The reports were not properly reviewed to ensure they were submitted on time.

Recommendation: We recommend that school management implement an internal control system to insure that Retiree Health Contributions are processed and paid in a timely manner

Management Response: The School will develop and implement policy over the review of monthly, quarterly & annual reports prior to them being submitted. Reports will be reviewed by the Finance Committee prior to being submitted.

2014-003 Purchase Orders – (Significant Deficiency)

Condition: During our testing of sixty cash disbursements we noted the following:

- There were six instances ($12,846.95, $7,566.40, $4,667.29, $2,226.66, $173.34 and $60.00) in which the Purchase Order was prepared subsequent to the vendor's invoice date.
- A Purchase order in the amount of $36,000.00 did not have the Principal's signature on it.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2014-003 Purchase Orders – (Significant Deficiency) (Continued)

Criteria: Section NMAC 6.20.2.17 (A), requires that each school shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. An internal control structure over purchasing shall be established and maintained to assure compliance with school policy, and state and federal regulations. Also, the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, states that "the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction."

Effect: Not being in compliance with state purchasing requirements places the School at risk for fraud or misuse of public funds.

Cause: CEPI personnel did not follow established procurement policies of the School.

Recommendation: All School personnel should be reminded that initiation of a purchase order is not sufficient for ordering; that an approved Purchase Order is required per School and State guidelines.

Management Response: The School will set up training for all personnel so that everyone understands the School and State guidelines regarding purchasing.

2014-004 Timely Deposits – (Non Compliance)

Condition: One of five miscellaneous cash receipts tested in the amount of $196.00 was not deposited timely.

Criteria: NMAC 6.20.2 states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day.

Effect: The CEPI was not in compliance with State Statute. Additionally the School has exposed itself to possible misappropriation of assets.

Cause: School personnel did not follow established procedures to deposit the money in a timely manner.

Recommendation: We recommend that the school create a procedure to ensure that all funds are properly receipted and deposited within one banking day.

Management Response: The School will review its Policies and Procedures to ensure that all funds are properly receipted and deposited within one banking day.

CREATIVE EDUCATION PREPARATORY INSTITUTE (Continued)

2014-005 Mileage Reimbursements – (Non Compliance)

Condition: For the year ended June 30, 2014, it was noted that the School reimbursed employees for mileage at a rate of fifty one cents per mile. This rate is above the approved rate.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The CEPI is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The CEPI personnel were not familiar with the approved rate for mileage reimbursement.

Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management Response: The School was unaware that it could only pay 80% of the IRS mileage rate set January 1 of the previous year. The school will update its policies to reflect this corrected amount.

EAST MOUNTAIN HIGH SCHOOL

2014-001 Grant Compliance – (Significant Deficiency)

Condition: During our audit we noted that subsequent to year end the School had to reimburse the State of New Mexico Public Education Department (PED) $18,455.80 for monies the School had received as part of the Early College High School Initiative.

Criteria: Good internal controls include spending money in accordance with the stipulations of grant agreements.

Effect: The School was not in total compliance with the requirements of the Early College High School Initiative grant. Also, the operational fund had to absorb the $18,455.80 of disallowed expenditures.

Cause: School personnel sought guidance from PED on how the money could be spent for this grant; however, there was some miscommunication on this matter. It was later determined that the expenditures were not allowable.

EAST MOUNTAIN HIGH SCHOOL (Continued)

2014-001 Grant Compliance – (Significant Deficiency) (Continued)

Auditor's Recommendation: School personnel should expend grant monies in accordance with the stipulations of grant agreements.

Management's Response: We will be diligent in seeking information about how grants can be spent including consulting more than one PED department, if necessary, for guidance.

2014-002 Purchase Orders Subsequent to Invoice – (Significant Deficiency)

Condition*:* During our testing of sixty cash disbursements, there were three instances ($3,000.00, $1,257.00, and $1,052.50) in where the Purchase Order was prepared subsequent to the vendor's invoice date.

Criteria: Section NMAC 6.20.2.17 (A), requires that each school shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. An internal control structure over purchasing shall be established and maintained to assure compliance with school policy, and state and federal regulations. Also, the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, states that "the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction."

Effect: Not being in compliance with state purchasing requirements places the School at risk for fraud or misuse of public funds.

Cause: School personnel did not follow established procurement policies of the School.

Auditor's Recommendation: All School personnel should be reminded that initiation of a purchase order is not sufficient for ordering; that an approved Purchase Order is required per School and State guidelines.

Management's Response: We will have an in-service training for all staff on the proper steps to follow for purchasing.

2014-003 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: For the year ended June 30, 2014, it was noted that East Mountain High School reimbursed employees for mileage at a rate of fifty six cents per mile.

EAST MOUNTAIN HIGH SCHOOL (Continued)

2014-003 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The School is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The School contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Auditor's Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management's Response: We disagree with this finding. In a 2010 memo from a CPA in the Office of the State Auditor it was stated all Charter Schools fall under the definition of Local Public Bodies regardless of which agency they are chartered under. That is the guidance we have followed. Therefore, we have reimbursed the full Federal rate since NMAC 2.42.2.11 states:
(C) Local Public Bodies: Public officers and employees of local public bodies may be reimbursed for mileage accrued in the use of a private conveyance in the discharge of official duties, at the statutory rates unless such rates have been reduced by the governing bodies of the local public body pursuant to Section 10.8.5 (D) NMSA 1978.

ESTANCIA VALLEY CLASSICAL ACADEMY

2014-001 Timely Deposits -Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During our test work over 11 cash receipts, we noted two instances where cash receipts were not deposited in the bank within 24 hours. The dollar amount of the two cash receipts totaled $903.

ESTANCIA VALLEY CLASSICAL ACADEMY (Continued)

2014-001 Timely Deposits -Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Criteria: NMAC 6.20.2.14.C states "Money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day."

Effect: The School is not in compliance with the cash deposit compliance requirements as stated at NMAC 6.20.2.14.C. In addition, the School has exposed itself to possible misappropriation of assets.

Cause: The School did not follow internal policies and procedures for cash collection.

Auditors' Recommendation: Ensure deposits are made in accordance with NMAC 6.20.2.14.C.

Management's Response: The 2 instances of non-compliance with NMAC 6.20.2.14.C consist of yearbook monies collected and deposited on an untimely basis. Estancia Valley Classical Academy's policy states "Money received and receipted shall be deposited in the bank within 24 hours or one banking day." Management will reiterate the policy, and the fact that it applies to all money received, with current staff. Additionally, procedures currently require a staff member to deposit funds on a daily basis.

2014-002 Financial Statement Preparation (Material Weakness)

Condition: During our test work over the School's accounting records, we noted the following:

- In the prior year, the School incorrectly expensed a $100,000 security deposit paid to the Foundation for the building lease. A prior period adjustment of $100,000 was required to increase assets and fund balance in the Federal Charter Planning Grant fund.
- School personnel did not provide an accurate trial balance for the audit and for preparation of the fiscal year 2014 financial statements. Due to this, substantial audit time was required to reconcile and correct material differences related to accrued liabilities and payroll expenses at June 30, 2014. At the end of our fieldwork and after a finding was presented to the School for these issues, the School contacted the prior business manager at which time an accurate trial balance was provided.

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP."

Effect: The risk exists that the School understates its assets and liabilities and/or does not properly account for them which increases the likelihood that errors could occur.

ESTANCIA VALLEY CLASSICAL ACADEMY (Continued)

2014-002 Financial Statement Preparation (Material Weakness) (Continued)

Cause: The School did not record the security deposit in accordance with GAAP. School personnel provided inaccurate information for the preparation of the financial statements.

Auditors' Recommendation: The School should have accounted for the lease deposit in accordance with the signed lease agreement, which also served as support for the grant drawdown. School personnel should review the trial balance prior to providing it to auditors and other users to ensure it properly reflects the School's accounting records at year-end.

Management's Response: Bullet Point 1 - The School recorded transactions in the manner that they were advised to record transactions by our attorney and the previous auditor. Now the current auditor is wanting to change this transaction to indicate that the school has given a refundable security deposit to the foundation that was not liquidated by subsequent expenses in accordance with the lease, and to record it on the financials as an asset. This issue may have to be brought to the State Auditor as the school cannot have financials that misclassify assets and therefore preclude proper balance sheet reconciliation.

Bullet Point 2 - The current Business Manager who began at the end of February and was not working during the 2013 – 2014 fiscal year was tasked to upload all of the files for the 2013 – 2014 audit onto the share drive for the auditor. In uploading the files she mistakenly uploaded the initial trial balance file to the share drive instead of an updated version that was created subsequently and should have been used as the final trial balance for that fiscal year. The final trial balance did contain the correct salaries and liabilities. Therefore, no journal entry was necessary to correct the books. In the future, updated files will be properly labeled and obsolete files moved out of the audit document folder so that they will not be mistakenly uploaded causing extra work and confusion during the audit.

2014-003 Foundation Account Reconciliations (Material Weakness)

Condition: During our test work over the Foundation's accounting records, we noted the following:

- In the prior year, the Foundation entered into a financing agreement to install the School's modular buildings. The debt was not recorded in the prior year and, as a result, the Foundation recorded a prior period adjustment to record the debt and reduce net position by $179,193.
- In the prior year, costs that should have been capitalized related to the installation of the School's modular buildings and other leasehold improvements were incorrectly expensed in their entirety. To correct and properly state prior year balances, the Foundation recorded a prior period adjustment to increase capital assets and net position by $226,408.
- In the prior year, the Foundation incorrectly recorded a $100,000 security deposit received from the School for the lease of the building. A prior period adjustment was recorded to increase liabilities and decrease net position.

ESTANCIA VALLEY CLASSICAL ACADEMY (Continued)

2014-003 Foundation Account Reconciliations (Material Weakness) (Continued)

- In the prior year, the Foundation incorrectly expensed amounts paid for security deposits on the land and building leases. As a result a prior period adjustment was made to increase assets and net position by $38,118.
- During fiscal year 2014, the Foundation did not accrue for property taxes and an adjustment totaling $2,823 was required to properly state property taxes for the year ending June 30, 2014.

Criteria: Maintenance of complete and accurate accounting records and preparation of annual financial statements and footnotes in accordance with generally accepted accounting principles (GAAP) ensures that timely, accurate and useful information is available to management, those charged with governance and other interested parties. Internal controls must be in place to safeguard assets and ensure accurate financial accounting and reporting. Fundamental to a good system of internal controls is thorough review processes, accurate record keeping of accounting transactions and preparation of accurate account reconciliations.

Effect: The risk exists that the Foundation understates its assets and liabilities and/or does not properly account for them which increases the likelihood that errors could occur and not be detected in a timely manner.

Cause: The Foundation did not adequately reconcile and analyze capital assets, debt, and liabilities for the fiscal year 2013 financial statements. The Foundation inadvertently missed the accrual for property taxes at June 30, 2014.

Auditors' Recommendation: Ensure balance sheet reconciliations are performed and prepared timely so that errors can be prevented/ detected in a timely manner.

Foundation's Response: The Foundation is in agreement to the conditions communicated above. In regards to the prior period adjustments that were made, there was a weakness in the timely manner of reconciling out the balance sheet accounts of the Foundation at the time. This was mainly due to the fact that the fiscal period ending June 30, 2013 was the first year of existence. With it being the first year, the Foundation was quickly formed in response to the state laws that prevented Estancia Valley Classical Academy (EVCA) from owning any real property and not being able to sign any commitments that spanned over a year. Once the Foundation was formed and the application for tax exempt status was being prepared, it was a scramble to get board members. All the while this was going on, the process of acquiring the school buildings and getting the land ready for installation was occurring. The Foundation did not have a checking account and all was being reimbursed through EVCA. I believe that all was done properly and all was openly communicated, it was just that these transactions took place before a checking account was established (this is mainly why the adjustments had to be made) and no formal books had been formed. During that same time frame, the new Foundation board members began serving on the Foundation were not "up to speed" on past or current events. The new board

ESTANCIA VALLEY CLASSICAL ACADEMY (Continued)

2014-003 Foundation Account Reconciliations (Material Weakness) (Continued)

members had yet to possess any written lease or finance agreements, let alone how they were structured and how they read. At the time, we as the Foundation Board had only one goal in mind and that was to open the school in a timely fashion.

It wasn't until the Foundation was preparing for the 2014 audit that these omissions were discovered. I came on as Treasurer in January/February 2014, not suspecting that anything was amiss until I started reconciling the balance sheet accounts for the year end reporting and tax return preparation. Because the 2013 audit and tax return had already been prepared by the former Treasurer and because of the materiality of the adjustments that had to be made due to the reconciliation of the balance sheet accounts, I believed that they needed to be made in the prior period.

The omission of the accrual of the property tax bill was due to the fact that even though the invoice was dated in the 2014 fiscal year, the bill was not received until July of the 2015 fiscal year. I thought since the Foundation reports on a cash basis, I didn't think to accrue the payable, even though for financial statement purposes the Foundation is reported on the modified accrual basis.

Since these discoveries and adjustments, it is a normal practice to timely reconcile balance sheet accounts, mainly on a monthly basis. The monthly balance sheet and income statement are presented to Board for review and approval at the monthly board meetings. There is now assurance that all transactions are reported in a timely and complete manner.

GILBERT L. SENA CHARTER HIGH SCHOOL

2014-001 Supporting Documentation – Noncompliance in Accordance with the New Mexico State Audit Rule (Material Weakness)

Condition: During our test-work the following items were noted:

- There were 116 journal entries posted for the year ended June 30, 2014. For 115 of the journal entries, the Gilbert L. Sena Charter High School (GLSCHS) cannot provide any support for the journal entries. The GLSCHS was able to provide partial documentation for one journal entry posted for the year ended June 30, 2014.
- In a sample of sixty cash disbursements selected for testing, there were six items where either the vendor invoice or the Purchase Order were not available. The total of these cash disbursements was $9,335.02.
- In a sample of ten cash disbursements selected for testing of Travel and Per Diem, the GLSCHS could not locate the supporting documentation for three of the items selected for testing. The total of these cash disbursements was $2,180.73.

GILBERT L. SENA CHARTER HIGH SCHOOL (Continued)

2014-001 Supporting Documentation – Noncompliance in Accordance with the New Mexico State Audit Rule (Material Weakness) (Continued)

- The GLSCHS capitalized $63,083 of expenditures for the year ended June 30, 2014. The GLSCHS cannot locate the vendor invoices for the items capitalized.
- The GLSCHS could not locate two of the four Forms 941 prepared for the year ended June 30, 2014.

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

Effect: Items could be misclassified on the general ledger.

Cause: The GLSCHS has had three Business Managers in the period between June 30, 2014 and the time that the audit was conducted. During the transitions between Business Managers, documentation was not properly maintained.

Recommendation: The GLSCHS should put in place internal controls so that documentation for all financial activity is available for examination both by school personnel and external parties such as the auditors.

Management Response: The Gilbert L. Sena Charter High School currently has an established policy for procurement and the maintenance for the records from procurement. Gilbert L. Sena Charter High School experienced a number of fluctuations in Business Management in the time frame spanning the end of FY2014 and the commencement of this year's second round of audit field work. Management is confident that given the recent stability in the business office that crucial backup documents have been maintained and accounted for properly.

2014-002 Pledged Collateral – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During test work, we noted the GLSCHS was under collateralized by $72,410 at June 30, 2014.

GILBERT L. SENA CHARTER HIGH SCHOOL (Continued)

2014-002 Pledged Collateral – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Criteria: Per NMSA 6-10-17, Any bank or savings and loan association designated as a depository of public money shall deliver securities to a custodial bank and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received.

Effect: The GLSCHS is not in compliance with New Mexico State Statutes in regards to pledged collateral.

Cause: The GLSCHS was not monitoring the account balances of the GLSCHS to ensure that the proper amount of pledged collateral was being maintained.

Recommendation: We recommend the GLSCHS monitor their cash balances to ensure they are meeting the State of New Mexico requirements pertaining to pledged collateral.

Management Response: Management has liquidated accounts down to a sole banking account. A pledged collateral agreement has been put in place with the current banking institution as required by statute.

HEALTH LEADERSHIP HIGH SCHOOL

2014-001 Submission of Claim Reports – (Other Matters)

Condition: The school failed to submit several claim reports to the Student Nutrition Bureau for several months during the first half of the year.

Criteria: Per NMAC 6.20.2.11 Internal Control Structure Standards, every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles (GAAP).

Effect: The school's private grant – Partner's for Developing Futures fund covered approximately $3,000 of food services expenses that normally are covered via reimbursement from the Student Nutrition Bureau.

HEALTH LEADERSHIP HIGH SCHOOL (Continued)

2014-001 Submission of Claim Reports – (Other Matters) (Continued)

Cause: School management was under the belief that the food services vendor was submitting the claims to the Student Nutrition Bureau and that they were being compensated directly. It was not until the school received an invoice for services covering the first half of the year that they learned this was not the case. The school was not able to submit reimbursement requests to the Student Nutrition Bureau for these months as the deadline for submitting them had passed.

Auditors' Recommendation: Internal controls should be implemented that will ensure claim reports to the Student Nutrition Bureau are filed accurately and timely, and are reviewed by an individual who did not prepare the report each month.

Management's Response: Management agrees with this finding and will implement procedures and continue to work with the New Mexico Public Education Department Student Nutrition to correct this issue.

2014-002 – Audit Committee – (Other Matters)

Condition: The school does not have a parent member or a volunteer community member on their audit committee.

Criteria: Per NMSA 22-8-12.3, each local school board shall appoint an audit committee that consists of two board members, one volunteer member who is a parent of a student attending the school and one volunteer member who has experience in accounting or financial matters.

Effect: The school is not in compliance with the above noted statute.

Cause: The school has and continues to make attempts to solicit the required audit committee members but has not been successful in its recruiting efforts.

Auditors' Recommendation: Continue to solicit members to serve on the audit committee and ensure adequate efforts are being made to effectively recruit.

Management's Response: Management agrees with this finding and is committed to soliciting parent participation. The school does have a parent volunteer serving on the audit committee for the 2014-2015 school year.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

HORIZON ACADEMY WEST

2014-001 Payroll Transactions - (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During our testwork over a sample of 25 payroll transactions, we noted five employees whose background check was not on file.

Criteria: Per State Regulation 6.20.2.18 the local board shall establish written payroll policies and procedures which comply with state and federal regulations on payroll as well as maintaining strict internal controls, close supervision and financial accounting in accordance with GAAP. School districts shall maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, and employment eligibility verification.

Effect: The School could be exposed to unnecessary liability.

Cause: The School did not retain the documentation.

Auditors' Recommendation: Ensure that the School review requirements regarding payroll forms and review payroll files for completeness annually.

Management's Response: The Business Manager will conduct a file review to ensure that all current employees have a background check on file. Current employees with missing background checks will be notified and sent for a background check. All new employees will be sent for a background check upon hire. A checklist will be utilized in HR files to make sure that the files are complete and contain the required documentation.

2014-002 Timely Deposits – (Noncompliance in accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During testwork over cash receipts, we noted one deposit totaling $980 made up of several checks and cash collected on August 20, 2013. These funds were not deposited until September 10, 2013.

Criteria: NMAC 6.20.2.14.C states "Money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day."

Effect: The School is not in compliance with the cash deposit compliance requirements as stated at NMAC 6.20.2.14.C.

Cause: The School received these monies and could not deposit the money that same day so the monies were locked in a safe. However, School personnel overlooked the monies and they were not deposited until September 10, 2013.

HORIZON ACADEMY WEST (Continued)

2014-002 Timely Deposits – (Noncompliance in accordance with the New Mexico State Audit Rule) (Other Matter) (Continued)

Auditors' Recommendation: Ensure deposits are made in accordance with NMAC 6.20.2.14.C.

Management's Response: The Business Manager will work with staff to make sure that all funds received by the school are deposited timely.

2014-003 Internal Control Structure - (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During our testwork over a sample of 25 disbursements, charges on account and four travel expenditures we noted the following:

- Purchase orders were not created and approved for four travel expenditures reviewed and for 2 of 25 disbursements reviewed.
- We found four instances where goods and/or services were received and invoiced prior to the creation and approval of a purchase order.
- For one travel expenditure reviewed, the travel reimbursement request was not signed by the employee requesting the reimbursement.

Criteria: Per NMAC 6.20.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and polices that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

Effect: Reimbursements could be made without proper approval and expenditures could be reported inaccurately or misclassified in the improper fund. This could result in funds being overspent and balances misstated.

Cause: The School did not follow internal purchasing policies and procedures.

Auditors' Recommendation: Ensure the School follows internal controls over purchasing to ensure that all purchases are approved in accordance with School policies and procedures.

Management's Response: The Business Manager will provide training to staff regarding purchasing procedures to ensure that the appropriate approvals are obtained prior to purchases and reimbursements.

HORIZON ACADEMY WEST (Continued)

2014-004 Budget Adjustment Requests - (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: Two of three budget adjustment requests (BARs) reviewed were not included in the Governing Council meeting minutes as having been discussed and approved prior to obtaining PED approval.

Criteria: As stated in Section H of the School's policies and procedures, "The Administration, in consultation with the Business Manager, shall regularly report to the Governing Council regarding the extent to which actual revenues and actual expenditures in the major line items (i.e. those items designated by the Public Education Department as requiring Budget Adjustment Requests for any changes) vary from budgeted amounts reflected in the Final Approved Budget. The Administration shall present any recommended Budget Adjustment Requests to the Governing Council prior to submission to the Public Education Department. No changes to the major budget line items in the Final Approved Budget shall be modified without the approval of the Governing Council."

Effect: When BARs are not first discussed with the Governing Council, this prevents the Governing Council from having accurate information regarding the budget in order to make decisions. The School is not in compliance with their policies and procedures.

Cause: The School did not follow internal policies and procedures. Alternatively, Governing Council minutes were not complete to include details of all items discussed and approved.

Auditors' Recommendation: Ensure the Governing Council approves all BARs. In addition, we recommend that the minutes include necessary detailed information pertaining to all items discussed.

Management's Response: The minutes will be reviewed prior to being presented to the Governing Council for approval to ensure that all approval items, including BARS, are correctly identified in the meeting minutes.

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters)

Condition: The School has entered into a Pledge and Covenant Agreement with a third party lender to secure debt of a legally separate entity (the Horizon Academy Foundation, a 501(c)(3) organization). Under the terms of the debt agreement, the lender required the School to pledge, transfer, and grant a security interest in and assign to the lender all funds, monies, grants or other distributions received by the School from the State of New Mexico.

Furthermore, the Pledge and Covenant Agreement identified that the School establish and maintain a depository account with the lender into which all education funding received by the School from the Public Education Department (including Equalization Guarantee Funding, Lease Reimbursement

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

Program payments, and other special funds and federal pass-through funding constituting Adjusted Pledged Revenues) shall be deposited into. The lender is authorized to withdraw from this account upon default by the Horizon Academy Foundation.

Criteria: Pursuant to Article IX, Section 14 of the New Mexico State Constitution (Anti-Donation Clause), neither the state nor any county, school district or municipality shall directly or indirectly lend or pledge its credit or make any donation to or in aid of any person, association or public or private corporation.

Effect: As the School has pledged revenues to secure debt payments on an obligation not owed by the School and is in violation of state statute. As a result of this violation, the debt could be considered invalid.

Cause: The School was unaware that the securitization of debt was a violation of state statute. Furthermore, the School did not seek approval by the Public Education Department to ensure compliance with New Mexico State Law.

Recommendation: We recommend that the School seek immediate assistance from the Public Education Department for guidance on communication between the Foundation and Lender to re-negotiate the terms of the debt agreement to exclude any future pledging by the School. It is further recommended that the revised and final debt agreement be reviewed and accepted by the Public Education Department General Counsel to ensure compliance with New Mexico State Law.

Management Response: Horizon Academy West submits this response to the proposed finding, in accordance with 2.2.2.9(I)(3)(c)(vi) NMAC. Although management's response is usually used to provide a statement of how Management will correct the identified concern, here Management denies that the Finding is appropriate and that it violates Generally Accepted Government Auditing Standards ("GAGAS") and various provisions of the Code of Conduct for the American Institute of CPA's ("AICPA"), as described herein.

Management's response to the stated "Condition"
In response to the IPA's description of the "Condition," School Management (hereinafter, "Management") contends that the IPA has not correctly interpreted the School's obligation under the Pledge and Covenant Agreement ("PCA"). The IPA states that the "School has entered into a Pledge and Covenant Agreement with a third party lender to secure debt of a legally separate entity (the Horizon

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

Academy Foundation, a 501(c)(3) organization)[1](emphasis added)." However, there is no such commitment in the PCA, which a thorough reading and understanding of the plain language in the document reveals.

The PCA contains the following pertinent recital clauses, which are further expressed in specific provisions therein:

> WHEREAS, the Company and the School have entered into an Amended and Restated Lease Agreement of even date herewith (together with any successor lease purchase agreement entered into in accordance with Section 3(1) hereof, referred to as the "Lease") pursuant to which the School has agreed, *subject of the rights of the School to terminate its obligations under the Lease on an annual basis, to make lease payments in the amounts and at such times as stated in the Lease*; and
>
> WHEREAS, the School has agreed to pledge pursuant to this Agreement certain "Adjusted Pledged Revenues" (as hereinafter defined) of the School *in order to provide additional security for the timely payments of amounts due under the Lease, provided that the School's obligations and agreements hereunder shall not exceed the School's obligations under the Lease*.

(Emphasis added).

The intention of the parties to the PCA, and the purpose of the PCA, is expressed in these Recital clauses. The intentions are supported by provisions of the PCA: i.e. that the School's "pledge" is only to secure the payments due under the Amended and Restated Lease Agreement ("Lease") between the School (as tenant) and the School's Foundation (as landlord/borrower), and is only to the extent of the School's Lease payment obligations. In Section 2(A) of the PCA, the pledge is limited to "secur[ing] the [School's] payment of the lease payments in accordance with the terms of the Lease." There is no language that states that the School is securing the underlying debt obligation of the Foundation. The PCA is for the sole purpose of assuring that the School will pay its Lease payments each year as the School is funded; there is no agreement to pay any obligation of the Foundation, if the Foundation

[1] The Horizon Academy Foundation ("Foundation") exists for the purpose of acquiring a facility for Horizon Academy West, a New Mexico public charter school ("School") as contemplated by the statutory requirement set forth in NMSA 1978, §22-8B-4.2(D) ("D. On or after July 1, 2015, a new charter school shall not open and an existing charter shall not be renewed unless the charter school 1) is housed in a building that is: (a) owned by the charter school, the school district, the state, an institution of the state, another political subdivision of the state, the federal government or one of its agencies or a tribal government…")

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

should default on its loan from the lender. The IPA's statement is simply not implied or expressed anywhere in the PCA, or in any document identified by the IPA. Even when the IPA was provided with a written legal analysis from Management's attorney regarding the extent of the pledge (before officially issuing the Finding), the IPA offered no explanation or opposing legal opinion (evidence) upon which it relied when issuing the Finding despite clear legal authority supporting the opposite conclusion.[2] *See discussion infra "Additional Concerns of Management," regarding IPA independence and basis for issuing Finding*.

Moreover, the Lease provides numerous contractual terms that ensure that the School's financial commitments are restricted to the obligations of the Lease, which in turn are confined on an annual basis and which contain an appropriations clause. Under the Lease, the School is never obligated beyond its then-current fiscal year, and certainly not to any external debt obligations of the School's Foundation. Examples[3] of provisions in the Lease that ensure that the School is not pledging any "credit" to secure the Foundation's debt, but rather that it is pledging to perform under the terms of the Lease with the Foundation, include the following, which the IPA makes no mention of in its assessment of the "evidence" used to support this finding:

1. Paragraph 3: the Lease is contingent on sufficient appropriations being made by the State for performance of the Lease.
2. Paragraph 4: the term of the Lease is year to year as recited in the PCA and includes another recitation of the appropriations out clause.
3. Paragraph 5: the sole use of the property is for the School;
4. Paragraph 8: "[n]o provisions of the Lease shall be construed or interpreted as creating a debt or multiple fiscal year direct or indirect debt or other financial obligation whatsoever of the School within the meaning of any constitutional or statutory limitation or requirement. No provision of this Lease shall be construed or interpreted as creating a delegation of neither the government powers nor as a donation by or a lending of the credit of the School within the meaning of any constitutional or statutory limitation or requirement. This Lease does not directly or indirectly obligate the School to make any payment beyond those appropriated for any Fiscal Year for which such payments have been appropriated" (emphasis added);
5. Paragraph 11: The school must prepare its budget to include the base rent and additional rent, unless the School, within its sole discretion, decides not to.

[2] GAGAS 3.67 provides, "An auditor's consideration of the risk level of each audit, including the risk of arriving at improper conclusions is also important [when exercising professional judgment]. Within the context of audit risk, exercising professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the audit objectives and any recommendations reported is an integral part of the audit process."

[3] As with any contract, the document must be read in its entirety to ensure that the meaning attributed to a particular provision is consistent with the intent of the parties.

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

Further, it is unclear as to what the IPA is referring in the "Condition" when the IPA refers to "the debt agreement." The School assumes the IPA is referring to the PCA, which is not a "debt agreement." There is no "debt agreement" by the School in the context of the bond financing transaction.

The second paragraph of the Condition also reveals a misreading of the plain language of the PCA. The Condition as described by the IPA provides:

> Furthermore, the Pledge and Covenant Agreement identified that the School establish and maintain a depository account with the lender into which all education funding received by the School from the Public Education Department (including Equalization Guarantee Funding, Lease Reimbursement Program payments, and other special funds and federal pass-through funding constituting Adjusted Pledged Revenues) shall be deposited into...

This is a misleading and incorrect summation of the precise language of the PCA. The PCA specifically defines "Adjusted Pledged Revenues" as:

> … all funds, monies, grants, or other distributions received by the School from the State of New Mexico (the "State") with respect to (i) Equalization Guarantee funding, (ii) State Lease Reimbursement Program payments, or (iii) any other *eligible* funds or amounts held in any fund or account established by the School, *but specifically excluding* (x) State funding under the Charter School Act which is specifically dedicated to the payment of expenses of the Charter School *which do not include payment of amounts due under the Lease*, and (y) all such operating expenses of the School required under State or federal laws to provide required educational program expenditures, such *net amount hereinafter referred to as "Adjusted Pledged Revenues*" (emphasis added).

This language makes it clear that the trustee is only authorized to withdraw funds for payment of the School's obligations under the Lease and only from sources legally eligible to be used as lease payments. The IPA's stated Condition is premised on misreading of the plain language of the document; the definition of Adjusted Pledged Revenues specifically *excludes* funding not related to the Lease. Because schools are funded on an annual basis only, the *only* funding being "pledged" in the PCA is lease reimbursement funding and that portion of operating funding necessary to make the School's lease payments, for that year alone. And although the commitment is couched in terms of a "pledge", it is not a pledge of the School's credit to a third party – it is simply a mechanism to allow the trustee to make an automatic withdrawal for the lease-related (rent) funds directly, as they come due, during each year that lease-related funding is received. This is neither an Anti-Donation Clause violation (see discussion *infra)*, nor is it a pledge of any revenues beyond the current year, so it cannot be a pledge of credit to secure a third-party debt as misinterpreted by the IPA.

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

Finally, the IPA provides no evidence for its determination that, "[t]his lender is authorized to withdraw from this account upon default by the Horizon Academy Foundation." Such a reading is directly in conflict of the specific PCA language. There is no such language found anywhere in the PCA or any other document referenced therein. The School did not pledge to pay the Foundation's debt on the event of default and the IPA has not cited, and cannot cite to, any such provision, because none exists.

The IPA has provided no other reason or explanation to the School that supports the IPA's interpretation of the PCA a stated in the Condition. *See* GAGAS 3.67 (appropriate judgment used when auditor has sufficient and appropriate evidence to support the findings). If in the IPA's opinion the language of the PCA violates the Anti-Donation Clause, or any other applicable legal provision, the IPA must be able to articulate the specific offending contractual language – and that articulation must accurately reflect the document/transaction. Not only has the IPA not articulated its basis for the conclusions stated in its "Condition", but it has issued this Finding based on an erroneous reading of the plain language in the document.

Management's response to the stated "Criteria"
Management also takes issue with the "Criteria" cited by the IPA. The IPA simply recites a portion of the New Mexico Constitution, Article IX, §14 known as the "Anti-Donation Clause" as the criteria for this Finding.

The exit conference for the School was held on June 25, 2015. The current Finding, based on an alleged Anti-Donation Clause violation, was not raised as a concern by the IPA until more than a month and half after the exit conference. On or about August 14, 2015, Management was contacted by the IPA and was advised that the IPA had "issues" with language in the PCA; contending that there may be an Anti-Donation Clause violation. Later, during a telephone conversation he advised Management that an audit finding would be issued unless the School could provide a satisfactory legal analysis in response. Based on an emails and phone conversations between the School's Business Manager, and the IPA it appears that imposition of the suggested "new" finding was based on reliance on the New Mexico Public Education Department's ("NMPED") interpretation of the PCA, not the IPA's.

There was no mention of a legal violation *before* the exit conference and it was only after the IPA mentioned meetings with the NMPED that the "concern" arose. NMPED is the agency being audited, the School has been designated as a component unit of the NMPED.[4] Despite the IPA's ethical obligation to communicate issues of noncompliance with those charged with governance *during the audit process*, the IPA did not until after *the component unit's audit was complete.* AICPA AU-C§250.23.

[4] It is unclear at best as to whether NMPED has any authority, jurisdiction, or even a place at the table at this point in the School's audit process. Management has never been provided with any determination by the IPA or the NMPED that GASBS rules, if applied, compel a determination that the School is a component unit of the NMPED. See 2.2.2.10(A)(1)(a) NMAC (requiring determination that entity a component unit of primary government).

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

At the IPA's request, Management's attorney prepared a legal opinion letter to address the IPA's stated question about the PCA, which was provided to the IPA on or about August 18, 2015. Management's attorney provided the following legal analysis based on the limited information provided by the IPA to support his alleged concern that the PCA violated the Anti-Donation Clause:

Ms. [ ], Director
Ms. [ ], Business Manager
3021 Todos Santos, NW
Albuquerque, NM 87120

Re: Response to auditor's question concerning Pledge and Security Agreement

Dear Ms. [ ] and Ms. [ ]:

You have asked me to provide a legal opinion to Horizon Academy West ("School's") in response to the auditor's concerns about language in the Pledge and Security Agreement ("Agreement"). The auditor's question is whether the School's "pledge" under the terms of the Agreement is in violation of Article IX, Section 14 of the New Mexico Constitution ("Anti-Donation Clause"). Specifically, the auditor asks for my opinion as to whether the Agreement is a direct or indirect loan or pledge of the School's credit as is prohibited by the Anti-Donation Clause.

Short Answer: No. The School is not agreeing to directly or indirectly pledge or loan its credit to the benefit of the Foundation or other third party that would give rise to a violation of the Anti-Donation Clause.

ANALYSIS.
First, you must look at what is being "pledged," which is described in the Agreement and which is clarified through a review of the Amended and Restated Lease ("Lease") referenced therein. The recital provisions of the Agreement explain the parties' intent and articulate that the School and Foundation entered into the Lease, which covers the terms and condition of the School's occupancy of its current school. A plain reading of the Agreement and the Lease reveal that the only obligation secured by the Agreement, is the School's obligations under the Lease. Nowhere in the Agreement (or the Lease) does the School commit to become liable or assume any obligation to any third party for the benefit of the Foundation. Specifically, the School has not pledged to assume the Foundation's responsibilities in the underlying bond transaction, which is clear from language in fifth Recital clause which states that the purpose of the Agreement is, "to provide additional security for timely payments of amounts owed under the Lease, provided

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

that the School's obligations and agreements hereunder shall not exceed the School's obligations under the Lease." (emphasis added). Thus, there is simply no lending or pledging of credit as intended by the Anti-Donation Clause and as described by New Mexico courts.

The New Mexico Supreme court considered an Anti-Donation Clause challenge to the sale of public utilities to a private utility company in *City of Clovis v. Southwestern Public Service Co.* The court held that the contract at issue (instalment payments to be paid by the private utility to the City as consideration for the sale) did not constitute a "loan or pledge of credit" in violation of the ADC. The court explained that the contract could not violate the Anti-Donation Clause because it was not a pledge or loan of credit – at all. The court reasoned:

> Nothing in this phase of the transaction possessed any element of guaranty, suretyship or pledge by the City of Clovis *whereby the City became liable to do or perform any act or thing, or to incur any obligation, or *276 pay any sum of money, in behalf of, or for the benefit of, the utility company, or to become liable for, or assure the performance of, any obligation, or the discharge of any liability of the utility to any third person*.

City of Clovis v. Southwestern Public Service Co. 1945-NMSC-030 {21}, 49 N.M. 270, 275, 161 P.2d 878, 881. (emphasis added). *See also, Hotels of Distinction West Inc. v. City of Albuquerque,* 1988-NMSC-047, 107 N.M. 257, 755 P.2d 595 (anti-donation clause not violated where entity did not invest in the project through lending of municipal funds); N.M. Att'y Gen. Op. 85-27 (1985), WL 204889 (The word "credit" implies the imposition of some new financial responsibility upon the state which results in the creation of state debt for the benefit of a private enterprise. No new state debt is created by paying from existing state funds.)

Here, there is no provision in the Agreement whereby the School is committing to pay, assume, assure, or discharge obligations of the Foundation or any other third party. Simply, the Agreement addresses the School's pledge to fulfill the School's contractual obligations related to leasing a public school. The Lease does not require the School to assume any obligation of the Foundation or third parties. As in *City of Clovis*, there is simply no pledge or lending of credit to be scrutinized for an Anti-Donation Violation.

Finally, it is important to remember that New Mexico charter schools cannot incur debt and have no taxing or bonding authority. In other words, unlike a school district, it has no credit to offer. The School could not promise to issue a bond to pay for property or other obligations of third parties. See e.g. *White v. Board of Education of Silver City,* 42 N.M. 94, 75 P.2d 712(1938)(issuance of bonds to acquire a facility for another entity was technically a violation); *Hutcheson v. Atherton, et al.* 1940-NMSC-001, 44 N.M. 144, 99 P.2d 462. (Legislation enacted for

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

> New Mexico counties to issue bonds to pay for obligations of a private, nonprofit corporation, the court struck down the legislation as unconstitutional).
>
> It is difficult to extract a situation in which a charter school could "loan or pledge its credit" when it cannot incur debt, nor use funds that are not tied directly to its budget each year. When viewing whether a transaction violates the Anti-Donation Clause, it must be scrutinized "with reference to the evils it was intended to correct." *See City of Clovis v. Southwestern Pub. Serv. Co.,* 49 N.M. 270, 276, 161 P.2d 878 (1945). "The clause was intended to prevent the investment of public funds in private enterprises. It was not intended to affect governmental services to the public or the accomplishment of governmental functions." N.M.AG. Op. No. 97-02, 1997 WL 401040. Charter Schools must be able to enter in to Leases, even complicated transactions that require giving the School's assurances to investors that it will pay *its* obligations. Pledging to pay your own debts as is the intent of the Agreement is a very different matter than pledging to pay a third-party's obligations.

This opinion of Management's counsel is incorporated herein as support for the Management's Response and in opposition to a legal determination that the PCA violates the Anti-Donation Clause.

The IPA did not respond to Management's attorney, nor seek additional information, nor to our knowledge did the IPA contact its own counsel after receipt of the opinion letter. Rather, on August 24, 2015, after meetings with the lead auditor, NMPED and its attorneys, the IPA rejected Management's counsel's opinion. No legal analysis or other evidence to support rejection of Management's attorney's opinion was offered by the IPA to Management. Nor was Management asked for any clarification or information that the IPA believed was lacking from the opinion.

The legal opinion from Management's legal counsel made clear that the PCA does not result in a violation of the Anti-Donation Clause and provided ample reasons and legal support for that conclusion. Whether the Anti-Donation Clause has been violated is fact-determinative, which is evident from the plethora of cases decided by multiple courts as well as by the New Mexico Attorney General on the issue, each evaluating a particular transaction or contract.

Unless the contract or transaction blatantly violates the Anti-Donation Clause, which is not always self-evident, if there is a disagreement as to whether it does or it does not, the only way the IPA can competently conclude there has been a violation is to provide evidence, e.g. a legal analysis that supports its position and/or even an Attorney General advisory opinion. GAGAS 3.63 (professional judgment includes involving competent specialists when necessary) Had the alleged violation been blatant here, or if the IPA had believed that the PCA was in violation during the IPA's complete audit leading up to the exit conference, Management assumes that the IPA would have issued this Finding *before* the exit interview, and based on its *own* professional judgment.

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

Here, not only did the IPA not identify the issue during its own audit of the component unit, but the legal question was complicated enough that the IPA agreed to await Management's attorney's opinion before issuing a finding. Yet, even after initially agreeing with Management's attorney's opinion, the IPA did an about face and rejected the analysis *without* making an independent legal analysis to avoid the risk of arriving at an improper conclusion and an inappropriate finding – this is contrary to GAGAS 3.67 (auditor should consider sufficiency and appropriateness of evidence before issuing finding). AICPA AU-C §250.A5 ("Whether an act constitutes noncompliance with laws and regulations is a matter for legal determination, which ordinarily is beyond the auditor's professional competence to determine.")

The AICPA AU-C §250.A23, provides that when an auditor is making considerations of laws and regulations in an audit of financial statements, the auditor may consider it appropriate to consult with the audited entity's in-house counsel or external counsel about the application of law. If the IPA is not satisfied with that response, then it is appropriate to consult with the auditor's own legal counsel. *See also GAGAS 3.17 (to safeguard independence the auditor should consult with an independent third party).* Here, the audited entity is the School. Even if the NMPED is deemed to be the "primary governmental agency" of which the School is a component unit, we can find no rule governing these audits that provides the IPA may look to NMPED or its attorneys as the source of legal interpretations that would to "trump" Management's legal opinion or – more importantly, as an excuse for not obtaining an *independent* legal analysis. The NMPED should not be the entity persuading the IPA whether a Finding should be issued. There certainly is no legal, procedural, or ethical support for the IPA taking direction from the NMPED on this issue, or taking one audited entity's response or position on the issue over the other's, without some clearly-articulated support or "evidence" favoring one over the other, of which none – to date – has been provided. The IPA has a duty to undertake an independent analysis of the issue, and to support its findings with sound, articulated consideration and evidence. The Criteria here do not demonstrate that this process has been followed, and Management has been presented with *nothing* to counter its previously-provided legal opinion or, stated another way, there is no legal authority to support the Finding.

Management's response to the stated "Effect"
The School does not agree or acknowledge that the terms of the PCA are in violation of a "state statute." Indeed, no statute has even been cited, so Management has no idea as to what the IPA can be referring here. The only violation stated under the "Criteria" is of a provision of the New Mexico Constitution: the Anti-Donation Clause (N.M. Const. art. IX, §14). Moreover, the IPA does not suggest that there *may* be noncompliance, rather the IPA reaches an affirmative legal conclusion that a violation of N.M. Const. art. IX, §14 *has* occurred. This conclusion is reached without authority or legal analysis and, therefore, the auditor has not properly recognized his limitations when reaching this decision which is beyond the scope of his professional judgment. The auditor should have acknowledged the inherent limitations on

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

his ability to reach such a conclusion, because for the reasons already stated, whether an act constitutes a violation of this particular provision of law is for a legal determination, such as by a court of law or the New Mexico Attorney General. AICPA AU-C 250.05 and AU-C §250.A5.

Even if the PCA is deemed to be in violation of the Anti-Donation Clause, which Management denies for the reasons stated herein, the "debt" referenced in this section is an obligation of the Foundation. Neither the State, the NMPED nor the School has the authority to deem a contract between two private entities to be invalid or unenforceable under these circumstances. As stated above, the PCA does *not* obligate the School to repay the Foundation's debt.

Management's response to the stated "Cause"
The School does not agree or acknowledge that the terms of the PCA are in violation of a "state statute." Indeed, no statute has even been cited, so Management has no idea as to what the IPA can be referring here. The only violation stated under the "Criteria" is of a provision of the New Mexico Constitution: the Anti-Donation Clause (N.M. Const. art. IX, §14). Even if the IPA incorrectly refers to the N.M. Constitution as a "state statute", for the reasons stated herein, the School's Management disputes that any violation occurred.

Further, there is no statute, regulation or policy that requires a charter school to seek NMPED approval of contracts such as these that are entered into by a charter school and a third party. Charter schools are authorized by statute to contract, but there is no requirement for NMPED approval found in the law. *See* NMSA 1978, §22-8B-4(D) and (P).

Management's response to the stated "Recommendation."
Although as a general matter the School is not opposed to seeking legal advice from the New Mexico Public Education Department, it has not heretofore been advised that such technical assistance is available (and Management believes that the professional rules and standards governing the legal profession likely would preclude such an arrangement). The School's Management requests that the IPA identify the rules and policies that authorize the NMPED to provide charter schools with legal representation during contract negotiations. In addition to being unsupported by law or regulation, the recommendation here represents new policy, procedure and services never heretofore announced by the NMPED.

The School welcomes guidance from NMPED on the intricacies of facility acquisitions that are mandated by the New Mexico Legislature pursuant to which this transaction arose. If said guidance will be used to determine future compliance with regard to charter school facility acquisitions and other types of contracts, the guidance should be written and vetted through the proper regulatory channels before being dispersed. However, independent audits by an IPA are not the proper mechanism or venue for setting forth NMPED's new public policies.

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

Additional concerns of Management
The State Audit Act requires annual audits of state agencies each year by either the State Auditor or an independent auditor approved by him. NMSA 1978, §12-6-3. The audits are to be conducted in compliance with generally accepted auditing standards and rules issued by the State Auditor. *Id.* The State Audit Rule (2.2.2.1 NMAC) mandates that independent auditors sign form contracts with specific provisions insuring compliance with various accounting standards and rules. 2.2.2.8(I) NMAC. The form contract required for the IPA in this instance is found on the State Auditor's website.[5] The contract includes the following requirement:

> The Contractor represents and warrants its personal, external and organizational *independence from the Agency* in accordance with the *Governmental Auditing Standards 2011 Revision*, issued by the Comptroller General of the United States, and NMAC Section 2.2.2.8(M).

(*emphasis added*)[6] Subparagraph M of the audit regulations mandates that an auditor perform audits applying the rules outlined in GAGAS to identify "threats of independence; evaluate the significance of the threats to independence; evaluate the significance of the threats identified; both individually and in the aggregate and apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level." 2.2.2.8(M) NMAC. These rules all require an auditor to be independent. The purpose of independence of the IPA, which represents the office of the State Auditor, is to have a "completely independent representative of the people, accountable to no one else, with the power, duty and authority to examine and pass upon the activities of state officers and agencies who, by law, receive and expend public monies." *Thompson v. Legislative Audit Commission,* 1968–NMSC–184 {11}, 79 N.M. 693, 696, 448 P.2d 799, 802. The circumstances around which the Finding was issued by the IPA at a minimum raise serious questions about the IPA's independence concerning this Finding, in violation of 2.2.2.8(M) and various provisions of GAGAS.

The exit conference for the School was held on June 25, 2015. The current Finding based on an alleged Anti-Donation Clause violation was not raised as a concern by the IPA until more than a month and half after the exit conference. There was no discussion or mention of this Finding or any violation of state statute or the Anti-Donation Clause in that conference, and there had been no prior year (FY13) finding issued by the previous IPA. Even the auditor (Moss Adams) which was replaced by the current IPA and which had completed the School's FY14 audit before its contract was terminated by NMPED, did not raise issues regarding the PCA or the bond transaction.

[5] http://www.saonm.org/media/uploads/Fillable_2015_IPA_Recommendation__Contract_-_State_Agencies_-_DFA_Approval_U2.pdf

[6] The School has never been provided a copy of the signed contract and was never invited to be a part of selecting its auditor.

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

On or about August 14, 2015, Management was contacted by the IPA and was advised that the IPA had "issues" with language in the PCA; contending that there may be an Anti-Donation Clause violation. Later, during a telephone conversation he advised Management that an audit finding would be issued unless the School could provide a satisfactory legal analysis in response. The School's Management presented a legal opinion from its attorney, which the IPA apparently rejected out-of-hand, without explanation, except to say that during a meeting between the lead-IPA and NMPED and its attorneys (Management not aware of or invited) – they did not agree with the analysis, so the proposed Finding would issue. Subsequently, the Business Manager for the School contacted the IPA for clarification as to whether the IPA's attorney provided any opposing legal analysis, or whether both IPAs were relying on the NMPED's legal counsel for its opinion. The IPA confirmed that the legal analyses upon which the IPAs relied was that of the NMPED (upon information and belief, the primary agency being audited) and that NMPED would not provide anything in writing to support "its" rejection of the School Management's attorney's analysis. The School also requested a copy of the IPA's own analysis of the question, but none was provided.

Subsequent to an email request dated August 26, 2015 by Management to confirm prior conversations with the IPA, the Business Manager was contacted by the IPA and told to wait to prepare the Management's Response to the written Finding (issued August 24, 2015). She was told that principals of the lead-IPA and NMPED officials were going to meet again to address the Finding issue – once again, the Management was not included in this meeting. Subsequently, later on August 31, 2015, the Management was contacted again by the IPA and informed that NMPED officials had met with the lead auditor and had confirmed that it was "NMPED's and the lead auditor's position that there should be a Finding. Inasmuch as the Finding does not reflect or set forth any reasoning or evidence upon which the IPA relied when rejecting Management's proffered legal opinion, it is unclear what (if any) evidence or specific legal basis (case law, statutory citation, Attorney General opinion) exists to support the Finding. The IPA was clear that the purported legal analysis upon which the Finding was made was by the NMPED and was not an independent analysis obtained by the IPA or lead auditor. That analysis, however, (if it exists) remains a secret. In fact, the Business Manager was told by the IPA that NMPED's attorney would "continue researching the question."

GAGAS emphasizes the importance of independence and the exercise of professional judgment in conducting audits of governmental entities. GAGAS 3.01. Independence insures objectivity and minimizes outside influences that may affect professional judgment and outcomes. The IPA here has informed Management that it, the IPA, was convinced by Management's attorney's opinion. It was only after the lead auditor met with NMPED's legal counsel that the IPA rejected Management's legal analysis and apparently changed his opinion regarding issuing the Finding. However, the basis for disagreement, i.e. any legal authority or other facts related to the Finding, have never been provided to Management.

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

In addition, there are irregularities here regarding communications with the client. The State Audit Rule provides that "all communications with management and the agency oversight officials during the audit, regarding any instances of noncompliance or internal control weaknesses, must be communicated in writing. The auditor should obtain responsible officials' views responding to the audit findings, pursuant to GAGAS 4.33." 2.2.2.8(Q) NMAC. If there was an assessment as to why the School's Management's attorney's legal opinion did not assuage the concerns of the IPA, then that should have been communicated to Management (the "responsible officials") in writing so that it could address the issue at the very least in Management's Response to the current Finding. At a minimum, Management should have been made part of any discussions with NMPED and the lead auditor on this issue, so that it could understand the basis for the Finding. Management still does not know the legal support in opposition to legal analysis provide by Management to support the IPA's determination there has been an Anti-Donation Clause violation

GAGAS 3.04 requires that auditors maintain independence so that findings will be impartial and viewed as impartial by third parties and, to ensure that they are not perceived as incapable of exercising objective and "impartial judgment on all issues associated with conducting the audit and reporting the work." Professional judgment of the IPA depends on its ability to determine the sufficiency of the evidence used to support the findings. GAGAS 3.67. Because of the nature of the question, it seems impossible to reach a reasonable, supportable conclusion that there is a violation of the Anti-Donation Clause, without a legal analysis. GAGAS 3.63 (consulting with external specialists is aspect of exercising professional judgment).

Management is deeply troubled by the apparent deference given to NMPED on the IPA's decision to issue a finding. If the governmental agency being audited can influence when a finding is issued, can it also influence when one is not issued? After the exit conferences were completed, something influenced the IPA's decision to issue a Finding. The Condition supporting the Finding here is thin and riddled with errors, and which forms the Criteria which is stated by perfunctorily applying these wrongly stated Conditions to a complex law without any reasoning or explanation. Management is entitled to evidence that sufficiently demonstrates why its attorney's opinion was rejected – without which there is no explanation and no support for this Finding.

Management believes that this Finding should be examined by the State Auditor to determine whether the standards for issuing a finding were followed, and whether there is in fact a violation of the Anti-Donation Clause. Management believes that this Finding should not stand until and unless the Office of the Attorney General renders an opinion on the matter.

Auditor Rebuttal: Our determination that the School violated the Anti-Donation Clause was based on the "plain" language in the Pledge and Covenant Agreement entered into by the School and the Bank. While

HORIZON ACADEMY WEST (Continued)

2014-005 Violation of the New Mexico Anti-Donation Clause (Non-Compliance, Other Matters) (Continued)

we did make inquiries of the New Mexico Public Education Department's (PED) legal counsel, their response was only one component in our decision to include this as a finding and the inclusion of this finding was ultimately the decision of the auditor. Generally Accepted Government Auditing Standards (GAGAS) requires auditors to inquire of management and others regarding whether an entity is in compliance with various laws and regulations applicable to the entity in addition to discussing compliance requirements with management and its legal counsel to assist in identifying material compliance requirements. Throughout the audit we have ensured compliance with GAGAS and the independence standards and we are independent with respect to the School's audit.
Additionally, the timing of when this finding was communicated to management was not a violation of GAGAS. The School is one of nearly sixty (60) component unit school audits that need to be completed in addition to the audit of the various other funds of PED. The conclusion of the audit is when the entire audit of PED has been completed and at the time this finding was communicated to the School the audit of PED had not been completed.

THE INTERNATIONAL SCHOOL AT MESA DEL SOL

2014-001 Mileage Reimbursements – (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: For the year ended June 30, 2014, it was noted that the School reimbursed employees for mileage at a rate of fifty six cents per mile.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The School is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The School contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

THE INTERNATIONAL SCHOOL AT MESA DEL SOL (Continued)

2014-001 Mileage Reimbursements – (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Other Matter) (Continued)

Auditors' Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management's Response: The International School at Mesa del Sol will start reimbursing mileage at 80% of the IRS standard mileage rate.

2014-002 Pledged Collateral Requirements (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During test work, we noted that the International School at Mesa de Sol was under collateralized as of June 30, 2014.

Criteria: Per NMSA 6-10-17, Any bank or savings and loan association designated as a depository of public money shall deliver securities to a custodial bank and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received.

Effect: International School at Mesa de Sol is not in compliance with Section 6-10-17 NMSA 1978.

Cause: The School was not monitoring the account balances of the School to ensure that proper amount of pledged collateral was being maintained.

Auditors' Recommendation: It is recommended that the School monitor cash balances to ensure that they are meeting all requirements of the State Auditor.

Management's Response: The International School at Mesa del Sol, while working with a different business manager (previous to its current business management service provider), switched banks. The pledged collateral issue was taken care of August 2014 under the new/current business management service provider.

THE INTERNATIONAL SCHOOL AT MESA DEL SOL (Continued)

2013-001 [CS 2013-01-EE] Audit Committee/Exit Conference - Repeated (Non Compliance)

Condition: During our review of the audit committee member listing, the school could not provide detail to show that the volunteer member had experience in accounting or financial matters.

Criteria: Per NMSA 22-8-12.3 (D), each school local school board shall appoint an audit committee 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.

Effect: The school does not have the proper over-sight as required by NMSA 22-8- 12.3. Errors could go undetected.

Cause: Management has been unsuccessful recruiting the required members for the audit committee.

Auditors' Recommendation: We recommend that the school find the required members to be in compliance with the State requirement and that a member from the audit committee be aware and attend the exit conference as required.

Management's Response: The International School at Mesa del Sol had a community volunteer for the audit committee but could not document the accounting and financial background of the member. The school will endeavor to ensure that its audit committee is properly structured.

J. PAUL TAYLOR ACADEMY

2014-001 Supporting Documentation – (Significant Deficiency)

Condition: In a sample of sixty-six cash disbursements selected for testing, the following item was noted:

- For twenty-seven items in the amount of $51,367.12, there was no indication of approval or review by someone other than the business manager.

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

J. PAUL TAYLOR ACADEMY (Continued)

2014-001 Supporting Documentation – (Significant Deficiency) (Continued)

Effect: Unsupported cash disbursements, makes the school at risk for unauthorized expenditures or fraud.

Cause: School personnel did not follow established procurement policies of the School.

Auditors' Recommendation: The School should put in place internal controls so that documentation for all cash disbursements is available for examination both by school personnel and external parties such as the auditors. Cash disbursements should be reviewed and approved by someone other than the business manager, such as the principal or the treasurer of the governing council.

Management's Response: Management disagrees with this finding. Prior to invoices being paid, the Head Administrator reviews all invoices. Once the disbursements are processed by the Business Manger, the Governance Council Treasurer reviews all invoices prior to signing the checks. In addition, the Governance Council also reviews the check register and approves it on a quarterly basis as noted in the minutes. As per the "effect" noted above, all disbursements have supporting documentation.

Auditor's Response: Although the processes mentioned in the management response section may have occurred, there was no way to determine that they occurred. The School should come up with a method to document their review process so that there is evidence this occurred.

LA JICARITA COMMUNITY SCHOOL

2014-001 Travel and Per-Diem – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: We reviewed three travel reimbursement requests and noted that one mileage reimbursement was reimbursed at the rate of 55 cents per mile, the applicable Internal Revenue Service rate at the time.

Criteria: NMAC 2.42.2.11(b)(1) states that public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile at 80% of the IRS standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Effect: The School is not in compliance with the Per Diem and Mileage Act and overpaid an employee for travel on behalf of the School.

Cause: The School did not have internal controls in place to ensure mileage reimbursements were paid in accordance with the New Mexico Per Diem and Mileage Act.

LA JICARITA COMMUNITY SCHOOL (Continued)

2014-001 Travel and Per-Diem – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Continued)

Auditors' Recommendation: The School should follow the Per Diem and Mileage Act for local governments when paying for mileage reimbursements.

Management's Response: The School has reviewed NMAC 2.42.11(b) (1) and will follow the Per Diem and Mileage Act for local governments when paying for mileage reimbursements in the future.

2014-002 Internal Control Structure – Noncompliance in Accordance with the New Mexico State Audit Rule (Significant Deficiency)

Condition: During our internal control test work over a sample of 25 disbursements there were six disbursements for which supporting documentation was not available for our review. These disbursements totaled approximately $28,000.

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

Effect: The School did not comply with State requirements. Additionally, purchases could be made without proper approval and expenditures could be reported inaccurately to PED or misclassified in an improper fund, which could lead to funds being overspent and balances misstated.

Cause: The School did not maintain adequate support for disbursements.

Auditors' Recommendation: Ensure supporting documentation, including purchase orders, invoices, etc., are adequately maintained for all cash disbursements.

Management's Response: The School has established a multi-step procurement process of internal controls to ensure that supporting documentation is in place for all disbursements. Additionally, the School director has recently become a certified procurement officer and will supervise all purchases.

LA JICARITA COMMUNITY SCHOOL (Continued)

2014-003 Payroll and Personnel Files – Noncompliance with the New Mexico State Audit Rule (Material Weakness)

Condition: During our internal control test work over a sample of 25 payroll transactions we noted the following:

- The "Offer of Employment" used by the School states the minimum compensation to be received and benefits and stipends for extra duties as determined by the Governing Council will also be received. It goes on to state that the exact salary level will be determined by licensure documents, transcripts and records of previous teaching experience as a licensed teacher. The School was unable to provide us with a document showing the final determination of an individual's compensation. Consequently, for four of the five salaried employees tested we were unable to determine if the compensation paid was accurate and properly approved.
- Our sample included six transactions occurring on pay dates between July 19, 2013 and October 25, 2013. Per review of these transactions we noted that ERB and RHC deductions were either not withheld or were withheld at the incorrect employer and employee rates. During October 2013 a new business manager was hired who prepared and submitted the required ERB contribution form and the required employer and employee contributions on November 8, 2013.
- In reviewing the internal controls over payroll we noted that the School was not consistently and accurately tracking employee leave.
- For one employee reviewed we noted that they were offered employment on August 30, 2013 and the employee accepted the offer on September 3, 2013. This employee did not sign the authorization form for a background check until March 10, 2015, or 18 months later.
- We noted an education assistant compensated throughout the year for which a PED license was not available for our review. Additionally, a background check for this employee was not available for our review.
- For two hourly employees, timesheets were not available for our review. For one of these employees the only documentation for the rate paid was an email from the employee to the business manager informing them what their hourly rate is.
- For one employee, an insurance deduction form was not available for our review, and for another employee the form was not completed correctly as portions of the form were blank.
- During the year the School Director taught math. However, per review of the personnel file for the School Director we noted that he held licenses for Pre K-12 Administration and grades 7-12 Secondary Education, but did not have the required Elementary K-8 license to be teaching at the School.
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Criteria: NMAC 6.20.2.18 requires various employee records and documentation to be maintained and available for inspection, including personnel/payroll action forms that properly document employee compensation. ERB and RHC should be withheld at the applicable rates.

LA JICARITA COMMUNITY SCHOOL (Continued)

2014-003 Payroll and Personnel Files – Noncompliance with the New Mexico State Audit Rule (Material Weakness) (Continued)

Pursuant to 22-10.3.3 NMSA 1978, policies and procedures should be developed requiring background checks on an applicant who has been offered employment with unsupervised access to students at a charter school.

NMAC 6.61.2 outlines the licensure requirements for persons seeking licensure to teach elementary education.

Effect: The School is not in compliance with its payroll processing and payment policies and procedures and NMAC 6.20.2.18. The School is also not in compliance with 22-10-.3.3 NMSA 1978 and NMAC 6.61.2.

Cause: Adequate policies and procedures have not been developed and implemented to ensure compliance with the above rules and regulations. It appears the business manager at the time was unable to setup payroll deductions properly and consequently, ERB/RHC wasn't withheld and submitted in a timely manner for the time period noted above.

Auditors' Recommendation: Personnel files should be periodically reviewed to ensure all required personnel file documents have been obtained and are complete and accurate, including benefit election forms and compensation documentation. Individual base compensation should agree to the La Jicarita Community School Salary Schedule approved by the Governing Council with additional compensation (i.e. stipends, etc.) separately documented and approved. Internal controls should also include monthly reviews by appropriate personnel to ensure all required payments and reports, such as ERB/RHC, to ensure they are processed accurately and submitted timely.

Internal controls should be developed and implemented to ensure background checks are completed timely and accurately and to ensure that all School employees have the required licenses to perform their duties prior to beginning employment.

Management's Response: The School has updated their employee contracts to specify either the yearly salaried amount or the hourly rate at which the employee is to be paid. The School has started tracking employee leave through their accounting software, which automatically updates an employee's leave, and is manually updating any leave taken in the system. The School is currently conducting an internal review of all personnel files to ensure that background checks, PED licenses and proper employee benefit forms have been obtained from employees and are up-to-date.

LA JICARITA COMMUNITY SCHOOL (Continued)

2014-004 Procurement – Noncompliance in Accordance with the New Mexico State Audit Rule (Significant Deficiency)

Condition: The La Jicarita Community School Foundation (Foundation) secured a $450,000 loan for capital improvements for the School in fiscal year 2013. During fiscal year 2014 the Foundation expended the remaining amount of this loan, or approximately $336,000, for capital improvements. We requested documentation supporting the Foundation's decision for selecting the contractor who performed the work, however, adequate support could not be provided.

Criteria: Per NMAC 6.20.2.17 – Purchasing, a. each school district shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. Purchasing policies and procedures for grant funding shall comply with requirements established within the grant and the Procurement Code. An internal control structure over purchasing shall be established and maintained to assure compliance with school district policy, and state and federal regulations.

Effect: The Foundation could be overpaying for goods and services.

Cause: Internal controls are not in place to ensure compliance with the criteria specified above.

Auditors' Recommendation: Designate an appropriate individual who would be responsible for maintaining records and ensuring State procurement policies and procedures are being implemented, maintained and followed.

Management's Response: The Foundation President agrees with the finding. By acknowledging the lack of internal controls and processes, the Foundation will put the proper procedures and policies in place to avoid overpaying for goods and services and to adhere to the Procurement Code of the NMSA.

2013-002 [CS 2013-02-MM] Internal Control Structure - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Repeated)

Condition: The Foundation does not have adequate segregation of duties over the processing of invoices and cash receipts.

Criteria: Best practices dictate that an entity should establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls

LA JICARITA COMMUNITY SCHOOL (Continued)

2013-002 [CS 2013-02-MM] Internal Control Structure - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Repeated) (Continued)

(rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP.

Effect: Without proper segregation of duties, it may be difficult to detect and correct errors and deter and detect fraud and abuse.

Cause: The Foundation does not have any staff. Consequently, most transactions are completed by the President.

Auditors' Recommendation: The Foundation should ensure that duties and functions are segregated between board members as much as possible to mitigate the ability of one person to record, authorize, and use assets without review or authorization.

Management's Response: This finding is valid and highlights a vulnerable issue with the Foundation. As the Foundation relies on volunteers it is important to recruit competent and qualified members. A diverse and high-functioning board would result in the distribution of responsibilities among members, more transparency and controls. However it is challenging to find qualified volunteers to fill the board positions from such a rural and sparsely populated community. Although the current Foundation members will work to recruit qualified members, they will also ensure that proper policies are in order to track the Foundation's work, agreements and transactions. As much as possible, at least two members will be responsible for transactions so that the responsibility is not the President's alone.

LA PROMESA EARLY LEARNING CENTER

2014-001 Purchase Orders Subsequent to Invoice – (Significant Deficiency)

Condition: During our testing of sixty cash disbursements, there were two instances ($1,900.00 and $1,292.76) in where the Purchase Order was prepared subsequent to the vendor's invoice date.

Criteria: Section NMAC 6.20.2.17 (A), requires that each school shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. An internal control structure over purchasing shall be established and maintained to assure compliance with school policy, and state and federal regulations. Also, the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, states that "the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction."

LA PROMESA EARLY LEARNING CENTER (Continued)

2014-001 Purchase Orders Subsequent to Invoice – (Significant Deficiency) (Continued)

Effect: Not being in compliance with state purchasing requirements places the School at risk for fraud or misuse of public funds.

Cause: School personnel did not follow established procurement policies of the School.

Recommendation: All School personnel should be reminded that initiation of a purchase order is not sufficient for ordering; that an approved Purchase Order is required per School and State guidelines.

Management Response: The Business Manager and Business Office assistant will meet with the staff in August to discuss the purchasing policies. No Invoice will be paid without a Purchase Order being issued prior to any order/invoice.

2014-002 Educational Retirement Board Contributions – (Non Compliance)

Condition: We noted that payments for the Educational Retirement Board (ERB) reports for August 2013 and February 2014 were paid later than the required 15 days after the end of the month. The School incurred penalties of $20.00 for these two instances of late payments.

Criteria: Per ERB rules, the electronic reports, consisting of salaries and contributions and demographic information, must be sent by the 15th day of the following the month covered by the report. The form must be faxed the same day that contributions are electronically submitted, no later than the 15th day of the month following the month covered by the report.

Effect: In accordance with the Educational Retirement Act and ERB rules, penalties were assessed to the School because the contributions and/or report were not remitted by the due date.

Cause: The reports were not properly reviewed to ensure they were submitted on time.

Recommendation: We recommend the School implement review procedures to ensure that ERB payments are processed and paid in a timely manner.

Management Response: The Business Manager and Business Office Assistant will work together to ensure that all ERB payments, paperwork and electronic files are turned in to NMERB by the 15th of each month.

LA PROMESA EARLY LEARNING CENTER (Continued)

2014-003 Budgetary Condition -- (Non Compliance)

Condition: The School had an expenditure function where actual expenditures exceeded budgetary authority:

Pre-K Initiative
Support Services $7,491

Criteria: Sound financial management and 6.20.2.9 (A) NMAC and 22-8-5 through 22- 8-12.2 NMSA 1978 require that budgets not be exceeded at the legal level of control. For school districts the function is the legal level of control. Per NMAC 6.20.2.10.B, School districts shall submit budget adjustment requests for the operating budget to the department for budget increases, budget decreases, transfers between functional categories, and transfers from the emergency reserve account. Expenditures shall not be made by the school district until budget authority has been established and approval received from the department. Budget adjustments shall not be incorporated into the school district's accounting system until approval is received by the department.

Effect: The school is out of compliance with State Law and the control established by the use of budgets has been compromised.

Cause: The School did not complete maintenance BAR's during the year to correct.

Recommendation: The School should establish a policy of budgetary review at year-end and make the necessary budgetary adjustments and review of amounts being reported to PED.

Management Response: All BARs will be submitted to our Governing Council and the PED by given deadlines for each fiscal year in order to avoid over expenditure of budget function line items. Budgets will be reviewed on a monthly basis down to function level by the Business Manager and Finance Committee to ensure this does not happen again.

LA RESOLANA LEADERSHIP ACADEMY

2014-001 Negative Total Net Position – (Material Weakness)

Condition: At June 30, 2014 it was noted that the School had a Total Net Position that was negative in the amount of $61,702.

Criteria: Section NMAC 6.20.2.9 requires that schools follow budgetary requirements outlined in Section 22-8-5 through 22-8-12.2, NMSA 1978, and procedures of the New Mexico Public Education Department in preparing, submitting and reporting budgetary information.

LA RESOLANA LEADERSHIP ACADEMY (Continued)

2014-001 Negative Total Net Position – (Material Weakness) (Continued)

Effect: A negative Total Net Position and the cash shortages that may result from this, may make the School unable to meet its future payment obligations.

Cause: Total Net Position being negative is a cumulative effect of expenses exceeding revenues.

Recommendation: The School should forecast future revenue and expenditures in developing a balanced budget.

Management Response: The School has developed a financial plan to address the deficit balance. The lease for the upcoming school year has cut in half which will help the budget.

LA TIERRA MONTESSORI SCHOOL FOR THE ARTS AND SCIENCES

2014-001 Cash Disbursements Transaction Cycle Control Deficiencies (Significant Deficiency)

Condition: Through testing procedures performed relating to the cash disbursements transaction cycle, we noted the following:

- In 1 of 27 cash disbursements tested, the Purchase Order was dated and approved subsequent to the invoice date.
- In 1 of 27 cash disbursements tested, the Purchase Order was not approved.

Criteria: According to NMAC 6.20.2.11(A), every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations.

Effect: When goods or services are purchased without prior proper approval, there is increased risk for fraudulent or erroneous purchases of items that are inappropriate or not allowed.

Cause: The controls over the cash disbursements transaction cycle operated differently over the course of the fiscal year due to personnel changes.

Recommendation: We recommend that La Tierra provide proper training for all employees involved in the cash disbursements process, so that each employee has an adequate understanding of the procedures required for cash disbursements transactions, specifically that purchase orders must be completed and approved prior to purchase of goods/services.

LA TIERRA MONTESSORI SCHOOL FOR THE ARTS AND SCIENCES (Continued)

2014-001 Cash Disbursements Transaction Cycle Control Deficiencies (Significant Deficiency) (Continued)

Management Response: La Tierra Montessori School of the Arts and Sciences had a transition in the Office Manager Position during FY2014. The exception happened at the time of the transition. The individual hired for the position has been trained in procurement and procedures for cash disbursements. The school continues to train all staff in proper procedures for public money.

THE MASTERS PROGRAM

2014-001 Mileage Reimbursements – Noncompliance with the New Mexico State Auditor Rule (Other Matter)

Condition: For the year ended June 30, 2014, it was noted that the School reimbursed employees at a mileage rate of fifty six cents per mile for a portion of the year. For a portion of the fiscal year some employees were reimbursed at a rate of 80% of the of the internal revenue service standard mileage rate set January 1 of the previous year.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The School is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The School has received conflicting information on what the correct mileage reimbursement rate is. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Auditors' Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management's Response: Management is in complete agreement and will advise the Governance Council to adopt the appropriate resolution at its June meeting.

THE MASTERS PROGRAM (Continued)

2014-002 Procurement Documentation – Noncompliance with the New Mexico State Auditor Rule (Significant Deficiency)

Condition: During our test-work of sixty cash disbursements the following items were noted:

- There were two disbursements ($106.65 and $211.26) where the School could not provide any supporting documentation.
- There were two cash disbursements ($59.95 and $378.66) where the Purchase Order was prepared subsequent to the vendor's invoice date

Criteria: Section NMAC 6.20.2.17 (A), requires that each school shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. An internal control structure over purchasing shall be established and maintained to assure compliance with school policy, and state and federal regulations. Also, the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, states that "the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction."

Effect: Not being in compliance with state purchasing requirements places the School at risk for fraud or misuse of public funds.

Cause: School personnel did not follow established procurement policies of the School.

Auditors' Recommendation: The School should maintain supporting documentation for all cash disbursements. All School personnel should be reminded that initiation of a purchase order is not sufficient for ordering; that an approved Purchase Order is required per School and State guidelines.

Management's Response: Management fully understands the importance of supporting documentation for cash disbursements and makes every effort to comply with this requirement. The missing documentation for these disbursements are located in a missing file that management is still searching for its location but believe the documentation exists. In addition management will work on making sure the PO is in place before items are purchased.

2014-003 Personnel Files – Noncompliance with the New Mexico State Auditor Rule (Other Matter)

Condition: In a payroll test of ten personnel files, one personnel file was missing the Form I-9.

Criteria: NMAC 6.20.2.18 requires that schools maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, employment eligibility verification (Federal Form I-9), federal and state withholding certificates, pay deduction authorizations, pay or position change notices, Educational Retirement Act plan application, and direct deposit authorizations.

THE MASTERS PROGRAM (Continued)

2014-003 Personnel Files – Noncompliance with the New Mexico State Auditor Rule (Other Matter) (Continued)

Effect: The School is not in compliance with New Mexico State Statutes in regards to employee record documentation.

Cause: School personnel failed to obtain a Form I-9 from the individual when they were hired.

Auditor's Recommendation: The School should review all personnel files to ensure that required documentation required by NMAC 6.20.2.18 is available.

Management's Response: Management fully understands the importance of documentation in compliance with employment laws and makes every effort to maintain complete personnel files. Management will undertake a full review of all personnel files by the end of this fiscal year (2015).

MCCURDY CHARTER SCHOOL

2013-002 [CS 2013-02-PP] Procurement (Non-compliance)

Condition: During our procurement test work, we noted the School did not go out to bid for services provided by 2 vendors, vendor 1 services amounted to $55,463.08 and vendor 2 services amounted to $51,334.35. Additionally, we noted that the school was late in submitting the required procurement filings for their food services vendor. Food services had been rendered prior to approval. Food services amounted to $304,347.

Criteria: Per NMAC 6.20.2.17 PURCHASING: A. Each school district shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. Purchasing policies and procedures for grant funding shall comply with requirements established within the grant and the Procurement Code. An internal control structure over purchasing shall be established and maintained to assure compliance with school district policy, and state and federal regulations. Per 7 CFR part 210.21(f)Cost reimbursable contracts-(1) Required provisions. The school food authority must include the following provisions in all cost reimbursable contracts, including contracts with cost reimbursable provisions, and in solicitation documents prepared to obtain offers for such contracts: (i) allowable costs will be paid from the nonprofit school service account to the contractor net of all discounts, rebates and other applicable credits accruing to or received by the contractor or any assignee under the contract, to the extent those credits are allocable to the allowable portion of the costs billed to the school food authority.

MCCURDY CHARTER SCHOOL (Continued)

2013-002 [CS 2013-02-PP] Procurement (Non-compliance) (Continued)

Cause: The School could be overpaying for goods and services.

Effect: The School needed to find a vendor and used the vendor previously contracted and was unaware of the contract wording.

Recommendation: We recommend that the School designate a procurement agent who would be accountable for maintaining records and ensuring State procurement policies are being implemented and followed.

Management Response: MCS has a new financial department, including Director and Clerks. Governing Council has reviewed and approved updated policies and staff has been trained in the policy. The school continues to work on making sure that all staff follows the procedures and internal controls that have been established.

2014-001 Journal Entry Process (Significant Deficiency)

Condition: During review of manual journal entry procedures, it was noted that the school did not have a procedure in place for recording, reviewing or approving manual journal entries into the general ledger.

Criteria: Pursuant to NMAC 6.20.2.11 (B), schools are required to implement a system of authorization and recording procedures over all transaction classes.

Cause: The general control environment was such that many controls were nonexistent or were simply not adhered to.

Effect: The school's financial statements were subject to misappropriation or material misstatement as a result of the lack of protocol.

Recommendation: We recommend that the governing body develop and implement a procedure to specifically address the journal entry process to mitigate such potential misstatements or misappropriations.

Management Response: MCS has a new financial department. Procedures have been implemented to have Journal Entry's properly documented and reviewed.

MCCURDY CHARTER SCHOOL (Continued)

2014-002 Internal Control Environment (Material Weakness)

Condition: Evaluation of the design and implementation of internal controls over financial reporting indicated that at the governance level there was not adequate controls in place to prevent or detect and correct potential material misstatements to the financial statements.

Criteria: Pursuant to NMAC 6.20.2.11 (A), schools are required to implement a system of authorization and recording procedures over all transaction classes to mitigate the risk of material misstatement.

Cause: The general control environment was such that many controls were non-existent or were simply not adhered to.

Effect: The schools financial statements were subject to misappropriation and/or material misstatement as a result of the lack of the appropriate oversight by the governing body.

Recommendation: We recommend that the school develop and implement a comprehensive set of internal control policies. Subsequent to year end, the board passed resolutions which included written procedures over internal controls.

Management Response: MCS has a new financial department, including Director and Clerks. Governing Council has reviewed and approved updated policies and staff has been trained in the policy. The school continues to work on making sure that all staff follows the procedures and internal controls that have been established.

2014-003 Non-compliance with cash deposit requirements (Compliance)

Condition: For 2 of the 5 samples tested it was noted that deposit of funds into a financial institution was either not completed within 24 hours, or we were unable to verify that funds were deposited on time due to lack of documentation.

Criteria: Cash receipts shall be deposited into a financial institution within 24 hours of receipt

Cause: School did not have a systematic process in place to be in compliance with this requirement.

Effect: Public monies are susceptible to theft or misappropriation if not deposited in a timely manner.

Recommendation: We recommend that the school augment their internal policy to comply with state statutes, specifically regarding the deposit of cash receipts into a financial institution within 24 hours of receipt, and follow the aforementioned policy going forward.

MCCURDY CHARTER SCHOOL (Continued)

2014-003 Non-compliance with cash deposit requirements (Compliance) (Continued)

Management Response: MCS has a new financial department, including Director and Clerks. Governing Council has reviewed and approved updated policies and staff has been trained in the policy. The school continues to work on making sure that all staff follows the procedures and internal controls that have been established.

2014-004 Controls over cash disbursements cycle (Significant Deficiency)

Condition: Out of 25 cash disbursements selected for control testing, 12 disbursements did not have purchase requisitions as required by the process, and 2 disbursements had purchase orders that were dated after the invoice.

Criteria: Pursuant to NMAC 6.20.2.11 (A), schools should implement a system of authorization and recording procedures.

Cause: The general control environment was such that many controls were non-existent or were simply not adhered to.

Effect: Purchases that do not adhere to procurement protocol could result in budget overages or purchases of items not authorized.

Recommendation: We recommend that the school develop and implement a comprehensive cash disbursement policy complete with a strong control environment, and adhere to the policy for all cash disbursements.

Management Response: MCS has a new financial department, including Director and Clerks. Governing Council has reviewed and approved updated policies and staff has been trained in the policy. The school continues to work on making sure that all staff follows the procedures and internal controls that have been established.

2014-005 Controls over payroll disbursements cycle (Significant Deficiency)

Condition: Out of 25 payroll disbursements selected for control testing, 1 disbursement did not have adequate support for the amount of hours worked, and 8 disbursements were made with pay rates that were not consistent with the executed contract on file.

Criteria: Pursuant to NMAC 6.20.2.11 (A), schools should implement a system of authorization and recording procedures.

Cause: The general control environment was such that many controls were non-existent or were simply not adhered to.

MCCURDY CHARTER SCHOOL (Continued)

2014-005 Controls over payroll disbursements cycle (Significant Deficiency) (Continued)

Effect: Employees could potentially be over or under paid if contract rates are not properly factored into payroll disbursements.

Recommendation: We recommend that the school add an executed addendum to contracts when compensation amounts are adjusted. Additionally, we also recommend that a policy be developed in which hourly workers hours are documented and verified prior to payroll being submitted.

Management Response: MCS has a new financial department, including Director and Clerks. Governing Council has reviewed and approved updated policies and staff has been trained in the policy. The school continues to work on making sure that all staff follows the procedures and internal controls that have been established. The Human Resource department also has new staffing and procedures have been developed on communicating payroll changes.

2014-006 Compliance with pledged collateral requirements (Significant Deficiency)

Condition: The school was unable to demonstrate that its financial institution provided any pledged collateral for the school's deposits.

Criteria: Article 10 of Chapter 6 of NMSA requires government entities to ensure that deposits of public money are properly collateralized.

Cause: The school's financial institution did not provide the school with the proper collateralization for its deposits. In addition, the school management did not properly monitor this requirement to become compliant.

Effect: The school's assets could be exposed to custodial credit risk at certain points during the year.

Recommendation: We recommend that school management monitor this requirement going forward to insure that their financial institution(s) provide the necessary amounts of collateral for their deposits.

Management Response: MCS has a new financial department. Procedures are being implemented to monitor the budget on a regular basis.

MCCURDY CHARTER SCHOOL (Continued)

2014-007 Expenditures in excess of budgeted amounts (Non Compliance)

Condition: Expenditures exceeded the amount budgeted for the following funds:

• Operational #11000 - Support Services	$	64,751
• Instructional Materials #14000 - Instruction	$	131
• Athletics #22000 - Instruction	$	170,299
• IDEA-B Entitlement #24106		
Instruction	$	19,080
Support Services	$	33,248
• Dual Credit Instructional Materials #27103 - Instruction	$	1,232
• Literacy For Children at Risk #27107 - Instruction	$	863
• Private Direct Grants #29102 - Support Services	$	30

Criteria: Pursuant to Chapter 6, Article 3 of NMSA 1978, expenditures may not exceed budgeted amounts.

Cause: The school did not have adequate controls in place over expenditures during the year and the budget was not monitored adequately to prevent such over expenditures.

Effect: The School has put itself in a negative financial position by over expending public monies and continues to operate at a deficit.

Recommendation: We recommend that the budget process be monitored more closely on a go forward basis to prevent future non-compliance.

Management Response: MCS has a new financial department. Procedures are being implemented to monitor the budget on a regular basis.

MEDIA ARTS COLLABORATIVE CHARTER SCHOOL

2014-001 Mileage Reimbursements – (Noncompliance in accordance with the New Mexican State Audit Rule) (Other Matter)

Condition: For the year ended June 30, 2014, it was noted that the School reimbursed employees for mileage at a rate of fifty six cents per mile. Additionally, documentation for one of fifteen selected travel disbursements could not be located and amounted to $82.80.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of

MEDIA ARTS COLLABORATIVE CHARTER SCHOOL (Continued)

2014-001 Mileage Reimbursements – (Noncompliance in accordance with the New Mexican State Audit Rule) (Other Matter) (Continued)

official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The School is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The School contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Auditors' Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management's Response: The school will amend its policies to reflect mileage reimbursements at the required 80% rate. The school began paying 100% of the IRS rate after a FY2012 audit stating that the school should not be paying the 80% rate.

MISSION ACHIEVEMENT AND SUCCESS

2014-001 Purchase Order Subsequent to Invoice – Noncompliance in Accordance with the New Mexico State Auditor's Rule (Significant Deficiency)

Condition: During our testing of sixty cash disbursements, there was one instance of $11,189.25 in where the Purchase Order was prepared subsequent to the vendor's invoice date.

Criteria: Section NMAC 6.20.2.17 (A), requires that each school shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. An internal control structure over purchasing shall be established and maintained to assure compliance with school policy, and state and federal regulations. Also, the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, states that "the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction."

MISSION ACHIEVEMENT AND SUCCESS (Continued)

2014-001 Purchase Order Subsequent to Invoice – Noncompliance in Accordance with the New Mexico State Auditor's Rule (Significant Deficiency) (Continued)

Effect: Not being in compliance with state purchasing requirements places the Mission Achievement and Success (MAS) at risk for fraud or misuse of public funds.

Cause: MAS personnel did not follow established procurement policies of the MAS.

Recommendation: All MAS personnel should be reminded that initiation of a purchase order is not sufficient for ordering; that an approved Purchase Order is required per School and State guidelines.

Management Response: The school has internal control procedures established. These procedures will be emphasized with staff. Staff must receive an approved Purchase Order before they place an order with a vendor.

2014-002 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Auditor's Rule (Other Matters)

Condition: For the year ended June 30, 2014, it was noted that the MAS reimbursed employees for mileage at a rate of fifty five cents per mile.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The MAS is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The MAS contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the MAS contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Recommendation: The MAS should reimburse mileage at 80% of the Internal Revenue Service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

MISSION ACHIEVEMENT AND SUCCESS (Continued)

2014-002 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Auditor's Rule (Other Matters) (Continued)

Management Response: Mission Achievement and Success Charter School disputes this finding. In March, 2010 the Finance Director at the school received a determination from the Office of the State Auditor after posing the question: "There is one question that I have regarding the mileage reimbursement rate: When a charter school is authorized by the Public Education Commission, is the school considered a state agency or a local public body?" Their answer is: "Regardless of who chartered the school, charter schools fall under the definition of local public bodies."

The New Mexico Administrative Code, 2.42.2.11 (D) states: Local Public Bodies: Public officers and employees of local public bodies may be reimbursed for mileage accrued in the use of a private conveyance in the discharge of official duties, at the statutory rates unless such rates have been reduced by the governing bodies of the local public body pursuant to Section 10.8.5(D) NMSA 1978. That statute states, in regards to local public bodies: The governing body of any local public body may eliminate or may reduce the rates set for the per diem and mileage for all or any class of public officials and employees of the local public body at any time the local public body deems it to be in the public interest, and such reduction shall not be construed to permit payment of any other compensation, perquisite or allowance. The local public body shall exercise this power of reduction in a reasonable manner and shall attempt to achieve a standard rate for all public officers and employees of the same classification. Based on the statute and regulation noted above, the statutory rate for local public bodies is 100% of the IRS rate unless the governing body of the local public body reduces or eliminates that rate. The Governing Board of Mission Achievement and Success Charter School has not reduced or eliminated that rate. Therefore, Mission Achievement and Success Charter School is allowed to reimburse 100% of the IRS mileage rate.

MONTESSORI ELEMENTARY

2010-030 [CS 2010-30-GG] Budgetary Conditions- Repeated and Modified (Non Compliance)

Condition: The School had an expenditure function where actual expenditures exceeded budgetary authority:

Operational
Support Services $390

Criteria: Sound financial management and 6.20.2.9 (A) NMAC and 22-8-5 through 22- 8-12.2 NMSA 1978 require that budgets not be exceeded at the legal level of control. For school districts the function is the legal level of control. Per NMAC 6.20.2.10.B, School districts shall submit budget adjustment requests for the operating budget to the department for budget increases, budget

MONTESSORI ELEMENTARY (Continued)

2010-030 [CS 2010-30-GG] Budgetary Conditions- Repeated and Modified (Non Compliance) (Continued)

decreases, transfers between functional categories, and transfers from the emergency reserve account. Expenditures shall not be made by the school district until budget authority has been established and approval received from the department. Budget adjustments shall not be incorporated into the school district's accounting system until approval is received by the department.

Effect: The school is out of compliance with State Law and the control established by the use of budgets has been compromised.

Cause: The School did not complete maintenance BAR's during the year to correct.

Recommendation: The School should establish a policy of budgetary review at year-end and make the necessary budgetary adjustments and review of amounts being reported to PED.

Management Response: The School's Audit Committee and Management are aware of the finding and are making changes to address the issue.

2010-031 [2010-31-GG] Budget Adjustment Requests (BAR) (Non-Compliance in Accordance with the New Mexico State Audit Rule)

Condition: We noted the Montessori Elementary (ME) budgeted more cash carryover of $142,279 than the School had available for the HB-33 Capital Improvements Fund. The Operational Fund also budgeted more cash carryover of $18,892 than the School had available.

Criteria: In accordance with Public Education Department (PED) requirements and 6- 6-6 NMSA 1978, ME is required to follow PED procedures relating to Budget Adjustment Requests. This includes ensuring that BAR's are included in final budget amounts reported to Schools PED report. Per NMAC 6.20.2.10.B, School districts shall submit budget adjustment requests for the operating budget to the department for budget increases, budget decreases, transfers between functional categories, and transfers from the emergency reserve account. Expenditures shall not be made by the school district until budget authority has been established and approval received from the department. Budget adjustments shall not be incorporated into the school district's accounting system until approval is received by the department.

Effect: The school is not in compliance with State Statutes.

Cause: The budget was not being properly monitored.

Auditor's Recommendation: The School must be familiar with Public Education Department (PED) requirements and 6-6-6 NMSA 1978 and follow the requirements for the budgetary system.

MONTESSORI ELEMENTARY (Continued)

2010-031 [2010-31-GG] Budget Adjustment Requests (BAR) (Non-Compliance in Accordance with the New Mexico State Audit Rule)

Management's Response: The School's Audit Committee and Management are aware of the finding and are making changes to address the issue.

NEW AMERICA SCHOOL

2014-001 RHC Contributions (Non-Compliance in Accordance with the New Mexico State Audit Rule)

Condition: During our internal control test work over Retiree Health Care Contributions (RHC) we noted that the RHC contribution for July 2013 in the amount of $1,341.62 was remitted on August 12, 2013.

Criteria: Monthly contributions to the Retiree Health Care (RHC) are required to be remitted no later than the 10th of the following month, per NMSA 1978 10-7C-15.

Effect: In accordance with the Educational Retirement Act and ERB rules, penalties will be assessed to the administrative unit when contributions and/or reports are not remitted by the due date.

Cause: The deadline was inadvertently missed by the Business Manager.

Auditor's Recommendation: Ensure RHC contributions are remitted no later than the 10th of the following month.

Management's Response: Management is aware of the due date for all payroll liabilities. NMRHCA did not assess any penalties or fees on this submission. The business manager will ensure that all payroll liability deadlines are met.

2012-002 [CS 12-02-HH] Internal Control Structure (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Revised and Repeated)

Condition: During our internal control test work over a sample of 25 disbursements and 5 travel expenditures we noted the following:

- We found four instances where goods and/or services were received and invoiced prior to the creation and approval of a purchase order. The four invoices totaled $70,047.
- We noted that the School does not have procedures in place to track per diem amounts paid to employees for work related travel.

NEW AMERICA SCHOOL (Continued)

2012-002 [CS 12-02-HH] Internal Control Structure (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Revised and Repeated) (Continued)

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

Effect: Purchases could be made without proper approval and expenditures could be reported inaccurately to PED or misclassified in the improper fund, which could lead to funds being overspent and balances misstated. State travel and per diem laws could be violated. Funds requested for reimbursement could be disallowed and funding could be lost.

Cause: The School did not follow internal purchasing policies and procedures. Additionally, the School does not have policies and procedures for tracking per diem amounts paid to employees.

Auditor's Recommendation: Ensure purchase orders are created prior to receiving goods and services. Implement procedures to ensure that amounts paid to employees for per diem are adequately tracked.

Management's Response: The school does have policies and procedures in place and will be reviewing these with the appropriate personnel. They will be reviewed and adjusted if necessary.

A State authorized P-Card system was adopted by our Governance Council in the spring of 2015 and implemented which requires that the purchase order is in place before its use. This should prevent the purchase of goods and services from being done prior to the purchase order. All authorized users will receive refresher training on the policies and procedures with acknowledgement (to be placed in their H.R. file) by each that they have received the refresher training and that they understand their responsibility and that the consequence of violating the policy will be removal of the P-Card privilege.

Purchase orders will be created for per diem travel allowance prior to departure for each authorized school traveler. Purchase orders will be closed at the end of authorized travel.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

NEW AMERICA SCHOOL- LAS CRUCES

2014-001 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: For the year ended June 30, 2014, it was noted that the School reimbursed employees for mileage at a rate of fifty five cents per mile.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The School is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The School contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Auditors' Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management's Response: The school is aware of the mileage rate as set forth by the DFA at 80% of the IRS rate for the previous year. However, the determination was made at one point in time that charter schools do not fall under the same designation that would limit them to the same rate allowable as the DFA. Furthermore, across 3 different auditors over the past 6 years different determinations have been made concerning the amount that a charter school should/is allowed to pay for mileage reimbursement. Management will discuss with the school's finance and audit committees in order to determine what to present to the governing council in full concerning school policy for mileage reimbursement going forward.

2014-002 Timely Deposits -Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter)

Condition: During our cash receipts testing, we noted that deposits were not being made with twenty-four (24) hours after being received

NEW AMERICA SCHOOL- LAS CRUCES (Continued)

2014-002 Timely Deposits -Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matter) (Continued)

Criteria: Per NMAC 6.20.2.14.B states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day."

Effect: The School is not in compliance with State statute and has exposed itself to possible misappropriation of funds.

Cause: There is a lack of adequate controls over cash and cash receipts.

Auditors' Recommendation: The School should implement policies and procedures that track and maintain all items relating to cash receipts and ensure deposits are made timely.

Management's Response: Management is well aware of the 24 hour deposit rule and policies and procedures are in place to ensure that the school adheres to this requirement. Policies and procedures were reviewed with the appropriate personnel and the 24 hour rule has been followed for the entire current fiscal year (FY15) to date. Furthermore, the school was alerted to another charter school's practice of weekly deposits as it was granted authority to do so by the NMPED under certain circumstances. Management will discuss this possibility with the finance and audit committees to see if this is something the school would like to look into putting into practice if the NMPED is willing to grant the authority to do so.

NEW MEXICO CONNECTIONS ACADEMY

2014-001 - Pledged Collateral Requirements - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During test work, we noted that New Mexico Connections Academy was under collateralized by $139,914 at June 30, 2014.

Criteria: Per NMSA 6-10-17, any bank or savings and loan association designated as a depository of public money shall deliver securities to a custodial bank and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received.

Effect: New Mexico Connections Academy is not in compliance with Section 6-10-17 NMSA 1978.

NEW MEXICO CONNECTIONS ACADEMY (Continued)

2014-001 - Pledged Collateral Requirements - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Cause: The New Mexico Connections Academy was not monitoring the account balances of the New Mexico Connections Academy to ensure that proper amount of pledged collateral was being maintained.

Recommendation: It is recommended that the New Mexico Connections Academy monitor cash balances to ensure that they are meeting all requirements of the State Auditor.

Management Response: A pledged collateral agreement was established as of July 2014 in compliance with state statute.

2014-002 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: For the year ended June 30, 2014, it was noted that the New Mexico Connections Academy reimbursed employees for mileage at a rate of fifty six cents per mile.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The New Mexico Connections Academy is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The New Mexico Connections Academy contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the New Mexico Connections Academy contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Recommendation: The New Mexico Connections Academy should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management Response: The rate reimbursed is the rate previously required by the PED and previous auditors. The PED had previously sent out a memo which stated charter schools are "Other Public

NEW MEXICO CONNECTIONS ACADEMY (Continued)

2014-002 Mileage Reimbursements – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Bodies" as defined in state statute. As an "Other Public Body" the reimbursement rate can equal 100% of IRS rate. The school chose to reimburse at this rate. This change would move charter schools to be classified as "State Agencies". The PED allowed the 100% rate for the first part of FY14 changing the interpretation at the end of FY14. We provided the PED with the earlier released memo at that time.

It should be noted that the prior auditors of the state charter schools issued a finding for schools that did not pay as an "Other Public Body" and instead paid as a State Agency at the 80% rate. The school will continue to comply with direction issued by the PED.

2014-003 Dual Signatures on Checks – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: In a sample of 60 expenditures there were six instances ($134,420.82, $130,922.51, $41,708.74, $8,342.30, $3,333.33, and $3,333.33) in which checks were only signed by one authorized signer, and one instance ($355.31) in which a check cleared the bank without any signature at all.

Criteria: NMAC 2.42.6.20.2.11 requires that schools establish and maintain an internal control structure to provide management with reasonable assurance that assets are safeguards against loss from unauthorized use. "The internal control structure shall include written administrative controls (rules, procedures, practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP." New Mexico Connections Academy has established an internal control policy that requires all checks of two thousand five hundred or more be signed by two authorized check signers.

Effect: The New Mexico Connections Academy violated its own internal policy in regards to check signing.

Cause: A second authorized check signer was not available when the checks were being processed.

Recommendation: The New Mexico Connections Academy should follow its own internal policy of having two authorized signers sign all checks of two thousand five hundred or more dollars.

Management Response: The school will authorize two signors at the school site to make sure no checks over $2,500 are mailed out without dual signatures. A review of the signed checks should ensure this error does not occur again.

NEW MEXICO CONNECTIONS ACADEMY (Continued)

2014-004 Purchase Order Subsequent to Invoice – Noncompliance in Accordance with the New Mexico State Audit Rule - (Significant Deficiency)

Condition: During our testing of sixty cash disbursements, there were seven instance ($41,708.74, $35,625.00, $11,100, $962.43, $450.75, $140.00, $10.00) in which the Purchase Order was prepared subsequent to the vendor's invoice date.

Criteria: Section NMAC 6.20.2.17 (A), requires that each school shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. An internal control structure over purchasing shall be established and maintained to assure compliance with school policy, and state and federal regulations. Also, the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, states that "the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction."

Effect: Not being in compliance with state purchasing requirements places the New Mexico Connections Academy at risk for fraud or misuse of public funds.

Cause: New Mexico Connections Academy personnel did not follow established procurement policies of the School.

Recommendation: All New Mexico Connections Academy personnel should be reminded that initiation of a purchase order is not sufficient for ordering; that an approved Purchase Order is required per School and State guidelines.

Management Response: School procedures will be emphasized to staff to ensure compliance with school policies and procedures as well as state laws and regulations.

2014-005 Timely Deposits – Noncompliance in Accordance with the New Mexico State Audit Rule – (Other Matters)

Condition: For four of four miscellaneous cash receipts tested, it could not be determined if the items were deposited timely. The amounts tested were $625.00, $394.32, $250.00, and $21.14.

Criteria: NMAC 6.20.2 states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day.

Effect: The New Mexico Connections Academy was not in compliance with State Statute. Additionally the New Mexico Connections Academy has exposed itself to possible misappropriation of assets.

Cause: The New Mexico Connections Academy was in its first year of existence. New Mexico Connections Academy personnel were not yet familiar with all New Mexico State Statutes.

NEW MEXICO CONNECTIONS ACADEMY (Continued)

2014-005 Timely Deposits – Noncompliance in Accordance with the New Mexico State Audit Rule – (Other Matters)

Recommendation: We recommend that the New Mexico Connections Academy create a procedure to ensure that all funds are properly receipted and deposited within one banking day.

Management Response: The school will review its cash receipting procedures to ensure timely deposit of funds.

2014-006 Budgetary Conditions – Noncompliance in Accordance with the New Mexico State Audit Rule - (Other Matters)

Condition: The New Mexico Connections Academy has expenditure functions where actual expenditures exceeded budgetary authority for the following fund:

Entitlement IDEA-B - 24106	
Instruction	$ (8,935)

Criteria: Per NMAC 6.20.2.9(A) every school district shall follow budget requirements stated in Sections 22-8-5 through 22-8-12.2 NMSA 1978, and procedures of the department in preparing, submitting, maintaining and reporting budgetary information. Budgetary control shall be at the function level. Over-expenditure of a function shall not be allowed.

Effect: The New Mexico Connections Academy is out of compliance with New Mexico state statute and the control established by the use of budgets has been compromised, which could result in deficit fund balances and unnecessary usage of operating funds to cover the over-expenditures.

Cause: Actual expenditures were not being adequately monitored by management.

Recommendation: We recommend the New Mexico Connections Academy establish a policy of budgetary review by the governing council or finance committee at the end of each quarter and have the governing council approve the necessary budgetary adjustments to ensure funds are not over expended.

Management Response: School budget procedures will be reviewed to ensure all budgets are in compliance with state budget requirements.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

NEW MEXICO INTERNATIONAL SCHOOL

2014-001 Account Reconciliations – Significant Deficiency

Condition: During testwork over capital assets we noted the following issues:

- The New Mexico International School (NMIS) did not identify a capital asset in the amount of $14,760 and was discovered by the auditors when performing procedures to identify unrecorded capital assets. This capital asset was recorded to the expense account "Other Contract Services."
- We noted a capital asset addition in the amount of $10,433 that was coded to the expense account "Supply Assets ($5,000 or less)" that should have been recorded to the "Fixed Assets (more than $5,000) expense account.

We also noted the student activity fund utilizes a Paypal account in its fundraising efforts. However, the balance of the Paypal account is not included on the School's general ledger and an audit adjustment in the amount of $2,534 was needed to record the balance of the account at year-end.

Criteria: Per NMAC 6.20.2.11 (A) Every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles.

Effect: The risk exists that the school understates its assets and/or does not properly account for them which increases the likelihood that assets could be misappropriated.

Cause: The NMIS capital asset additions were not coded to the correct expenditure account and because the student activity Paypal account is not included on the general ledger it is not subject to the same level of control that other student activity funds are.

Auditors' Recommendation: Ensure items meeting the school's capital asset threshold are coded correctly and included as capital asset additions on schedules used to prepare the year-end audited financial statements. The student activity fund Paypal account should be recorded on the general ledger, reconciled monthly, and independently reviewed on a periodic basis.

Management's Response: The school had a contracted business manager at the time who was responsible for the recording of assets. Business management is now being handled internally which will allow for better tracking of the various types of purchases. The school will review the capitalization requirements and implement procedures to ensure the financial records are properly stated. Paypal withdrawals will be reconciled monthly with the bank reconciliation and presented as part of the monthly financials presented to the finance committee and governing council.

NEW MEXICO INTERNATIONAL SCHOOL (Continued)

2014-002 Excess of Expenditures over Budget (Non Compliance)

Condition: Actual expenditures exceeded budgeted expenditures at the total fund level for the following fund:

11000 Operational	$86,103

Additionally, several expenditure line items exceeded the final approved budget amount.

Criteria: 6-6-6 NMSA 1978 requires that the NMIS keep expenditures within the budgeted amounts. NMAC 2.2.2.10 P(1) requires a finding when actual expenditures exceed budgeted expenditures.

Effect: The NMIS expenditures in the above fund exceeded the total approved budgeted expenditures by $86,103.

Cause: Budgetary controls were not in place to adequately monitor and regularly compare budget to actual results. As a result, measures were not taken to avoid or minimize the amount that actual expenditures exceeded the approved budget for the School's operational fund.

Auditors' Recommendation: Budget adjustment requests should be presented to and approved by PED before expending funds in excess of budget. Controls should be implemented to ensure that budgeted amounts are compared to actual on a regular basis and the budget effectively utilized for controlling expenses and managing cash flow.

Management's Response: The deficit occurred because the school did not meet the projected count on the 40th day count date. Eight students dis-enrolled on the first day of school, all from a grade level where there was no waitlist. Although there were students on waitlists for other grade levels, language in the school's charter prohibited exceeding certain class sizes in those grade levels. Thus, the students were not replaced by the 40th day count.

Additionally, due to the same charter language regarding class sizes, a reduction in force to reduce personnel costs due to the short fall in revenue was not possible. Eliminating of one of the two teachers in the impacted grade level, and putting all of the students into one class, would have resulted in class size that were prohibited under charter restrictions. Thus, the school was stuck maintaining those personnel expenditures.

The business manager assured the school that funds would be made available from other budget lines. But due to incomplete budget analysis and improper advisement of necessary expenditure reductions by the contracted business manager, a year-end deficit occurred.

NEW MEXICO INTERNATIONAL SCHOOL (Continued)

2014-002 Excess of Expenditures over Budget (Non Compliance)

The following changes have been implemented to prevent recurrence of this issue: The finance committee and governing council worked on this issue and submitted amendments to the Public Education Commission (PEC), its authorizer, relieving the impact the current charter restrictions had on student enrollment. Business management is now handled with internal staff. Budget lines are budgeted with input from NMIS staff and prior year expenditures to ensure sufficient monies are allocated to budget lines as accurately as possible. Budget is examined closely at least monthly. Written financial reports are sent from the business manager to and reviewed by NMIS finance committee. Reports are reviewed in detail with the business manager and head administrator at finance committee meetings and summarized again at governing council meetings with commentaries from finance committee members who are also on the governing council. When budget adjustment requests are required, lines being reduced are verified to ensure monies remaining are sufficient as known at that time.

2014-003 Disposition of Equipment (Non-Compliance)

Condition: During testwork over the disposition of equipment we noted the following instances of noncompliance with the New Mexico State Audit Rule:

- In August 2013 the NMIS sold playground equipment with an original cost of $19,364 to another charter school. The sale was approved by the NMIS Governing Council, however, the New Mexico Office of the State Auditor (State Auditor) was not notified of the asset sale as required.
- During the year we noted that a computer was disposed of and was given to a recycling center for disposal. School management informed us that the computer's hard drive was not wiped and that the State Auditor was not notified of this disposal.

Criteria: Per subsection A of Section 13-6-1, NMSA 1978, such disposals are required to be communicated to the State Auditor at least 30 days prior to the actual disposal. Additionally, New Mexico Administrative Code 2.2.2.10 T(2) & (3) requires that in the event of a computer disposal it must be sanitized or effectively make inaccessible all licensed software and any electronic media pertaining to the organization. A certification that the hard drive has been erased or destroyed must be provided to the State Auditor.

Effect: The NMIS is not in compliance with the requirements of Subsection A of Section 13-6-1, NMSA 1978, or NMAC 2.2.2.10 T(2) & (3) related to equipment dispositions.
Cause: Controls were not in place to ensure compliance with the above referenced compliance requirements.

NEW MEXICO INTERNATIONAL SCHOOL (Continued)

2014-003 Disposition of Equipment (Non-Compliance) (Continued)

Auditors' Recommendation: Implement internal controls that will ensure compliance with Subsection A of Section 13-6-1, NMSA 1978, and New Mexico Administrative Code 2.2.2.10 T(2) & (3). This should include designating an appropriate individual at the NMIS that is tasked with controlling all asset dispositions.

Management's Response: The school sold the playground equipment to another charter school. The New Mexico Public Education Department Charter School Office was informed of the proposed sale prior to the sale. The school was not aware of and the business manager did not advise the school of the requirement to inform the State Auditor of the equipment disposition.

The school was not aware of the requirement to wipe drives clean on computers to be disposed of. With business management being now handled by internal staff, procedures to be written will include a computer disposition procedure to be implemented for disposal of school computers.

2014-004 Personnel Files and Benefit Deductions (Non-Compliance)

Condition: During internal control testwork over a sample of 25 payroll transactions we noted the following:

- We noted one instance of an incomplete Form I-9 as it was not signed by a representative at the NMIS attesting to its review and verification.
- We noted one instance where an employee contract was not signed by the school director. For this same employee we noted that health benefits were being deducted at the rate for employees earning less than $20,000, however, this employee's salary exceeded $20,000.
- We noted one other instance where health benefits were being deducted at the rate for employees earning less than $20,000 but that this particular employee's salary well exceeded $20,000.

Criteria: NMAC 6.20.2.18 requires various employee records and documentation to be maintained and available for inspection, including personnel/payroll action forms and employment eligibility verification forms and the New Mexico Public Schools Insurance Authority provide the NMIS with the amount to be deducted from employee compensation to pay for health insurance coverage and calculated based on the provider and coverage selected and the employee's salary.

Effect: The NMIS is not in compliance with NMAC 6.20.2.18 with respect to Form I-9 and because health insurance deduction rates were not accurate the School may be paying more or less than it is required to.

NEW MEXICO INTERNATIONAL SCHOOL (Continued)

2014-004 Personnel Files and Benefit Deductions (Non-Compliance) (Continued)

Cause: NMIS did not ensure a properly completed Form I-9 was on file for all employees and a process is not in place that would provide for periodic reviews of employee deduction amounts to ensure they are correct.

Auditors' Recommendation: Personnel files and employee benefit deduction amounts should be periodically reviewed to ensure all required personnel file documents have been obtained, are complete and accurate, and that amounts being deducted for benefits are accurate.

Management's Response: The contracted business manager was responsible for completion of human resource paperwork and input of deductions in financial management system. The employee benefits paid to these employees changed positions from those earning less than $20,000 to earning more than $20,000. With business management now being handled by internal staff, the school will implement procedures to ensure that benefit rates are adjusted as employee positions and rates are adjusted and all personnel files are reviewed for signatures and completeness.

2014-005 Cash Deposits (Non-Compliance)

Condition: During testwork over cash receipts we noted one deposit totaling $2,735 made up of several checks and cash collected during the months of August and October 2013. These funds were deposited on October 25, 2013.

Criteria: NMAC 6.20.2.14.C requires that money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day. If the distance to the bank is considerable, or the cash collection is limited to small amounts and/or low volume and it is impractical to meet the twenty-four hour/one banking day requirement, the local board may request approval from the department for an alternative plan.

Effect: NMIS is not in compliance with the cash deposits compliance requirements as stated at NMAC 6.20.2.14.C.

Cause: Procedures were not in place to ensure timely deposit of cash receipts in accordance with NMAC 6.20.2.14.C.

Auditors' Recommendation: Ensure deposits are made in accordance with NMAC 6.20.2.14.C.

Management's Response: The school moved campus over the summer of 2013. During this relocation, there were many instances of mail not being properly forward. This resulted in delay of receipt of several items. Thus, there were checks that were received in October 2013 that had, in fact, been written well before this date. The items in fact, were held up in the postal forwarding process.

NEW MEXICO INTERNATIONAL SCHOOL (Continued)

2014-005 Cash Deposits (Non-Compliance) (Continued)

Procedures will be implemented to ensure deposits are made in accordance with the regulations. Additionally, an alternative plan will be sought per NMAC 6.20.14.C for approval to allow for small amounts to not have to be deposited within twenty-four hours.

NEW MEXICO SCHOOL FOR THE ARTS

2014-001 Procurement Code – (Noncompliance in accordance with the New Mexico State Audit Rule)

Condition: The school did not follow proper procurement procedures when obtaining a vendor for a soundproof room for the school. The total amount paid to the vendor was $22,169. The school instead used a vendor that they were familiar with based on past experience.

Criteria: Per NMAC 1.4.1.51 STATE PROCUREMENT: A. Quotation to be obtained. Insofar as it is practical for small purchases of nonprofessional services, construction or items of tangible personal property having a value exceeding twenty thousand dollars ($20,000) but not exceeding sixty thousand dollars ($60,000), and in accordance with any procedures or processes set forth by the state purchasing agent, no fewer than three businesses shall be solicited via written requests containing the specifications for the procurement to submit written quotations that are recorded and placed in the procurement file.

Effect: The School could be overpaying for services and/or goods.

Cause: Lack of proper internal controls to ensure the School follows procurement guidelines when obtaining a vendor for small purchases.

Auditors' Recommendation: For small purchases of nonprofessional services, construction or items of tangible personal property between $20,000 and $60,000, the school should solicit no fewer than three businesses via written requests containing the specifications for the procurement.

Management's Response: The school changed its accounting software's configuration to give a prompt before entering a purchase order for purchases that exceed $20,000 to make sure that 3 written quotes were obtained prior to encumbering funds. In addition, the school's Chief Procurement Officer recently completed a certification course and passed his/her exam so that the school has an employee charged with ensuring the school follows procurement law correctly in the future.

NEW MEXICO SCHOOL FOR THE ARTS (Continued)

2014-002 Internal Control Structure- Noncompliance in accordance with the New Mexico State Audit Rule

Condition: We noted an instance where the services paid for exceeded the amount of the approved purchase order. The approved purchase order amount was for $2,881.53 in December 2013. When the goods were purchased in April 2014 the amount paid was for $2,938.59

Criteria: NMAC 6.20.2.11 (A) Internal Control Structure Standards, "Every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

Effect: The amounts reported to PED could be inaccurate and actual available funds may be improperly recorded, which could lead to funds being overspent and balances misstated.

Cause: Process and procedures in place were not followed in their completeness.

Auditors' Recommendation: We recommend the school follow their internal controls over purchasing procedures to ensure that all approved expenditure amounts equal the approved purchase order amount before payment is made for services.

Management's Response: The purchase order and invoice mentioned here were for student assessment tests. The purchase order, issued in December, was for the number of students that the school counted on taking the test. By the time the tests were administered and billed in April, there were an extra 2 students that took the assessment test. The school required all employees to sign an agreement to understanding its purchasing policy and procedures at hire, and reminders are announced periodically during staff meetings throughout the year. The school, in this instance, decided to pay $57.06 more than the purchasing order amount for the two extra tests administered. In the future, should this occur again, overage will not be paid if the Business Office is not notified of changes in the original order as soon as they are known. The school will also review its current purchase policy agreement to make sure this language is specifically included.

2014-003 Travel and Per Diem – Noncompliance in accordance with the New Mexico State Audit Rule

Condition: The school is reimbursing employees at 100% of the federal rate from the prior year for travel in the use of a private vehicle for school related activities.

NEW MEXICO SCHOOL FOR THE ARTS (Continued)

2014-003 Travel and Per Diem – Noncompliance in accordance with the New Mexico State Audit Rule

Criteria: Per NMAC 2.42.2.11 mileage should be paid out for use in a private vehicle at 80% of the Internal Revenue Service (IRS) standard rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Effect: The School is not in compliance with New Mexico state statute and is overpaying employees for travel on behalf of the School.

Cause: The school is not following their internal controls which requires mileage to be reimbursed at a rate of 80% of the IRS rate in effect January 1 of the prior year."

Auditor's Recommendation: The School should follow the Travel and Per Diem and Mileage Act for local governments when paying our mileage reimbursement amounts.

Management's Response: The form used for employees to submit their mileage reimbursement requests has been changed to include the language "January [prior year] IRS mileage reimbursement rate [IRS rate] * 80% = [reimbursement rate]. Previously, only the rate amount was published on the form. The error occurred when the fiscal year started and the rate of reimbursement was not calculated at 80%. It is the school's intention to prevent this from reoccurring by including the method with which the rate is calculated on the reimbursement form itself so that when request are submitted, the Business Office is reminded and can verify that the rate of reimbursement is correct before payment to the employee is made.

NORTH VALLEY ACADEMY

2014-001 Dual Signatures on Checks – (Other Matter)

Condition: In a sample of sixty expenditures there were two instances ($3,176.83 and $16,486.80) in where the checks were only signed by one authorized signer, when they should have been signed by two authorized signers.

Criteria: NMAC 2.42.6.20.2.11 requires that schools establish and maintain an internal control structure to provide management with reasonable assurance that assets are safeguards against loss from unauthorized use. "The internal control structure shall include written administrative controls (rules, procedures, practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP." North Valley Academy has established an internal control policy that requires all checks of two hundred and fifty dollars or more be signed by two authorized check signers.

NORTH VALLEY ACADEMY (Continued)

2014-001 Dual Signatures on Checks – (Other Matter) (Continued)

Effect: The North Valley Academy violated its own internal policy in regards to check signing.

Cause: A second signature was not obtained prior to mailing out one batch of Accounts Payable checks. The Business Office was aware of the error, but was not able to recover the checks before they were mailed out.

Recommendation: The School should follow its own internal policy of having two authorized signers sign all checks of two hundred and fifty or more dollars.

Management Response: The Business Manager is aware of this instance in which checks were mailed with one signature. A second review has been added to the process to verify that checks have two signatures prior to being mailed out.

2014-002 Mileage Reimbursements – (Non Compliance)

Condition: In a sample of three travel reimbursements tested, there were two instances where employees were reimbursed for mileage at a rate above those that are established by the State of New Mexico Per Diem and Mileage Act. One employee was reimbursed fifty one cents per mile, while the other employee was reimbursed fifty six cents per mile. It is estimated that the employees were over reimbursed by twenty-four and twenty nine dollars, respectively.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: “unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.”

Effect: The North Valley Academy is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The North Valley Academy contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a state agency.

Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

NORTH VALLEY ACADEMY (Continued)

2014-002 Mileage Reimbursements – (Non Compliance)

Management Response: North Valley Academy does not agree with PED's classification of state authorized charters as a state agency. Statutory support has been provided to the auditors to support North Valley Academy's assertion that a charter school is a local public body, which enables the school to pay up to the prior year IRS mileage rate. The school requests that a formal inquiry be submitted to the Office of the State Auditor to determine the appropriate course of action.

2014-003 Pledged Collateral – (Non Compliance)

Condition: During test work, we noted the School was under collateralized by $35,908 at June 30, 2014.

Criteria: Per NMSA 6-10-17, Any bank or savings and loan association designated as a depository of public money shall deliver securities to a custodial bank and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received.

Effect: The School is not in compliance with New Mexico State Statutes in regards to pledged collateral.

Cause: The School was not monitoring the account balances of the School to ensure that the proper amount of pledged collateral was being maintained.

Recommendation: We recommend the School monitor their cash balances to ensure they are meeting the State of New Mexico requirements pertaining to pledged collateral.

Management Response: The school had an unusually high cash balance in the bank for the month ended June 30, 2014. During the pledged collateral reconciliation at month-end, the Business Manager did identify that pledged collateral was not sufficient and contacted the bank to request an increase.

RALPH J BUNCHE ACADEMY

2014-001 Dual Signatures on Checks – Noncompliance with the New Mexico State Auditor's Rule (Other Matter)

Condition: In a sample of sixty expenditures there was one instance of $1,112.80 where the check was only signed by one authorized signer, when they should have been signed by two authorized signers.

RALPH J BUNCHE ACADEMY (Continued)

2014-001 Dual Signatures on Checks – Noncompliance with the New Mexico State Auditor's Rule (Other Matter) (Continued)

Criteria: NMAC 2.42.6.20.2.11 requires that schools establish and maintain an internal control structure to provide management with reasonable assurance that assets are safeguards against loss from unauthorized use. "The internal control structure shall include written administrative controls (rules, procedures, practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP." The School has established an internal control policy that requires all checks of one thousand dollars or more be signed by two authorized check signers.

Effect: The School violated its own internal policy in regards to check signing.

Cause: A second authorized check signer was not available when the checks were being processed for mailing to the vendors.

Auditors' Recommendation: The School should follow its own internal policy of having two authorized signers sign all checks of one thousand or more dollars.

Management's Response: Management had policy and procedure in place in order to ensure that each check exceeding $999.99 would have 2 signers. No action will be taken as the school closed effective July 1, 2014.

2014-002 Mileage Reimbursements – Noncompliance with the New Mexico State Auditor's Rule (Other Matter)

Condition: For the year ended June 30, 2014, it was noted that the School reimbursed employees for mileage at a rate of fifty six cents per mile.

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The School is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

RALPH J BUNCHE ACADEMY (Continued)

2014-002 Mileage Reimbursements – Noncompliance with the New Mexico State Auditor's Rule (Other Matter)

Cause: The School contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Auditors' Recommendation: The School should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management's Response: The school was aware of the mileage rate as set forth by the DFA at 80% of the IRS rate for the previous year. However, the determination was made at one point in time that charter schools do not fall under the same designation that would limit them to the same rate allowable as the DFA. Furthermore, across 3 different auditors over the past 6 years different determinations have been made concerning the amount that a charter school should/is allowed to pay for mileage reimbursement. No action will be taken as the school closed effective July 1, 2014.

2014-003 Personnel Files – Noncompliance with the New Mexico State Auditor's Rule (Other Matter)

Condition: Nine employees were selected for payroll testing. The following items were noted:

- One employee's personnel file could not be located at all.
- Six personnel files did not contain evidence that a background check had been performed.
- The certifications for one teacher were not present in their personnel file.

Criteria: NMAC 6.20.2.18 requires that schools maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, employment eligibility verification (Federal Form I-9), federal and state withholding certificates, pay deduction authorizations, pay or position change notices, Educational Retirement Act plan application, and direct deposit authorizations.

Effect: The School is not in compliance with New Mexico State Statutes in regards to employee record documentation.

Cause: The School is closed as of June 30, 2014. Some school records were taken to the New Mexico Department of Education for archival purposes. Some records were taken to a business specializing in the business management of charter schools for purposes of a final audit. It appears that School officials did not successfully transfer all records pertaining to personnel.

RALPH J BUNCHE ACADEMY (Continued)

2014-003 Personnel Files – Noncompliance with the New Mexico State Auditor's Rule (Other Matter)

Auditors' Recommendation: The School should review all personnel files to ensure that required documentation required by NMAC 6.20.2.18 is available.

Management's Response: It is the opinion of the business manager that any items that did not have supporting documentation were lost in the transition of school files during the closing of the school by the PED. No action will be taken as the school closed effective July 1, 2014.

2014-004 Budget Adjustment Requests (BAR)- Noncompliance with the New Mexico State Auditor's Rule (Other Matter)

Condition: We noted the School budgeted more cash carryover of $5,190 than the School had available for the Operational Fund.

Criteria: In accordance with Public Education Department (PED) requirements and 6- 6-6 NMSA 1978, the School is required to follow PED procedures relating to Budget Adjustment Requests. This includes ensuring that BAR's are included in final budget amounts reported to Schools PED report. Per NMAC 6.20.2.10.B, School districts shall submit budget adjustment requests for the operating budget to the department for budget increases, budget decreases, transfers between functional categories, and transfers from the emergency reserve account. Expenditures shall not be made by the school district until budget authority has been established and approval received from the department. Budget adjustments shall not be incorporated into the school district's accounting system until approval is received by the department.

Effect: The school is not in compliance with State Statutes.

Cause: The budget was not being properly monitored.

Auditors' Recommendation: The School must be familiar with Public Education Department (PED) requirements and 6-6-6 NMSA 1978 and follow the requirements for the budgetary system.

Management's Response: Management and the business manager were aware of this issue upon receipt of the draft financials for FY13, the time at which the NMPED would allow the school to create a BAR to adjust the cash carryover to match the audited financials. However, the school was in a place in which other issues were at higher demand and eventually it became unnecessary to adjust a budget as the school's closure was evident. No action will be taken as the school closed effective July 1, 2014.

RALPH J BUNCHE ACADEMY (Continued)

2009-164 [CS 2009-164-RR] Internal Control Structure – (Material Weakness)

Condition: During our test-work of sixty cash disbursements the following items were noted:

- There was one disbursement in the amount of $1,391.00, where the School could not provide any supporting documentation.
- There were two cash disbursements ($257.64 and $1,027.08) where a Purchase Order was not prepared.
- There were ten cash disbursements where the Purchase Order was prepared subsequent to the vendor's invoice date. The cash disbursements were as follows: $2,700.00, $570.88, $522.75, $350.00, $343.50, $257.64, $200.00, $71.93, $63.92, and $50.00.

Criteria: Section NMAC 6.20.2.17 (A), requires that each school shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. An internal control structure over purchasing shall be established and maintained to assure compliance with school policy, and state and federal regulations. Also, the New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing, states that "the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services or construction."

Effect: Not being in compliance with state purchasing requirements places the School at risk for fraud or misuse of public funds.

Cause: School personnel did not follow established procurement policies of the School.

Auditors' Recommendation: All School personnel should be reminded that initiation of a purchase order is not sufficient for ordering; that an approved Purchase Order is required per School and State guidelines.

Management's Response: It is the opinion of the business manager that any items that did not have supporting documentation were lost in the transition of school files during the closing of the school by the PED. Concerning the instances where the invoice preceded the PO or the PO was not created at all, it was in school policy and procedure to follow all procurement guidelines from the state and the PED. No action will be taken as the school closed effective July 1, 2014.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

RED RIVER VALLEY CHARTER SCHOOL

2014-001 Personnel Files and Benefits Documentation – (Non Compliance)

Condition: During our internal control testwork over a sample of 25 payroll transactions we noted the following:

- One substitute teacher did not have a current license from the Public Education Department (PED). The license on file was expired and had not been renewed.
- We noted one employee who had enrolled and was receiving dental coverage. However, the dental deductions in the amount of $4.78/mo. were not reflected in the employee's payroll.

Criteria: NMAC 6.63.10.8 requires any person seeking to perform services as a substitute teacher must hold a certificate authorizing that person to perform the duties of a substitute teacher. NMAC 6.20.2.18 requires various employee records and documentation to be maintained and available for inspection, including personnel/payroll action forms and employment eligibility verification forms. The New Mexico Public Schools Insurance Authority provides the Red River Valley Charter School (RRVCS) with the amount to be deducted from employee compensation to pay for dental insurance coverage, calculated based on the provider, coverage selected and the employee's salary.

Effect: The RRVCS is not in compliance with 6.63.10.8 and an employee is receiving dental coverage without paying for it.

Cause: Internal controls are not in place to ensure employee deduction amounts are correct. Controls are not in place to ensure substitute teacher certificates are current.

Auditors' Recommendation: Personnel files and employee benefit deduction amounts should be periodically reviewed to ensure all required personnel file documents have been obtained, are current and accurate, and that amounts being deducted for benefits are accurate. RRVCS personnel should ensure the Business Manager is made aware of changes in employee deductions.

Management's Response: Personnel files will be reviewed periodically to ensure all required personnel file documents and licenses have been obtained from teachers and substitutes. In addition, RRVCS's business manager will work with the school office manager to review employee payroll deductions, on a quarterly basis, for consistency with monthly NMPSIA invoices and, if required, make any necessary changes or corrections.

2014-002 Transportation Funds - (Non Compliance)

Condition: Fifty-percent (50%) of the total remaining balance of unspent transportation funds must be forwarded to the Public Education Department (PED) and is due to PED by November 15 of each year. As of June 30, 2013, the RRVCS had a liability of $45,011 for 50% of unspent transportation funds related to fiscal years 2013 and 2012. On November 23, 2013, the School paid $39,073 of this liability to PED. The remaining balance of $5,938, which relates to fiscal year 2012, has not been paid to PED.

RED RIVER VALLEY CHARTER SCHOOL (Continued)

2014-002 Transportation Funds - (Non Compliance) (Continued)

Criteria: NMAC 6.43.3.9, *Requirements for School Districts,* states that school districts shall use their remaining balance as follows:

- At least 25% of their total remaining balance shall be used for to and from transportation related services excluding salaries and benefits.
- Up to 25% of the total remaining balance may be used for other transportation related services excluding salaries and benefits.
- The school district may use 50% of the total remaining balance for to and from related services excluding salaries and benefits.

Fifty percent of the total remaining balance can be utilized at the local level and 50% of the total remaining balance must be forwarded to PED. After the annual audit by a district's Independent Public Accountant, this excess amount, if applicable, is due to PED by November 15.

Effect: The RRVCS is not in compliance with NMAC 6.43.3.9.
Cause: Internal controls were not in place to ensure the 50% of unspent transportation funds were paid by November 15 as required.

Auditors' Recommendation: Develop and implement policies and procedures that will ensure, when applicable, that the required 50% of unspent transportation funds are paid to PED no later than November 15 each year.

Management's Response: RRVCS's business manager has implemented a process for reviewing transportation balances at year-end to ensure, when applicable, that the required 50% of unspent transportation funds are paid to PED no later than November 15 each year.

SAGE MONTESSORI CHARTER SCHOOL

2014-001 Cash Receipts - Noncompliance in Accordance with the New Mexico State Audit Rule (Significant Deficiency)

Condition: During our internal control testwork over a sample of 11 cash receipts we noted five receipts totaling $7,924 where supporting documentation for bank deposits could not be located. We were unable to determine if these receipts were accurately recorded, reconciled, and deposited within 24 hours.

SAGE MONTESSORI CHARTER SCHOOL (Continued)

2014-001 Cash Receipts - Noncompliance in Accordance with the New Mexico State Audit Rule (Significant Deficiency) (Continued)

Criteria: NMAC 6.20.2.11 Internal Control Structure Standards, requires every school district to maintain an internal control structure that will provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. Also, NMAC 6.20.2 states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day.

Effect: The Sage Montessori Charter School (SMCS) is not in compliance with NMAC 6.20.2.11 and we could not determine if the SMCS was in compliance with NMAC 6.20.2.

Cause: The SMCS transitioned to a new location during the year and, according to SMCS personnel, were unable to locate certain documents that occurred during the first six months of fiscal year 2014.

Auditor's Recommendation: Ensure source documentation related to all cash receipts is maintained.

Management's Response: The School will emphasize that the internal control procedures are followed ensuring that all money being received is being recorded correctly and deposited within 24 hours.

2014-002 Personnel Files - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During our internal control testwork over a sample of 25 payroll transactions we noted one instance where an employee's original and signed employment contract was not available for our review.

Criteria: NMAC 6.20.2.18 requires various employee records and documentation to be maintained and available for inspection, including personnel/payroll action forms.

Effect: The SMCS is not in compliance with NMAC 6.20.2.18 with respect to maintaining employee records and documentation.

Cause: Internal controls were not in place to ensure employee contracts were maintained for all employees.

Auditor's Recommendation: Personnel files should be periodically reviewed to ensure all required personnel file documents have been obtained and are complete and accurate.

Management's Response: A review of procedures over employee files will be completed to confirm that each employee's file is complete.

SAGE MONTESSORI CHARTER SCHOOL (Continued)

2014-003 Internal Control Structure - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During our internal control testwork over a sample of 25 cash disbursements we found two instances where goods/services were received and invoiced prior to the creation and approval of a purchase order. The dollar amount for the two invoices totaled $10,624.

Criteria: NMAC 6.20.2.11 Internal Control Structure Standards, requires every school district to maintain an internal control structure that will provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Effect: Purchases could be made without proper approval and expenditures could be reported inaccurately to PED or misclassified in the improper fund, which could lead to funds being overspent and balances misstated. Funds requested for reimbursement could be disallowed and funding could be lost.

Cause: The SMCS did not follow their purchasing policies and procedures.

Auditor's Recommendation: The SMCS should follow their policies and procedures and ensure purchase orders are created and approved prior to receiving goods and services.

Management's Response: The School has internal control procedures established. These procedures will be emphasized with staff. We are also working with Harris to change the renewal date for the financial system contract.

SCHOOL OF DREAMS ACADEMY

2014-001 Per Diem and Mileage Act (Other Matter)

Condition: Through testing procedures performed, we identified the following instance of noncompliance:

- In 1 of 10 travel and per diem reimbursements tested, the employee was reimbursed at a rate of $45 per day for 3 days for out of state travel for meal expenses, amounting to a total reimbursement of $135. The employee did not provide receipts for actual meal expenses for reimbursement.

SCHOOL OF DREAMS ACADEMY (Continued)

2014-001 Per Diem and Mileage Act (Other Matter) (Continued)

Criteria: According to NMAC 2.42.2.9(B)(2) and NMAC 2.42.2.9(B)(3) and the School of Dreams Academy's (SODA) Internal Control Policies manual, receipts must be provided for out of state meals, and the total amount per day must not exceed $45. Meals should be reimbursed based on the actual amount expended, not at the daily maximum amount provided for in the Per Diem and Mileage Act.

Effect: SODA is not in compliance with the Per Diem and Mileage Act, nor is SODA in compliance with its own Internal Control Policy manual, and may have reimbursed the employee in excess of what the employee actually expended for meals.

Cause: SODA does not have an adequate understanding of the Per Diem and Mileage Act.

Recommendation: We recommend that SODA review the Per Diem and Mileage Act, and its own internal control policies manual on a regular basis to ensure employees understand and comply with the rules and regulations governing reimbursement for these types of expenditures.

Management Response: Audit Committee reviewed and will re-address that actual receipt to be turned in so that the School of Dreams Academy is in compliance with the Per Diem and Mileage Act. This will be included in the annual staff return training.

SOUTHWEST AERONAUTICS, MATHEMATICS, AND SCIENCE ACADEMY

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness)

Condition: During our testwork over the Southwest Aeronautics, Mathematics and Science Academy (SAMS) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over the following areas: cash, accounts receivables, capital assets, accounts payable, accrued liabilities, net position/fund balance, revenue, and expenditures. The SAMS was unable to provide supporting documentation to support the reported balances as a whole and its funds.

Furthermore, we noted inconstancies in the documentation that was provided. For example, the capital asset listing that was provided included multiple items that that could not be located and were never received by the SAMS.

Per our inquiry with the current business manager and correspondence with the Office of the State Auditor (OSA) any documents that the SAMS did have were seized by the Federal Bureau of Investigation (FBI) in August 2014 as they are investigating potential fraud of substantial payments of public funds to the private business of the schools previous Head Administrator. As such, we were unable to apply audit procedures and are unable to provide and audit opinion on the SAMS.

SOUTHWEST AERONAUTICS, MATHEMATICS, AND SCIENCE ACADEMY (Continued)

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness) (Continued)

Criteria: Pursuant to 6.20.2.11, every school shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations. Additionally, pursuant to 6.20.2.13, the school shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SAMS lack of internal control over accounting records limits management's ability to monitor the accuracy of transactions and provide assurance with respect to public funds. Also, when sufficient controls are not designed, implemented and operating effectively, it increases the risk of financial misstatements going undetected and an increased risk of theft or fraud.

Cause: The SAMS records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SAMS did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

Recommendation: We recommend that the SAMS design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA. Furthermore, the SAMS should establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations.

Management Response: The school has hired a new administrator along with new contracted business managers. The NM Public Education Department has also taken over the school's Board of Finance. The individuals assigned to work on the financial issues of the school are working together to develop an internal control environment and structure that will safeguard the assets of the school while maintaining compliance with legal and regulatory requirements and appropriately recording and reporting financial activities of the school.

SOUTHWEST AERONAUTICS, MATHEMATICS, AND SCIENCE ACADEMY (Continued)

2014-002 State Audit Rule (Non Compliance)

Condition: As noted within finding 2014-001, during our testwork over Southwest Aeronautics, Mathematics and Science Academy (SAMS) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over account balances. As such, we were unable to perform audit procedures related to the following state compliance requirements:

- Procurement Code (Sections 13-1-1 to 13-1-199 NMSA 1978) and State Purchasing Regulations 1.4.1 NMAC;
- Per Diem and Mileage Act (Sections 10-8-1 to 10-8-8 NMSA 1978), Regulations Governing the Per Diem and Mileage Act, and 2.42.2.11 NMAC;
- Public Money (Sections 6-10-1 to 6-10-63 NMSA 1978);
- Public School Finance Act (Sections 22-8-1 to 22-8-48 NMSA 1978);
- Investment of Public Money (Sections 6-8-1 to 6-8-21 NMSA 1978);
- Educational Retirement Act (Sections 22-11-1 to 22-11-55 NMSA 1978);
- Sale of Public Property (Sections 13-6-1 to 13-6-8 NMSA 1978);
- Anti-Donation Clause (NM Constitution Article IX, Section 14);
- Budget Compliance (Sections 22-8-5 through 22-8-12.2, NMSA 1978);
- Lease Purchase Agreements (New Mexico Constitution Article IX, Section 8 and 11; Sections 6-6-11 to 6-6-12 NMSA 1978; Montano v. Gabaldon, 108 NM 94, 766 P.2d 1328, 1989);
- Retiree Health Care Authority Act (Section 10-7C-1 to 10-7C-19 NMSA 1978);
- Compliance with PED Regulation Section 6.20.2 NMAC, *Governing Budgeting and Accounting for New Mexico Public Schools and School Districts* and the *Manual of Procedures*, primarily Supplement 7, *Cash Controls*;
- Inclusion of the cash reconciliation schedule which reconciles the cash balance as of the end of the previous fiscal year to the cash balance as of the end of the current fiscal year (Section 2.2.2.12 C (4)(b));
- New Mexico Public Schools Insurance Authority (NMPSIA) (Section 2.2.2.12 C (6))
- Annual Physical Inventory (Section 12-6-10 NMSA 1978)

Criteria: Pursuant to 6.20.2.13, the school shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SAMS is not in compliance with State law. Additionally, we unable able to perform testwork over compliance with 2.2.2 NMAC.

Cause: The SAMS records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SAMS did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

SOUTHWEST AERONAUTICS, MATHEMATICS, AND SCIENCE ACADEMY (Continued)

2014-002 State Audit Rule (Non Compliance) (Continued)

Recommendation: We recommend that the SAMS design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA.

Management Response: The school's new administrator along with new contracted business managers and the NM Public Education Department are working to ensure records are maintained to document compliance with legal and regulatory requirements and appropriate recording and reporting of financial activities of the school. In addition, the new administration working with its governing council and finance committee review financial activity to ensure appropriate accountability for the school and maintenance of documentation to be available to the IPA.

SOUTHWEST INTERMEDIATE LEARNING CENTER

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness)

Condition: During our testwork over the Southwest Intermediate Learning Center (SILC) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over the following areas: cash, accounts receivables, capital assets, accounts payable, accrued liabilities, net position/fund balance, revenue, and expenditures. The SILC was unable to provide supporting documentation to support the reported balances as a whole and its funds.

Furthermore, we noted inconstancies in the documentation that was provided. For example, the capital asset listing that was provided included multiple items that that could not be located and were never received by the SILC.

Per our inquiry with the current business manager and correspondence with the Office of the State Auditor (OSA) any documents that the SILC did have were seized by the Federal Bureau of Investigation (FBI) in August 2014 as they are investigating potential fraud of substantial payments of public funds to the private business of the schools previous Head Administrator. As such, we were unable to apply audit procedures and are unable to provide and audit opinion on the SILC.

Criteria: Pursuant to 6.20.2.11, every school shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations. Additionally, pursuant to 6.20.2.13, the school shall maintain adequate

SOUTHWEST INTERMEDIATE LEARNING CENTER (Continued)

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness) (Continued)

accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SILC lack of internal control over accounting records limits management's ability to monitor the accuracy of transactions and provide assurance with respect to public funds. Also, when sufficient controls are not designed, implemented and operating effectively, it increases the risk of financial misstatements going undetected and an increased risk of theft or fraud.

Cause: The SILC records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SILC did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

Recommendation: We recommend that the SILC design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA. Furthermore, the SILC should establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations.

Management Response: The school has hired a new administrator along with new contracted business managers. The NM Public Education Department has also taken over the school's Board of Finance. The individuals assigned to work on the financial issues of the school are working together to develop an internal control environment and structure that will safeguard the assets of the school while maintaining compliance with legal and regulatory requirements and appropriately recording and reporting financial activities of the school.

2014-002 State Audit Rule (Non Compliance)

Condition: As noted within finding 2014-001, during our testwork over Southwest Intermediate Learning Center (SILC) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over account balances. As such, we were unable to perform audit procedures related to the following state compliance requirements:

- Procurement Code (Sections 13-1-1 to 13-1-199 NMSA 1978) and State Purchasing Regulations 1.4.1 NMAC;

SOUTHWEST INTERMEDIATE LEARNING CENTER (Continued)

2014-002 State Audit Rule (Non Compliance) (Continued)

- Per Diem and Mileage Act (Sections 10-8-1 to 10-8-8 NMSA 1978), Regulations Governing the Per Diem and Mileage Act, and 2.42.2.11 NMAC;
- Public Money (Sections 6-10-1 to 6-10-63 NMSA 1978);
- Public School Finance Act (Sections 22-8-1 to 22-8-48 NMSA 1978);
- Investment of Public Money (Sections 6-8-1 to 6-8-21 NMSA 1978);
- Educational Retirement Act (Sections 22-11-1 to 22-11-55 NMSA 1978);
- Sale of Public Property (Sections 13-6-1 to 13-6-8 NMSA 1978);
- Anti-Donation Clause (NM Constitution Article IX, Section 14);
- Budget Compliance (Sections 22-8-5 through 22-8-12.2, NMSA 1978);
- Lease Purchase Agreements (New Mexico Constitution Article IX, Section 8 and 11; Sections 6-6-11 to 6-6-12 NMSA 1978; Montano v. Gabaldon, 108 NM 94, 766 P.2d 1328, 1989);
- Retiree Health Care Authority Act (Section 10-7C-1 to 10-7C-19 NMSA 1978);
- Compliance with PED Regulation Section 6.20.2 NMAC, *Governing Budgeting and Accounting for New Mexico Public Schools and School Districts* and the *Manual of Procedures*, primarily Supplement 7, *Cash Controls*;
- Inclusion of the cash reconciliation schedule which reconciles the cash balance as of the end of the previous fiscal year to the cash balance as of the end of the current fiscal year (Section 2.2.2.12 C (4)(b));
- New Mexico Public Schools Insurance Authority (NMPSIA) (Section 2.2.2.12 C (6))
- Annual Physical Inventory (Section 12-6-10 NMSA 1978)

Criteria: Pursuant to 6.20.2.13, the school shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SILC is not in compliance with State law. Additionally, we unable able to perform testwork over compliance with 2.2.2 NMAC.

Cause: The SILC records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SILC did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

Recommendation: We recommend that the SILC design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA.

Management Response: The school's new administrator along with new contracted business managers and the NM Public Education Department are working to ensure records are maintained to document compliance with legal and regulatory requirements and appropriate recording and reporting of financial

SOUTHWEST INTERMEDIATE LEARNING CENTER (Continued)

2014-002 State Audit Rule (Non Compliance) (Continued)

activities of the school. In addition, the new administration working with its governing council and finance committee review financial activity to ensure appropriate accountability for the school and maintenance of documentation to be available to the IPA.

SOUTHWEST PRIMARY LEARNING CENTER

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness)

Condition: During our testwork over the Southwest Primary Learning Center (SPLC) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over the following areas: cash, accounts receivables, capital assets, accounts payable, accrued liabilities, net position/fund balance, revenue, and expenditures. The SPLC was unable to provide supporting documentation to support the reported balances as a whole and its funds.

Furthermore, we noted inconstancies in the documentation that was provided. For example, the capital asset listing that was provided included multiple items that that could not be located and were never received by the SPLC.

Per our inquiry with the current business manager and correspondence with the Office of the State Auditor (OSA) any documents that the SPLC did have were seized by the Federal Bureau of Investigation (FBI) in August 2014 as they are investigating potential fraud of substantial payments of public funds to the private business of the schools previous Head Administrator. As such, we were unable to apply audit procedures and are unable to provide and audit opinion on the SPLC.

Criteria: Pursuant to 6.20.2.11, every school shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations. Additionally, pursuant to 6.20.2.13, the school shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SPLC lack of internal control over accounting records limits management’s ability to monitor the accuracy of transactions and provide assurance with respect to public funds. Also, when sufficient controls are not designed, implemented and operating effectively, it increases the risk of financial misstatements going undetected and an increased risk of theft or fraud.

SOUTHWEST PRIMARY LEARNING CENTER (Continued)

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness) (Continued)

Cause: The SPLC records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SPLC did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

Recommendation: We recommend that the SPLC design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA. Furthermore, the SPLC should establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations.

Management Response: The school has hired a new administrator along with new contracted business managers. The NM Public Education Department has also taken over the school's Board of Finance. The individuals assigned to work on the financial issues of the school are working together to develop an internal control environment and structure that will safeguard the assets of the school while maintaining compliance with legal and regulatory requirements and appropriately recording and reporting financial activities of the school.

2014-002 State Audit Rule (Non Compliance)

Condition: As noted within finding 2014-001, during our testwork over Southwest Primary Learning Center (SPLC) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over account balances. As such, we were unable to perform audit procedures related to the following state compliance requirements:

- Procurement Code (Sections 13-1-1 to 13-1-199 NMSA 1978) and State Purchasing Regulations 1.4.1 NMAC;
- Per Diem and Mileage Act (Sections 10-8-1 to 10-8-8 NMSA 1978), Regulations Governing the Per Diem and Mileage Act, and 2.42.2.11 NMAC;
- Public Money (Sections 6-10-1 to 6-10-63 NMSA 1978);
- Public School Finance Act (Sections 22-8-1 to 22-8-48 NMSA 1978);
- Investment of Public Money (Sections 6-8-1 to 6-8-21 NMSA 1978);
- Educational Retirement Act (Sections 22-11-1 to 22-11-55 NMSA 1978);
- Sale of Public Property (Sections 13-6-1 to 13-6-8 NMSA 1978);
- Anti-Donation Clause (NM Constitution Article IX, Section 14);
- Budget Compliance (Sections 22-8-5 through 22-8-12.2, NMSA 1978);

SOUTHWEST PRIMARY LEARNING CENTER (Continued)

2014-002 State Audit Rule (Non Compliance) (Continued)

- Lease Purchase Agreements (New Mexico Constitution Article IX, Section 8 and 11; Sections 6-6-11 to 6-6-12 NMSA 1978; Montano v. Gabaldon, 108 NM 94, 766 P.2d 1328, 1989);
- Retiree Health Care Authority Act (Section 10-7C-1 to 10-7C-19 NMSA 1978);
- Compliance with PED Regulation Section 6.20.2 NMAC, *Governing Budgeting and Accounting for New Mexico Public Schools and School Districts* and the *Manual of Procedures*, primarily Supplement 7, *Cash Controls*;
- Inclusion of the cash reconciliation schedule which reconciles the cash balance as of the end of the previous fiscal year to the cash balance as of the end of the current fiscal year (Section 2.2.2.12 C (4)(b));
- New Mexico Public Schools Insurance Authority (NMPSIA) (Section 2.2.2.12 C (6))
- Annual Physical Inventory (Section 12-6-10 NMSA 1978)

Criteria: Pursuant to 6.20.2.13, the school shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SPLC is not in compliance with State law. Additionally, we unable able to perform testwork over compliance with 2.2.2 NMAC.

Cause: The SPLC records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SPLC did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

Recommendation: We recommend that the SPLC design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA.

Management Response: The school's new administrator along with new contracted business managers and the NM Public Education Department are working to ensure records are maintained to document compliance with legal and regulatory requirements and appropriate recording and reporting of financial activities of the school. In addition, the new administration working with its governing council and finance committee review financial activity to ensure appropriate accountability for the school and maintenance of documentation to be available to the IPA.

SOUTHWEST SECONDARY LEARNING CENTER

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness)

Condition: During our testwork over the Southwest Secondary Learning Center (SSLC) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over the following areas: cash, accounts receivables, capital assets, accounts payable, accrued liabilities, net position/fund balance, revenue, and expenditures. The SSLC was unable to provide supporting documentation to support the reported balances as a whole and its funds.

Furthermore, we noted inconstancies in the documentation that was provided. For example, the capital asset listing that was provided included multiple items that that could not be located and were never received by the SSLC.

Per our inquiry with the current business manager and correspondence with the Office of the State Auditor (OSA) any documents that the SSLC did have were seized by the Federal Bureau of Investigation (FBI) in August 2014 as they are investigating potential fraud of substantial payments of public funds to the private business of the schools previous Head Administrator. As such, we were unable to apply audit procedures and are unable to provide and audit opinion on the SSLC.

Criteria: Pursuant to 6.20.2.11, every school shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations. Additionally, pursuant to 6.20.2.13, the school shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SSLC lack of internal control over accounting records limits management's ability to monitor the accuracy of transactions and provide assurance with respect to public funds. Also, when sufficient controls are not designed, implemented and operating effectively, it increases the risk of financial misstatements going undetected and an increased risk of theft or fraud.

Cause: The SSLC records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SSLC did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

Recommendation: We recommend that the SSLC design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA. Furthermore, the SSLC should establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-

SOUTHWEST SECONDARY LEARNING CENTER (Continued)

2014-001 Lack of Internal Controls over Accounting Records (Material Weakness) (Continued)

guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP, and that state and federal programs are managed in compliance with applicable laws and regulations.

Management Response: The school has hired a new administrator along with new contracted business managers. The NM Public Education Department has also taken over the school's Board of Finance. The individuals assigned to work on the financial issues of the school are working together to develop an internal control environment and structure that will safeguard the assets of the school while maintaining compliance with legal and regulatory requirements and appropriately recording and reporting financial activities of the school.

2014-002 State Audit Rule (Non Compliance)

Condition: As noted within finding 2014-001, during our testwork over Southwest Secondary Learning Center (SSLC) we were unable to obtain sufficient appropriate audit evidence to perform audit procedures over account balances. As such, we were unable to perform audit procedures related to the following state compliance requirements:

- Procurement Code (Sections 13-1-1 to 13-1-199 NMSA 1978) and State Purchasing Regulations 1.4.1 NMAC;
- Per Diem and Mileage Act (Sections 10-8-1 to 10-8-8 NMSA 1978), Regulations Governing the Per Diem and Mileage Act, and 2.42.2.11 NMAC;
- Public Money (Sections 6-10-1 to 6-10-63 NMSA 1978);
- Public School Finance Act (Sections 22-8-1 to 22-8-48 NMSA 1978);
- Investment of Public Money (Sections 6-8-1 to 6-8-21 NMSA 1978);
- Educational Retirement Act (Sections 22-11-1 to 22-11-55 NMSA 1978);
- Sale of Public Property (Sections 13-6-1 to 13-6-8 NMSA 1978);
- Anti-Donation Clause (NM Constitution Article IX, Section 14);
- Budget Compliance (Sections 22-8-5 through 22-8-12.2, NMSA 1978);
- Lease Purchase Agreements (New Mexico Constitution Article IX, Section 8 and 11; Sections 6-6-11 to 6-6-12 NMSA 1978; Montano v. Gabaldon, 108 NM 94, 766 P.2d 1328, 1989);
- Retiree Health Care Authority Act (Section 10-7C-1 to 10-7C-19 NMSA 1978);
- Compliance with PED Regulation Section 6.20.2 NMAC, *Governing Budgeting and Accounting for New Mexico Public Schools and School Districts* and the *Manual of Procedures*, primarily Supplement 7, *Cash Controls*;
- Inclusion of the cash reconciliation schedule which reconciles the cash balance as of the end of the previous fiscal year to the cash balance as of the end of the current fiscal year (Section 2.2.2.12 C (4)(b));

SOUTHWEST SECONDARY LEARNING CENTER (Continued)

2014-002 State Audit Rule (Non Compliance) (Continued)

- New Mexico Public Schools Insurance Authority (NMPSIA) (Section 2.2.2.12 C (6))
- Annual Physical Inventory (Section 12-6-10 NMSA 1978)

Criteria: Pursuant to 6.20.2.13, the school shall maintain adequate accounting records, prepare financial statements in accordance with GAAP (specifically, GASB 34), and provide complete, accurate, and timely information to the independent public accountant (IPA) as requested.

Effect: The SSLC is not in compliance with State law. Additionally, we unable able to perform testwork over compliance with 2.2.2 NMAC.

Cause: The SSLC records were in disarray as the previous Head Administrator did not maintain complete and accurate records. Any documentation the SSLC did have were seized by the FBI as part of their investigation related to the previous Head Administrator.

Recommendation: We recommend that the SSLC design and implement controls to ensure adequate accounting records are maintained, complete, and reconciled timely in order to provide complete, accurate, and timely information to the IPA.

Management Response: The school's new administrator along with new contracted business managers and the NM Public Education Department are working to ensure records are maintained to document compliance with legal and regulatory requirements and appropriate recording and reporting of financial activities of the school. In addition, the new administration working with its governing council and finance committee review financial activity to ensure appropriate accountability for the school and maintenance of documentation to be available to the IPA.

TAOS ACADEMY

2014-001 Procurement Code – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: The Taos Academy did not follow proper procurement procedures when obtaining a vendor to install solar panels for the school. The total estimated cost was $59,996. The Taos Academy obtained three quotes by making phone calls rather than sending written requests containing the specifications for the procurement.

Criteria: Per NMAC 1.4.1.51 STATE PROCUREMENT: A. Quotation to be obtained. Insofar as it is practical for small purchases of nonprofessional services, construction or items of tangible personal property having a value exceeding twenty thousand dollars ($20,000) but not exceeding sixty thousand dollars

TAOS ACADEMY (Continued)

2014-001 Procurement Code – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

($60,000), and in accordance with any procedures or processes set forth by the state purchasing agent, no fewer than three businesses shall be solicited via written requests containing the specifications for the procurement to submit written quotations that are recorded and placed in the procurement file.
Effect: The Taos Academy could be overpaying for services and/or goods.

Cause: Lack of proper internal controls to ensure the school follows procurement guidelines when obtaining a vendor for construction services.

Auditors' Recommendation: For construction purchases between $20,000 and $60,000, the Taos Academy should solicit no fewer than three businesses via written requests containing the specifications for the procurement.

Management's Response: The School did receive three written bids for services, however, a formal request was not sent to those that bid. In the future, if the school shall seek bids for construction, specifications will be used for the purpose of soliciting bids.

TAOS INTEGRATED SCHOOL OF THE ARTS

2014-001 – Timely Deposits – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During our cash receipts test work we noted that a cash receipt in the amount of $1,436.89 was received on May 1, 2014, but was not deposited until May 13, 2014. In addition, we noted a cash receipt in the amount of $5 that was received on May 6, 2014 but was not deposited until May 8, 2014.

Criteria: NMAC 6.20.2.14.C states "Money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day."

Effect: The Taos Integrated School of Arts (TISA) was not in compliance with State Statute. Additionally the TISA has exposed itself to possible misappropriation of assets.

Cause: Cash deposits were not taken to the bank within a 24 hour period due to available staffing.

Auditors' Recommendation: We recommend policies and procedures be implemented to track and maintain all items relating to cash receipts and ensure timely deposits are made within 24 hours.

TAOS INTEGRATED SCHOOL OF THE ARTS (Continued)

2014-001 – Timely Deposits – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Management's Response: One of the deposits in question would not clear the bank on May 1, 2014 so the bank did not accept the deposit. The Office Manager checked with the account holder and they confirmed that there would not be sufficient funds until the date of the actual deposit. The School will continue to follow policy and improve processes to ensure that deposits are deposited in the bank within a 24 hour period.

THE LEARNING COMMUNITY CHARTER SCHOOL

2014- 001 Internal Control Structure (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During internal control testwork over a sample of 25 cash disbursements, we noted the following:

- Three transactions, totaling $9,489, did not have supporting documentation.
- Purchase orders were not created for employee reimbursements.

Criteria: Per NMAC 6.20.2.17 PURCHASING: A. Each school district shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. Purchasing policies and procedures for grant funding shall comply with requirements established within the grant and the Procurement Code. An internal control structure over purchasing shall be established and maintained to assure compliance with school district policy, and state and federal regulations.

Effect: Proper maintenance of supporting documentation relating to financial transactions is necessary to mitigate possible dual payment of invoices and to resolve possible disputes with vendors, etc.

Reimbursements could be made without proper approval and expenditures could be reported inaccurately or misclassified in the improper fund. This could result in funds being overspent and balances misstated.

Cause: The timing of the audit occurred after the school closed and access to financial documents was limited to scanned versions of files. Supporting documentation, such as invoices and purchase orders, could not be located from the scanned documents.

Auditors' Recommendation: The School should have developed and implemented internal controls making sure that all supporting documentation was maintained. Lastly, purchase orders should have been prepared for all employee reimbursements.

THE LEARNING COMMUNITY CHARTER SCHOOL (Continued)

2014- 001 Internal Control Structure (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter) (Continued)

Management's Response: The Learning Community Charter School was closed by the Public Education Commission effective June 30, 2014.

2014-002 Personnel File Maintenance (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During internal control testwork over a sample of 25 payroll transactions, we noted the following:

- Two employees did not have I-9 documents and an additional two had I-9 documentation without authorized signatures.
- One employee did not have a W-4 on file.
- Separate personnel files were not kept and maintained for two substitute teachers and one teacher.
- Background checks were not on file for a contract coach and a substitute teacher.
- Six employees were missing insurance authorization forms.
- For 19 of 25 transactions tested, payroll registers could not be located during the audit. Proper review and approval could not be determined.

Criteria: Section 6.20.2.18 from NMAC regarding payroll states the following: The local board shall establish written payroll policies and procedures which comply with state and federal regulations on payroll as well as maintaining strict internal controls, close supervision and financial accounting in accordance with GAAP. School districts shall maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, employment eligibility verification (federal form I-9 for citizenship certification), federal and state withholding allowance certificates, pay deduction authorizations, pay or position change notices, Educational Retirement Act plan application, and direct deposit authorizations.

NMSA 22-10A-5 section D states the following: An applicant who has been offered employment, a contractor or a contractor's employee with unsupervised access to students at a public school shall provide two fingerprint cards or the equivalent electronic fingerprints to the local school board, regional education cooperative or charter school to obtain the applicant's federal bureau of investigation record.

Authorization of payroll registers are to follow 6.20.2.11 of NMAC section B which states that each school district shall develop, establish and maintain a structure of internal accounting controls and written procedures to provide for segregation of duties, a system of authorization and recording

THE LEARNING COMMUNITY CHARTER SCHOOL (Continued)

2014-002 Personnel File Maintenance (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter) (Continued)

procedures, and sound accounting practices in performance of duties and functions. The duties to be segregated are the authorization to execute a transaction, recording the transaction, and custody of assets involved in the transaction.

Effect: The School could be exposed to unnecessary risk when background checks are not performed satisfactorily upon hire of all employees. Payroll liabilities could be misstated and have a potential effect on budget constraints when not reviewed in a timely manner. Incomplete personnel files can lead to future issues or disputes when all supporting documentation is not maintained.

Cause: Employee files were not properly maintained and kept up to date to include all changes to employee information. Portions of supporting documentation were kept but files were not complete upon review.

Auditors' Recommendation: The School should have reviewed personnel files to ensure all required documentation was completed and current for each employee. Authorization for all payroll registers should have been obtained prior to payroll disbursement. Lastly, all employees should have had a favorable background check before any interaction with the students at the School.

Management's Response: The Learning Community Charter School was closed by the Public Education Commission effective June 30, 2014.

2014-003 Timely Deposits (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During our cash receipts test work we noted that a cash receipt in the amount of $1,440 was deposited on March 3, 2014 but supporting documentation did not have any indication of when the check was received.

Criteria: NMAC 6.20.2.14.C states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day."

Effect: The School was not in compliance with State Statute. Additionally the School has exposed itself to possible misappropriation of assets.

Cause: After the closure of the School, supporting documentation could not be located for review during the audit.

Auditors' Recommendation: The School should have created procedures to ensure that all funds were properly deposited within 24 hours and supporting documentation was properly maintained.

THE LEARNING COMMUNITY CHARTER SCHOOL (Continued)

2014-003 Timely Deposits (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter) (Continued)

Management's Response: The Learning Community Charter School was closed by the Public Education Commission effective June 30, 2014.

2013-002 [CS 2013-02-VV] Procurement Code (Noncompliance in Accordance with the New Mexico State Audit Rule) (Repeat Finding) (Other Matter)

Condition: During proceedings to close the School, the School hired a related-party to perform legal services. The total amount spent was $103,300 and no bid process was documented.
Criteria: As indicated in NMAS 1.4.1.14 through 1.4.1.28, an internal control structure over purchasing shall be established and maintained to assure compliance with school district policy and state and federal regulations in assurance that all the bids are supported by proper documentation.

Effect: The School is not in compliance with NMAS 1.14.1.14 through 1.4.1.28.

Cause: The School made numerous attempts to contact various firms for legal services. Attempts were made via newspaper and telephone, however, supporting documentation could not be located documenting such attempts. According to School personnel, the School contends that the vendor chosen provided sole source services for the School's ensuing legal litigation and throughout the PED appeals process.

Auditors' Recommendation: The School should have designated a procurement agent who would have been accountable for maintaining records and ensuring State procurement policies were being implemented and followed. The School should have obtained bids when services rendered were greater than $60,000.

Management's Response: The Learning Community Charter School was closed by the Public Education Commission effective June 30, 2014.

2009-003 [CS 2009-203-VV] Internal Control Structure, (Noncompliance in Accordance with the New Mexico State Audit Rule) (Repeat Finding) (Other Matter)

Condition: During our testwork we noted the following:

- The trial balance had liability accounts which had debit balances totaling $38,868 that were not reconciled for several years.
- The capital assets listing could not be provided to the auditors during the fieldwork.

THE LEARNING COMMUNITY CHARTER SCHOOL (Continued)

2009-003 [CS 2009-203-VV] Internal Control Structure, (Noncompliance in Accordance with the New Mexico State Audit Rule) (Repeat Finding) (Other Matter) (Continued)

Criteria: Per NMAC 6.20.2.11 Internal Control Structure Standards, every school district shall maintain internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use of disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Per NMAC 6.20.2.22, a control system shall be implemented for assets of a long-term character which are intended to continue to be held or used, such as land, buildings, furniture, machinery and equipment shall be acquired and accounted for through the development and implementation of a complete property control system which shall be adopted by the local board and in accordance with GAAP.

*Effect***:** The school is not in compliance with the State Auditors rule for capital assets and internal controls implemented for safeguarding capital assets and establishing accountability for their custody and use.

Cause: Turnover in the Business Manager position and the closure of the school led to difficulties in reconciling capital asset information at year end.

Auditors' Recommendation: We recommend the school conform to the following:

- The School should have performed reconciliations of all accounts on a monthly basis. This would have helped in making pertinent decisions affecting the School by the Governance board and management.
- The School should have reconciled the annual inventory to the capital asset listing to ensure all items were properly capitalized. The School should have implemented policies and procedures to ensure the depreciation schedule was maintained and calculated properly.

Management's Response: The Learning Community Charter School was closed by the Public Education Commission effective June 30, 2014.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

TIERRA ADENTRO

2014-001 Internal Control Structure and Prepayment for services (Non-Compliance in Accordance with the New Mexico State Audit Rule and Significant Deficiency)

Condition: During our review of twenty-five disbursements, we noted one expenditure totaling $7,000 that did not have adequate supporting documentation. According to Tierra Adentro personnel, this payment was an advance for services but there is no support to determine this. In addition, we could not determine if the advance was ever repaid. Lastly, based on review of this contractor, it appears the individual should have been classified as an employee instead of a contractor.

Criteria: NMAC 6.20.2.11 Internal Control Structure Standards, requires every school to maintain an internal control structure that will provide management with reasonable assurance assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP.

Section 13-1-158 NMSA 1978 states that "no warrant, check or other negotiable instrument shall be issued in payment for any purchase of services unless the using agency certifies that the services have been performed and met specifications."

Effect: Tierra Adentro is not in compliance with NMAC 6.20.2.11 and Section 13-1-158 NMSA 1978.

Cause: Internal controls were not in place to ensure adequate support was maintained and that contractors were properly reviewed to determine employee versus contractor status.

Auditor's Recommendation: Adequate support should be maintained for expenditures. The School should ensure internal controls are in place to make sure that all services have been performed before payment has been made. If the expenditure was an advance, the School should ensure the advance was repaid. In addition, the School should use IRS guidance when determining whether an individual is an employee or a contractor.

Management's Response: The school will emphasize that the internal control procedures are followed to ensure that no vendor/employee is overpaid or pays for services/goods that have not been received. The school will also follow the IRS guidance when determining whether an employee is a contractor or employee.

UPLIFT COMMUNITY SCHOOL

2014-001 Supporting Documentation – Noncompliance with the New Mexico State Auditor's Rule (Significant Deficiency)

Condition: During our test-work the following items were noted:

- In a sample of 60 expenditures, there was one disbursement in the amount of $320, where the school could not provide any supporting documentation.
- In a sample of twenty cash receipts selected for student fees and student activities, seventeen of the items selected were missing a receipt (approximate total of $2,800) to the party submitting payment and six items (approximate total of $734) were missing a bank deposit slip.

Criteria: Per NMAC 6.20.2.11 (A) Internal Control Structure Standards, "every school district shall establish and maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with GAAP. The internal control structure shall include written administrative controls (rules, procedures and practices, and policies that affect the organization) and accounting controls (activity cycles, financial statement captions, accounting applications including computer systems) that are in accordance with GAAP."

Additionally, NMSAC 6.20.2.14.C states that money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day.

Effect: It could not be determine if the expenditure and the cash receipts were properly recorded on the general ledger. It could not be determined if the cash receipts were deposited in a timely manner.

Cause: For the missing cash disbursement, the School misplaced the supporting documentation. For the missing receipts and deposit slips, the items were unavailable because they were turned over to local law enforcement as part of a police investigation (See finding 2014-002).

Recommendation: The School should put in place internal controls so that documentation for all financial activity is available for examination both by school personnel and external parties such as the auditors.

Management Response: Uplift Community School has worked hard to establish and maintain a set of internal controls and policies and procedures around procurement. FY2014 was a very unique year in which the school experienced a large amount of instability at the top. With the sudden and urgent resignation of the schools Director, the school had difficulty finding a permanent replacement and was forced to use a combination of pioneering qualified staff as well as an outside part-time employee. The

UPLIFT COMMUNITY SCHOOL (Continued)

2014-001 Supporting Documentation – Noncompliance with the New Mexico State Auditor's Rule (Significant Deficiency) (Continued)

school was not able to adhere to the normal policies and procedures that had been in place due to the lack of a Director on site during all times of the school day. The school has reviewed the policies and procedures and has hired a new full time Director.

2014-002 State Auditor Notification – Noncompliance with the New Mexico State Auditor's Rule (Other Matters)

Condition: The UCS determined that $1,687 in cash receipts for the lunch program was misappropriated by school personnel. The UCS notified local police as well as the New Mexico Public Insurance Authority. However, the UCS did not notify the New Mexico Office of the State Auditor.

Criteria: NMAC 2.2.2.10 K (2) states that "Pursuant to 12-6-6 NMSA 1978 (Criminal Violations), an agency or IPA shall notify the State Auditor immediately, in writing, upon discovery of any violation of a criminal statute in connection with financial affairs. The notification shall include an estimate of the dollar amount involved, and a complete description of the violation, including names of persons involved and any action taken or planned".

Effect: The UCS is not in compliance with New Mexico State Statutes in regards to notifying the New Mexico State Auditor's Office of possible violations of criminal statutes.

Cause: The UCS was not aware of the Statute regarding notification to the New Mexico State Auditor's Office.

Recommendation: The UCS should make all key personnel in the UCS aware of the requirements of NMAC 2.2.2.10 K (2).

Management Response: Management was not aware of the requirement to notify the state auditor of any violation of criminal statutes. The school immediately notified the local authorities, as well as their insurance company of the variance. The school will ensure that all key personnel are aware of the requirement to notify the state auditor of criminal violations of the statutes relating to financial matters.

2014-003 Mileage Reimbursements – Noncompliance with the New Mexico State Auditor's Rule (Other Matters)

Condition: For the year ended June 30, 2014, it was noted that the UCS reimbursed employees for mileage at a rate of fifty six cents per mile.

UPLIFT COMMUNITY SCHOOL (Continued)

2014-003 Mileage Reimbursements – Noncompliance with the New Mexico State Auditor's Rule (Other Matters) (Continued)

Criteria: NMAC 2.42.2.11 (B) (1) states public officers and employees of state agencies shall be reimbursed for mileage accrued in the use of a private automobile or aircraft in the official discharge of official duties as follows: "unless the secretary has reduced the rates set for mileage for any class of public officials and for employees of state agencies pursuant to Section 10-8-5 (D) NMSA, 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle."

Effect: The UCS is not in compliance with New Mexico State Statutes in regards to mileage reimbursement.

Cause: The UCS contends that it is a Local Public Body and not a State Agency. As a Local Public Body, the school contends that it may reimburse mileage at the full amount authorized by the IRS. The New Mexico Public Education Department (PED) has indicated to the auditors that charter schools chartered under PED are a component unit of PED and should reimburse mileage at the rate approved for a State Agency.

Recommendation: The UCS should reimburse mileage at 80% of the internal revenue service standard mileage rate set January 1 of the previous year for each mile traveled in a privately owned vehicle.

Management Response: The school will adopt updated financial policies and procedures concerning travel and per diem limiting the mileage reimbursement rate to 80% of the current IRS rate as of January 1 of the current year.

2014-004 Budgetary Conditions – Noncompliance with the New Mexico State Auditor's Rule (Other Matters)

Condition: The UCS has expenditure functions where actual expenditures exceeded budgetary authority for the following fund:

Federal Charter School Planning 24146		
	Support Services	$4,205

Criteria: Per NMAC 6.20.2.9(A) every school district shall follow budget requirements stated in Sections 22-8-5 through 22-8-12.2 NMSA 1978, and procedures of the department in preparing, submitting, maintaining and reporting budgetary information. Budgetary control shall be at the function level. Over-expenditure of a function shall not be allowed.

UPLIFT COMMUNITY SCHOOL (Continued)

2014-004 Budgetary Conditions – Noncompliance with the New Mexico State Auditor's Rule (Other Matters) (Continued)

Effect: The UCS is out of compliance with New Mexico State Statute and the control established by the use of budgets has been compromised, which could result in deficit fund balances and unnecessary usage of operating funds to cover the over-expenditures.

Cause: Actual expenditures were not being adequately monitored by management.

Recommendation: We recommend the UCS establish a policy of budgetary review by the governing council or finance committee at the end of each quarter and have the governing council approve the necessary budgetary adjustments to ensure funds are not over expended.

Management Response: Management will review the current policy that is in place to review budget-to-actuals for the estimation of the year end position. Currently the schools finance committee meets in June to review the estimates and create any necessary budget adjustments. In FY2014 the remaining authority located in the Federal Charter School Planning grant was realigned at the last moment after the date for the final Budget Adjustment Requests were due to the PED.

2013-002 [CS 2013-02-XX] Internal Control Structure (Non Compliance)

Condition: During our fieldwork we noted that the Uplift Community School (UCS) does not have a contract in place with the food service vendor. Total disbursements were $25,679.82.

Criteria: Per 7 CFR part 210.21(f) Cost reimbursable contracts-(1) required provisions. The school food authority must include the following provisions in all cost reimbursable contracts, including contracts with cost reimbursable provisions, and in solicitation documents prepared to obtain offers for such contracts: (i) allowable costs will be paid from the nonprofit school service account to the contractor net of all discounts, rebates and other applicable credits accruing to or received by the contractor or any assignee under the contract, to the extent those credits are allocable to the allowable portion of the costs billed to the school food authority.

Effect: The UCS could be overpaying for services.

Cause: The UCS entered into an arrangement with the food service vendor to provide food but did not enter into a formal contract for the pricing.

Recommendation: We recommend that contracts be completed for food services in order to ensure that all the CFR compliance requirements are properly included in the contract.

UPLIFT COMMUNITY SCHOOL (Continued)

2013-002 [CS 2013-02-XX] Internal Control Structure (Non Compliance) (Continued)

Management's Response: Management has requested multiple times from numerous individuals within the Sysco Company the food contract. Sysco only provides the raw materials for the food service program. The school is aware of the requirement to have an executed agreement with the food service provider. The school is investigating other vendor options who will easily provide the requested agreement, bringing the school into compliance.

WALATOWA HIGH CHARTER SCHOOL

2014-001 – Internal Control Structure – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During our cash receipts testwork, we noted that the WHCS had receipts from student activities, such as athletic events, game tickets and concessions, and various fundraisers. The WHCS is not performing multiple independent individual counts of cash collected at athletic events. For sporting events, there is no reconciliation of total tickets issued and sold for these events (excluding district games).

Criteria: NMAC 6.20.2.11 requires that every school district maintain an internal control structure to provide management with reasonable assurance that assets are safe-guarded against loss from unauthorized use of dispositions.

Effect: The WHCS was not in compliance with State Statute regarding cash receipts collected at student activities. Additionally, the WHCS is exposed to misappropriation of assets due to the lack of multiple independent cash counts at sporting events.

Cause: Due to the availability of staff, the WHCS has difficulty performing independent counts at sporting events at the School.

Auditors' Recommendation: Ensure policies and procedures are implemented to safeguard cash collected at student activity events, i.e. sporting events. The following controls should be implemented:

- Cash should be collected by at least two individuals. Each person should have their own bank which is maintained and then counted by another individual. Once counted by more than one individual, the total amount should be documented and the individuals who performed the count should sign the cash count form.
- The WHCS should use pre-numbered tickets for all sporting events. The number of tickets used for a sporting event should be documented and tracked. Once the event is completed, the WHCS should reconcile the number of tickets sold to the total amount of cash collected. Any discrepancies should be investigated.

WALATOWA HIGH CHARTER SCHOOL (Continued)

2014-001 – Internal Control Structure – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Management's Response: The School will distribute and verify pre-numbered tickets for all sporting events for tracking. Once the event is completed, the School will reconcile the number of tickets sold to the total amount of cash collected. Two designated School employees will review tickets sold, collect and count cash, secure documented amount in the School facility. Within 24 hours, the School will deposit the amount at the bank and will return the receipt to the Business Manager for review. All bank deposits and cash counts are to coincide. A cash form has been created and will be used throughout the cash handling process.

2014-002 - Payroll Transactions - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During our internal control testwork, we noted the following:

- A background check was not on file for one employee.
- For three employees the employee files included fingerprint cards taken but there was no supporting documentation evidencing that background checks had been performed and reviewed by the School.
- The Principal did not sign two of the payroll registers for pay periods in October 2013 and May 2014 documenting the review and approval of payroll disbursements.

Criteria: According to 22-10.3.3 NMSA 1978, policies and procedures should be developed requiring background checks on an applicant who has been offered employment with unsupervised access to students at a charter school.

Per 6.20.2.11 of NMAC section B which states that each school district shall develop, establish and maintain a structure of internal accounting controls and written procedures to provide for segregation of duties, a system of authorization and recording procedures, and sound accounting practices in performance of duties and functions. The duties to be segregated are the authorization to execute a transaction, recording the transaction, and custody of assets involved in the transaction.

Effect: The WHCS could be exposed to unnecessary risk when background checks are not completed upon hiring of employees. Payroll errors could occur without the proper review and approval of payroll.

Cause: Employee files were not properly maintained and kept up to date to include all changes to employee information. Portions of supporting documentation was kept but information was not complete for review. Payroll registers were not always presented for review nor authorized prior to payroll disbursement.

WALATOWA HIGH CHARTER SCHOOL (Continued)

2014-002 - Payroll Transactions - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Auditor's Recommendation: Ensure the WHCS reviews their policies and procedures regarding background checks and ensures that each employee has a background check before being hired by the school. In addition, ensure that authorization for all payroll registers are obtained prior to payroll disbursement.

Management's Response: All employees will be required to complete and/or update all background checks which will be placed in personnel file no later than August 2015. The mentioned unsigned payroll registers have been reviewed and corrected for October 2013 and May 2014. In the future, the Principal will review, approve and sign payroll summary prior to any payroll disbursement.

2013-001 [CS 2013-01-ZZ] – Timely Deposits – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: During our cash receipts testwork, we noted that a cash receipt in the amount of $10,019.63 was received on August 9, 2013 but was not deposited until August 15, 2013.

Criteria: NMAC 6.20.2.14.C states "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day."

Effect: The WHCS was not in compliance with State Statute. Additionally the WHCS has exposed itself to possible misappropriation of assets.

Cause: The WHCS's policies and procedures are not being enforced.

Auditors' Recommendation: Implement policies and procedures to ensure deposits are made within 24 hours of the cash receipt.

Management's Response: We will enforce school policies and procedures to ensure deposits are made within the 24 hours of cash receipt. The school designates the Business Manager, Principal and/or designee to deposit cash receipts within the 24 hour period. In case deposit cannot be made in the timeframe allotted, the Business Manager will provide documentation and deposit next business day.

2013-004 [CS 2013-04-ZZ] Travel & Per Diem - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: The Walatowa High Charter School (WHCS) paid out mileage of $0.45 per mile to employees for mileage accrued in the use of their private automobiles for an amount of $401.40. However, the WHCS should have paid the employee $396.05 based on travel and per diem regulations.

WALATOWA HIGH CHARTER SCHOOL (Continued)

2013-004 [CS 2013-04-ZZ] Travel & Per Diem - Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Criteria: Per NMAC 2.42.2.11 mileage should be paid out for use in a private vehicle at 80% of the Internal Revenue Service (IRS) standard rate set January 1 of the previous year for each mile traveled in a privately owned vehicle. (The transaction took place in 2013 and the IRS approved rate for 2012 was $0.555.)

Effect: The WHCS is not in compliance with New Mexico state statute and overpaid an employee for travel on behalf of the WHCS.

Cause: The WHCS's Governing Board in June 2009 approved that all mileage would be paid out at $0.45 per mile. However, the WHCS is not adjusting this rate annually to ensure they are in compliance with IRS rate changes.

Auditor's Recommendation: Follow the Travel and Per Diem and Mileage Act for local governments when paying out mileage reimbursements.

Management Response: The Board will approve travel and per diem reimbursement based on IRS annual standard amounts. Mileage will be based utilizing the Rand McNally mileage calculator.

2013-008 [CS 2013-08-ZZ] - Employee Contract – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters)

Condition: When testwork was completed for payroll disbursements, it was noted that three employees received retroactive salary increases during the school year for increased duties and expectations. Between the three employees, the salary increases totaled $24,386 for the 2013-2014 school year.

Criteria: Section 6.20.2.18 from NMAC regarding payroll states the following: The local board shall establish written payroll policies and procedures which comply with state and federal regulations on payroll as well as maintaining strict internal controls, close supervision and financial accounting in accordance with GAAP. School districts shall maintain and have available for inspection the following employee record documentation: employment contracts (including increments), personnel/payroll action forms, certification records, employment eligibility verification (federal form I-9 for citizenship certification), federal and state withholding allowance certificates, pay deduction authorizations, pay or position change notices, Educational Retirement Act plan application, and direct deposit authorizations.

Effect: Without proper documentation and authorization, the incorrect salary amount could be paid to staff.

WALATOWA HIGH CHARTER SCHOOL (Continued)

2013-008 [CS 2013-08-ZZ] - Employee Contract – Noncompliance in Accordance with the New Mexico State Audit Rule (Other Matters) (Continued)

Cause: The WHCS documented the salary increase and list of increased duties performed by the employees. However, there was no formal documented authorization performed by the Principal. Instead, the Principal gave verbal confirmation at the time of the salary increases as authorization.

Auditor's Recommendation: Ensure the WHCS reviews their policies and procedures regarding contracts to ensure that each employee has a new or amended contract approved in writing by proper personnel when changes occur and kept within the employee file.

Management's Response: When salary increases occur during the school year, the Business Manager will make the calculations and determinations for whether the allocation is allowed. A formal request for salary increases will then be given to the Principal for review and approval.

WILLIAM W. & JOSEPHINE DORN CHARTER COMMUNITY SCHOOL

2014-001 Timely Deposits (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During cash receipts test work, we noted the School did not maintain a cash receipt log that documents the date of cash receipts. We were unable to obtain sufficient audit evidence to confirm that deposits were completed within the required 24-hour timeframe.

Criteria: NMAC 6.20.2 states that "money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day." Section D of that same statute states that "a cash receipts journal is to be used for each fiscal year beginning July 1 and ending June 30, and is to be presented to the school district's auditor during the annual audit.

Effect: The School was not in compliance with State Statute. Additionally the School has exposed itself to possible misappropriation of assets.

Cause: The School did not maintain a cash receipts log.

Auditors' Recommendation: Ensure the school utilizes a cash receipts log to document the date and amount of each receipt and create a procedure to ensure that all funds are deposited within 24 hours of receipt.

Management's Response: The School has created a cash receipt log to document the date and amount of each receipt collected by the School. This will also help ensure that all money received is deposited within a 24-hour period.

WILLIAM W. & JOSEPHINE DORN CHARTER COMMUNITY SCHOOL (Continued)

2014-002 Personnel File Maintenance (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During our review of a sample of 25 employee files, we noted the following issues:

- One employee had an expired background check and background checks could not be provided for two other employees.
- An employee contract was initially signed and authorized by a party related to the employee. This was subsequently corrected by obtaining an applicable signature from a governing council member.
- A time off request was completed and signed by an employee but did not include the approval signature of the Principal.

Criteria: According to 22-10.3.3 NMSA 1978, policies and procedures should be developed requiring background checks on an applicant who has been offered employment with unsupervised access to students at a charter school.

Management is responsible for the identification of related party transactions and should implement adequate internal controls to ensure that transactions with related parties are appropriately identified. An independent review should be performed if deemed necessary.

State Regulation 6.20.2.18 NMAC states that the School must maintain and have available for inspection all payroll related documentation.

Effect: Potential litigation exists as the School is not performing background checks required by state statute. In addition, the School entered into a related party transaction without an independent review. Lastly, the School could be compensating employees incorrectly if time-off requests are not reviewed for accuracy.

Cause: The School administration believed the maintenance of a valid teacher license met the requirements to begin work. The School does not have internal controls in place for related party transaction approval. The School did not follow their internal controls related to the approval of time off requests.

Auditors' Recommendation: Ensure the School reviews their policies and procedures manual regarding background checks and ensures that each employee has a background check before being hired by the school. All potential related party contracts should be reviewed and scrutinized closely by independent parties before entering into any formal contracts or agreements. Lastly, proper approval should be given for any time off requests made by employees.

WILLIAM W. & JOSEPHINE DORN CHARTER COMMUNITY SCHOOL (Continued)

2014-002 Personnel File Maintenance (Non-Compliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Management's Response: The School did make sure that all employees had a background check, however, the background checks were not printed and placed in the employee folder. The School now knows how to download the background checks and will print a copy and place it in the employee file. The School has set procedures in place so related party contracts will be approved and signed by the board. The School has also set policies and procedures so that all leave slips will be signed off properly and logged.

2014-003 Procurement Code (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During our procurement test work, we noted the following:

- The School could not provide documentation proving they obtained three quotes from different vendors for two purchases of goods by two different vendors for amounts of $5,748 and $6,627.
- Purchase requisitions were not authorized by the principal prior to being given to the business manager for processing.
- Invoices had no evidence of review by the principal prior to cash disbursement. After payment was issued, invoices were not stamped paid in order to prevent duplicate payment.

Criteria: Per NMAC 6.20.2.17 PURCHASING: A. each school district shall establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 et seq., NMSA 1978. Purchasing policies and procedures for grant funding shall comply with requirements established within the grant and the Procurement Code. An internal control structure over purchasing shall be established and maintained to assure compliance with school district policy, and state and federal regulations.

The Schools adopted financial policies and procurement guidelines state, "For purchases of tangible items between $5,001- $19,999.99 the requisitioning employee must obtain three quotes. The quotes can be either verbal or written. All quotes must be documented on the purchase requisition, and the chosen vendor must be noted. If the lowest bidder is not utilized, the reason for the selection must be documented on the purchase requisition. Any supporting documents relating to the bids must be attached to the purchase requisition.

The School requisition process requires the Chief Executive Officer (or principal) to review the purchase requisition and either approve, change or deny the purchase.
The School requires that the principal review and sign all invoices approving them for payment.

Effect: The School could be overpaying for goods and services.

WILLIAM W. & JOSEPHINE DORN CHARTER COMMUNITY SCHOOL (Continued)

2014-003 Procurement Code (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter) (Continued)

Cause: The School did not follow the state procurement requirement and is not following their internal controls related to purchase requisitions and invoice approval.

Auditors' Recommendation: Ensure the School designates a procurement agent who would be accountable for maintaining records and ensuring State procurement policies are being implemented and followed. Additionally, the school should ensure internal controls are followed related to purchase requisition and invoice approval.

Management's Response: The School will review and update all internal controls to ensure that they follow the state procurement requirement. The School does have a designated CPO and they are currently taking the CPO exam. School procedures require authorized approval on all purchase requisitions and invoices prior to processing.

2014-004 Budget Adjustment Requests (BAR) (Noncompliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: Two of three budget adjustment requests tested were not included in the governing council meeting minutes as having been reviewed and approved prior to submitting the budget adjustment request to PED.

Criteria: As stated in the Financial System of Accounting, Internal Control Structure, Policies and Procedures manual for the School, "Once approved by the Chief Executive Officer, the proposed modified budget is submitted to the Governing Council for approval at a scheduled meeting. If the changes are approved, the approval is noted in the meeting minutes. A budget adjustment request is then submitted either electronically or manually to the authorizer and PED for approval."

Effect: When BARs are not first discussed with the Governing Council, this prevents the council from having accurate information regarding the budget in order to make decisions. They are also unaware of the balance changes that the school is requesting.

Cause: Governing Council minutes did not include details of budget modification discussion and approval.

Auditors' Recommendation: Ensure minutes include necessary detailed information pertaining to all items discussed, prior to being approved by the Council.

Management's Response: All BAR's are taken to the board for approval before submitting in OBMS. The School will ensure that the minutes are more detailed and all BAR document ID's are included.

WILLIAM W. & JOSEPHINE DORN CHARTER COMMUNITY SCHOOL (Continued)

2014-005 Documentation of Minutes (Non-compliance in Accordance with the New Mexico State Audit Rule) (Other Matter)

Condition: During our review of the minutes for the Governance Council, we noted that formal minutes were not always maintained. We noted instances where the agendas were used as the minutes for the meeting. Additionally, minutes were not always adequately detailed.

Criteria: Per NMSA 10-15-1, the minutes shall include at a minimum the date, time, and place of the meeting, the names of members in attendance and those absent, the substance of the proposals considered and a record of any decisions and votes taken that show how each member voted.

Effect: The School is not in compliance with State Statute.

Cause: The School has had several different recorders for the minutes and the applicable requirements are not being followed consistently.

Auditors' Recommendation: The School should follow the open meeting act in regards to documenting the schools minutes.

Management's Response: The School will ensure that the board minutes are more detailed.

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014

Public Education Department

PED 2010-02	Lack of Monitoring Plan for State Authorized Charted Schools	Resolved
PED 2010-06	Control Deficiency over Administrative Rights within the Operating Budget Management System (OBMS)	Resolved
PED 2010-07	Capital Outlay Project Reconciliations	Resolved
PED 2011-01	Financial Close and Reporting	Repeated/Modified
PED 2011-10	Update and Test Disaster Recovery Plan	Resolved
PED 2012-02	Subrecipient Monitoring - Corrective Actions and Award Notification	Resolved
PED 2012-05	Review of Security Logs and Monitoring of Scheduled Jobs	Repeated
PED 2012-07	Maintenance of Effort (MOE) - Special Education Cluster	Resolved
PED 2013-01	Error in Funding Calculation for State Equalization Grant Funds	Repeated/Modified
PED 2013-02	Fund Balance Restatement	Repeated/Modified
PED 2013-03	Improve Other IT General Controls	Repeated/Modified
PED 2013-04	Governmental Conduct Act	Resolved
PED 2013-05	Untimely Reversions	Repeated/Modified
PED 2013-06	School Improvement Grant - Final Approved Grant Application Not Posted to Website	Repeated

Division of Vocational Rehabilitation

DVR 2012-02	Financial Close and Reporting	Repeated/Modified
DVR 2013-01	Grant Reconciliations	Resolved
DVR 2013-02	Capital Asset Maintenance	Repeated/Modified
DVR 2013-03	Over-Expended Appropriation Units	Resolved
DVR 2013-04	Activities Allowed/Allowable Cost Principles	Resolved
DVR 2013-05	Special Tests and Provisions - Consultative Examination Process	Resolved

McCurdy Charter School

CS 2012-02-PP	Internal Control Structure	Resolved
CS 2013-01-PP	Bank Accounts and Bank Reconciliations	Resolved
CS 2013-02-PP	Procurement Code and Related Contract with Vendor	Repeated/Modified
CS 2013-03-PP	Employee Contracts	Resolved
CS 2013-04-PP	Budget Reports and Cash Report	Resolved
CS 2013-05-PP	941, ERB, and RHC Contributions	Resolved
CS 2013-06-PP	NMPSIA Payments	Resolved
CS 2013-07-PP	RHC Contributions, Federal and State Withholding and Bank Overdrafts/Penalty	Resolved
CS 2013-08-PP	Payroll	Resolved

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2014

McCurdy Charter School (Continued)		
CS 2013-09-PP	Budgetary Conditions	Resolved
CS 2013-10-PP	Petty Cash	Resolved
Academy of Trades and Technology		
CS 2010-13-A	RHC Contributions	Resolved
CS 2012-02-A	Internal Control Structure	Repeated/Modified
CS 2013-01-A	Composition of Board	Repeated
ACE Leadership High School		
CS 2011-01-B	Internal Control Structure	Resolved
CS 2012-02-B	Stale Dated Checks	Resolved
CS 2012-04-B	PED Cash Reports/BAR Report	Resolved
Albuquerque Institute of Math and Science		
CS 2012-06-C	Procurement Code	Resolved
Albuquerque School of Excellence		
CS 2011-02-D	PED Budget Reports	Resolved
CS 2012-01-D	Internal Control Structure	Resolved
CS 2013-01-D	Prepayment for Services	Resolved
Aldo Leopold Charter School		
CS 2011-01-E	Penalty/Late Fee	Resolved
CS 2011-02-E	RHC and ERB Contributions	Resolved
CS 2011-07-E	Stale Cash Report	Repeated/Modified
CS 2012-01-E	Internal Control Structure	Resolved
CS 2013-01-E	Stale Dated Checks	Resolved
Alma D'Arte Charter School		
CS 2013-01-F	Cash Reports/Quarterly Budget to Actual Reports	Resolved
CS 2013-02-F	Contract with Vendor	Resolved
CS 2013-03-F	RHC and ERB Contributions	Resolved
Amy Biehl Charter High School		
CS 2013-01-G	Budgetary Conditions	Resolved
Cesar Chavez Community School		
CS 2013-01-H	Disposition of Fixed Assets	Repeated/Modified
Cien Aguas International School		
CS 2011-01-I	Procurement Code	Resolved
CS 2013-01-I	Contracting	Repeated
CS 2013-02-I	Audit Committee	Repeated
CS 2013-03-I	Employee Contract	Resolved

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2014

Cottonwood Classical Preparatory School		
CS 2009-18-J	Budget Adjustment Requests (BAR)	Resolved
CS 2011-02-J	Internal Control Structure	Resolved
CS 2013-01-J	Payroll Files	Resolved
Creative Education Prep		
CS 2009-24-K	PED Cash Report	Repeated/Modified
CS 2011-01-K	Internal Control Structure	Repeated/Modified
CS 2011-02-K	Budgetary Conditions	Repeated/Modified
CS 2011-03-K	Bank Accounts	Repeated/Modified
CS 2012-03-K	ERB Contributions	Repeated/Modified
CS 2013-01-K	Procurement Code and Related Contract with Vendor	Repeated
CS 2013-02-K	IDEA-B Cash Management	Repeated
Gilbert Sena		
CS 2012-04-M	PED Reports	Resolved
CS 2013-01-M	Penalties/Fees	Resolved
CS 2013-02-M	Travel & Per Diem	Resolved
J Paul Taylor Academy		
CS 2013-01-O	IRS Penalties	Resolved
CS 2013-02-O	Quarterly Budget to Actual Reports	Resolved
CS 2013-03-O	Budgetary Conditions	Resolved
La Promesa Early Learning Center		
CS 2013-01-P	Budget Adjustment Requests (BARs)	Resolved
Media Arts Collaborative Charter School		
CS 2013-01-Q	Employee Contract	Resolved
New Mexico International School		
FS 2013-01-R	Audit Committee Member	Resolved
North Valley Academy		
CS 2013-01-T	IRS Penalties	Resolved
School of Dreams Academy		
CS 2009-16-U	Internal Control Structure	Resolved
CS 2009-18-U	Budgetary Conditions	Resolved
CS 2013-01-U	Payroll Transactions	Resolved
South Valley Preparatory		
CS 2012-02-V	Untimely Federal Reimbursement Back to Government	Resolved

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2014

Southwest Intermediate Learning Center		
CS 2013-01-W	Stale Dated Checks	Resolved
CS 2013-02-W	Budgetary Conditions	Resolved
Southwest Primary Learning Center		
CS 2012-01-X	Budgetary Conditions	Resolved
Southwest Secondary Learning Center		
CS 2012-03-Y	Conflict of Interest/Minutes/Procurement	Resolved
CS 2013-01-Y	Budgetary Conditions	Resolved
CS 2013-02-Y	Internal Control Structure	Resolved
CS 2013-03-Y	Budgetary Conditions	Resolved
Taos Integrated School for the Arts		
CS 2013-01-AA	Audit Committee Member	Resolved
CS 2013-02-AA	Travel & Per Diem	Resolved
The Ask Academy		
CS 2013-01-CC	Timely Deposits	Repeated/Modified
CS 2013-02-CC	PED Quarterly Budget to Actual Reports	Resolved
CS 2013-03-CC	PED Audit Committee	Resolved
The Great Academy		
CS 2013-01-DD	Personnel File Maintenance	Resolved
The International School at Mesa Del Sol		
CS 2013-01-EE	Audit Committee/Exit Conference	Repeated/Modified
The Master's Program		
CS 2012-03-FF	Audit Committee	Resolved
The Montessori Elementary School		
CS 2010-30-GG	Budgetary Conditions	Repeated
CS 2010-31-GG	Budget Adjustment Requests (BAR)	Repeated/Modified
CS 2012-01-GG	RHC Contributions	Resolved
The New America School		
CS 2011-02-HH	Disbursements	Resolved
CS 12-02-HH	Internal Control Structure	Repeated/Modified
CS 2013-01-HH	Pledged Collateral	Resolved
Village Academy		
CS 2011-04-JJ	Budget Adjustment Requests (BARs)	Resolved
CS 2012-01-JJ	Internal Control Structure	Resolved
CS 2012-02-JJ	Bylaws and Communication of Audit Report	Resolved

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2014

Village Academy (Continued)		
CS 2013-01-JJ	Personnel File Maintenance	Resolved
CS 2013-02-JJ	Payroll Transactions	Resolved
CS 2013-03-JJ	ERB, State Requirements	Resolved
CS 2013-04-JJ	Audit Committee/Finance Committee	Resolved
CS 2013-05-JJ	PED Cash Reports/Budget Reports	Resolved
Coral Community School		
CS 2012-01-KK	Penalties/Fees	Resolved
CS 2012-02-KK	Bank Reconciliations & Bank Accounts	Resolved
CS 2012-03-KK	Disbursements-Lack of Authorization	Resolved
CS 2013-01-KK	Segregation of Duties-Payroll	Resolved
CS 2013-02-KK	Budget Adjustment Requests (BARs)	Resolved
CS 2013-03-KK	ERB Contributions	Resolved
CS 2013-04-KK	Audit Committee/Finance Committee	Resolved
CS 2013-05-KK	Building Lease	Resolved
CS 2013-06-KK	Internal Control Structure	Resolved
CS 2013-07-KK	State Cash Report	Resolved
Estancia Valley Classical Academy		
CS 2012-02-LL	Expenses Improperly Coded	Resolved
CS 2013-01-LL	Internal Control Structure	Resolved
CS 2013-02-LL	PED Budget Reports	Resolved
La Jicarita Community School		
CS 2013-01-MM	PED Budget Reports	Resolved
La Jicarita Community School Foundation		
CS 2013-02-MM	Internal Control Structure	Repeated
La Resolana Leadership Academy		
CS 2008-89-NN	Budgetary Conditions	Resolved
CS 2013-01-NN	Procurement Code and Related Contract with Vendor	Resolved
CS 2013-02-NN	PED Cash Reports	Resolved
La Tierra Montessori School for the Arts & Sciences		
CS 2013-01-OO	PED Audit Committee	Resolved
CS 2013-02-OO	Procurement Code	Resolved
Mission Achievement & Success		
CS 2013-01-QQ	Timely Deposits	Resolved
CS 2013-02-QQ	Procurement Code	Resolved
CS 2013-03-QQ	Budgetary Conditions	Resolved
CS 2013-04-QQ	Penalty	Resolved

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2014

Ralph J. Bunche Academy		
CS 2009-164-RR	Internal Control Structure	Repeated/Modified
Red River Valley		
CS 2012-03-SS	Internal Control Structure	Resolved
CS 2013-01-SS	Budgetary Conditions	Resolved
Sage Montessori		
CS 2013-01-TT	Audit Committee Member	Resolved
CS 2013-02-TT	Procurement Code	Resolved
CS 2013-03-TT	ERB Contributions/Penalty	Resolved
Southwest Aeronautics, Mathematics, & Science Academy		
CS 2013-01-UU	Procurement Code	Resolved
CS 2013-02-UU	Internal Control Structure	Resolved
The Learning Community		
CS 2009-203-VV	Internal Control Structure	Repeated/Modified
CS 2011-57-VV	Penalties	Resolved
CS 2011-58-VV	Budgetary Conditions/Budget Adjustment Requests (BARs)	Resolved
CS 2013-01-VV	Audit Committee	Resolved
CS 2013-02-VV	Procurement	Repeated
The New America School - Las Cruces		
CS 2012-01-WW	ERB Contributions/Penalty	Resolved
CS 2013-01-WW	Travel and Per-Diem	Resolved
CS 2013-02-WW	Audit Committee/Finance Committee	Resolved
Uplift Community School		
CS 2013-01-XX	Procurement Code	Resolved
CS 2013-02-XX	Internal Control Structure	Repeated/Modified
CS 2013-03-XX	Quarterly Budget to Actual Reports	Resolved
William & Josephine Dorn Charter Community School		
CS 2013-01-YY	Payroll Transactions	Resolved
CS 2013-02-YY	Procurement Code	Resolved
CS 2013-03-YY	PED Cash Reports/Quarterly Budget to Actual Reports	Resolved
Walatowa High Charter School		
CS 2013-01-ZZ	Timely Deposits	Repeated
CS 2013-02-ZZ	Internal Control Structure	Resolved
CS 2013-03-ZZ	Cash/Budget Reports	Resolved
CS 2013-04-ZZ	Travel & Per Diem	Repeated/Modified

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended June 30, 2014

Walatowa High Charter School (Continued)

CS 2013-05-ZZ	Stale Dated Checks	Resolved
CS 2013-06-ZZ	Budget Adjustment Requests	Resolved
CS 2013-07-ZZ	Audit Committee	Resolved
CS 2013-08-ZZ	Payment of a Non-Contracted Employee	Repeated/Modified
CS 2013-09-ZZ	Procurement Code	Resolved
CS 2013-10-ZZ	Policies and Procedures	Resolved

STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
EXIT CONFERENCE
June 30, 2014

The contents of this report were discussed in the exit conference held on July 30, 2015, with the following in attendance:

Representing the Public Education Department:

Hanna Skandera	Secretary of Education
Paul Aguilar	Deputy Secretary of Finance and Operations
Marian Rael	Administrative Services Director
Eileen Marrujo-Gallegos	Director, Student Budget & Financial Analysis Division
Amelia Saiz	Audit and Accounting Bureau Chief

Representing the Division of Vocational Rehabilitation:

Michael Mulligan	Administrative Services Director
Annette Ortega	Chief Financial Officer
Sandra Alva	General Ledger & Accounts Payable Manager

Representing Axiom:

Chris Garner, CPA	Partner
John Gordon, CPA	Partner for Pattillo, Brown & Hill, LLP

The financial statements were prepared with the assistance of Axiom Certified Public Accountants & Business Advisors, LLC from the books and records of the Public Education Department.