

Julia Hosford Barnes, P.C.

Legal Memorandum

To: PEC
From: Julia Barnes
Re: Review of Alma d'Arte Charter High School CAP

I have been asked to review the sufficiency of the CAP provided by Alma d'Arte Charter High School CAP. The CAP is not ready for the PEC to accept or adopt as presented.

Overall the CAP looks to need clarification of three things:

- 1) It is unclear what documents will be uploaded to show compliance with the CAP and when these are due. There is one blank category identified as documents in the CAP. It should be filled in for each area of concern. It appears that there should be two columns: one that identifies now what the school will upload to show that this work has been completed and another that is filled out at a later date when the documents are uploaded to Epicenter with the date that each upload was done. Right now it is not clear how or when the school will document completion of the CAP.
- 2) The management responses from the audit are not included in the CAP. These should be included as they articulate the key work to be done. Further, the insufficient management responses as outlined by Betty Seeley should be remedied in the action items listed.
- 3) The actions in the CAP all appear to end on June 30, 2025 with no follow-through into the next year to confirm that the school is taking action to make sure past concerns are corrected. For example, there could be an assurance by the business manager quarterly or semi-annually that the financial entries now have corrected the errors.

Items of audit concern and assessment by Betty Seeley:

1) Accrued Payroll Liabilities

Category	Cause	Auditor Recommendation	Management Response		CSD analysis
Accrued Payroll Liabilities	Management oversight, lack of internal controls and processes to reconcile payroll liabilities and related expenses.	We recommend management establish procedures to properly review and reconcile payroll and related liabilities to identify errors, underpayments and penalties and interest fees due back to the state.	The school and business manager will continue to work with the State of New Mexico Taxation and Revenue Department to obtain appropriate access to the state account. The school and business manager will implement a	Sufficient	This is rated as sufficient. The school stated what they will do to clear this audit finding and gave a reasonable implementation date of January 1, 2025.

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			procedure to ensure that payroll liabilities are properly paid, reviewed and reconciled to the general ledger.		
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Missing from the CAP but in the management response

The school and business manager will implement a procedure to ensure that payroll liabilities are properly paid, reviewed and reconciled to the general ledger.	<p><i>Note: This appears to be the key action needed. Betty Seeley found it to be sufficient if implemented.</i></p> <p><i>CAP additions needed:</i></p> <ul style="list-style-type: none"> <i>a) Identify and then upload by a date certain a document that outlines this procedure and</i> <i>b) Provide an assurance at set intervals that confirms that this process has been implemented</i>
	<p><i>Note: The school apparently was going to complete this action by January 1, 2025, but now lists the completion date as June 30, 2025. Was the January 1, 2025 deadline not met?</i></p>

The school identified the following action in the CAP:

Migrate to Skyward software (completed)	
Work with Skyward software and accounting support to accurately reflect payroll liabilities	<i>What shows that this has been done?</i>
Increase funds through donations and other methods	<i>Note: This feels unrelated to processes to reconcile payroll liabilities and related expenses</i>
Provide an internal self-assessment of controls related to Payroll Liabilities	<i>Is there a document that will show the self-assessment that will be uploaded? Will this be done more than once or how will the results that need to be corrected be reviewed and corrected?</i>

2) Fund Balance (Material Weakness)

Category	Cause	Auditor Recommendation	Management Response		CSD analysis
Fund Balance	Management oversight and lack of effective internal controls surrounding the financial close and reporting process at year-end.	We recommend management establish procedures to properly review and reconcile the fiscal year and that audit adjustments be posted to correct errors or omissions.	Upon receipt of the adjusting entries from the auditors, the school and business manager will ensure that the corresponding entries are made. The school has implemented a new financial software and will ensure that the business manager and office manager attend training on posting of audit adjustments. The school will utilize the support network of the new software company to verify such entries are completed appropriately in a timely manner.	Partially sufficient	This is rated as insufficient due to the time-line to complete the process. This audit finding is due to the fact that the books were not closed after the FY23 audit. This process should be done immediately after the audit was completed. For 2 years the financial records of the school were inaccurate with regards to fund balances in all funds. The school had deferred implementation to 3rd quarter (March, 2025), meaning that for end of year FY23 and 9 months of FY24 the governing council and finance committee has had insufficient information regarding the cash/fund balances in all of the funds. Audit entries and closing of the books should be done immediately after the audit is completed and audited financial reports are given to the school (no later than November in any year).

Missing from the CAP but in the management response

Upon receipt of the adjusting entries from the auditors, the school and business manager will ensure that the corresponding entries are made.	<p><i>Note: This appears to be the key action needed. Betty Seeley found it to be partial sufficient if implemented in a reasonable time.</i></p> <p><i>CAP additions needed:</i></p> <p>a) <i>Identify and then upload by a date certain a document that outlines this procedure and</i></p>
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	<i>b) Provide an assurance at set intervals that confirms that this process has been implemented</i>
The school has implemented a new financial software and will ensure that the business manager and office manager attend training on posting of audit adjustments.	<i>There is not a provision in the CAP to identify this training and when it will take place.</i>
The school will utilize the support network of the new software company to verify such entries are completed appropriately in a timely manner	<i>This is not in the CAP and it is unclear what will be done through this</i>

The school identified the following action in the CAP:

Work with CLA auditors to correctly enter Journal Entries as recommended by the audit	<i>Note: This is unclear what will be done and by when. It is also unclear if this is an internal action with the business manager rather than something to be done with the auditors</i>
Provide an internal self-assessment of controls related to fund balance	<i>Is there a document that will show the self-assessment that will be uploaded? Will this be done more than once or how will the results that need to be corrected be reviewed and corrected?</i>

3. Financial Close and Reporting (Material Weakness)

Category	Cause	Auditor Recommendation	Management Response		CSD analysis
Financial Close and Reporting	Management oversight and lack of effective internal controls surrounding the financial close and reporting process at year-end.	We recommend management establish procedures to properly review and reconcile the fiscal year and that financial statements be reviewed sufficiently to identify errors or omissions, and to request reimbursements timely and respond to disapprovals in a timely manner.	The school and business manager will establish a procedure to review and reconcile the fiscal year end. The business manager and office manager will attend training for the process of the fiscal year close with the new financial software. The business manager will implement a procedure for ensuring requests for reimbursement are made in a timely manner.	Insufficient	This is rated as insufficient as the management response did not address all of bulleted points in this audit finding (there were many). They addressed the financial close and request for reimbursements, but did not address journal entries issues, misclassified revenues, missed identification of capital assets, reviewing bank reconciliations and stale dated checks. Additionally they stated implementation would be March, 2025. Implementation should be immediate.

Missing from the CAP but in the management response

<p>The school and business manager will establish a procedure to review and reconcile the fiscal year end.</p>	<p><i>Note: This appears to be the key action needed and expanded. Betty Seeley found it to be insufficient. She found that the management response did not address journal entries issues, misclassified revenues, missed identification of capital assets, reviewing bank reconciliations and stale dated checks</i></p> <p><i>CAP additions needed:</i></p> <ul style="list-style-type: none"> <i>a) Identify and then upload by a date certain a document that outlines all required procedures and</i> <i>b) Provide an assurance at set intervals that confirms that each process has been implemented</i> <p><i>Finally, Ms. Seeley pointed out that a deadline of March, 2025 was untimely. The school now proposes a deadline of</i></p>
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	<i>June, 2025, even later than the original date.</i>
The business manager and office manager will attend training for the process of the fiscal year close with the new financial software.	<i>There is not a provision in the CAP to identify this training and when it will take place.</i>
The business manager will implement a procedure for ensuring requests for reimbursement are made in a timely manner.	<i>This is not in the CAP, and it is unclear what will be done to implement this.</i>

The school identified the following action in the CAP:

Work with CLA auditors to correctly enter Journal Entries as recommended by the audit	<i>Note: This is unclear what will be done and by when. It is also unclear if this is an internal action with the business manager rather than something to be done with the auditors</i>
Correction of GL from past unclosed years to have an appropriate GL listing of Payroll Liabilities (completed)	
Utilize fund 21100 for USDA state claim (completed)	
Provide an internal self-assessment of controls related to fund balance	<i>Is there a document that will show the self-assessment that will be uploaded? Will this be done more than once or how will the results that need to be corrected be reviewed and corrected?</i>

4. Accrued Payroll Liabilities (Material Weakness)

Category	Cause	Auditor Recommendation	Management Response		CSD analysis
Internal Controls Over Payroll	Management oversight.	We recommend management establish procedures to ensure the required documentation is retained and that all employees have a personnel file that is properly completed.	The school and business manager will ensure that financial and human resource files are properly maintained in an appropriate manner. The business manager will implement a procedure for certain documentation to be uploaded with the employee data in the financial software system.	Partially sufficient	The response should state who (i.e., head administrator and/or finance committee) would assure that the business manager would complete the task of assembling employee files and assuring that all documents are in the employee files.

Missing from the CAP but in the management response

The school and business manager will ensure that financial and human resource files are properly maintained in an appropriate manner.	<p><i>Note: This appears to be the key action needed and expanded. Betty Seeley found it to be partially insufficient. She found that the management response did not address who would confirm that this project was complete.</i></p> <p><i>CAP additions needed:</i></p> <ul style="list-style-type: none"> a) Identify and then upload by a date certain a document that outlines the procedures and b) Provide an assurance at set intervals that confirms that each process has been implemented
The business manager will implement a procedure for certain documentation to be uploaded with the employee data in the financial software system.	<i>This is not in the CAP, and it is unclear what will be done to implement this.</i>

The school identified the following action in the CAP:

Create a secure and central location for human resource files and with limited and secure access (Completed)	<i>Note: What is this documentation showing this?</i>
Provide training to Office Manager regarding personnel files recordkeeping (Completed)	<i>Note: What is this documentation showing this?</i>
Provide an internal self-assessment of record keeping in Human Resources	<i>Is there a document that will show the self-assessment that will be uploaded? Will this be done more than once or how will the results that need to be corrected be reviewed and corrected?</i>

5. Internal Controls over Cash Disbursements (Other Noncompliance)

Category	Cause	Auditor Recommendation	Management Response		CSD analysis
Internal Controls Over Cash Disbursement	Insufficient internal controls over cash disbursements	We recommend that management establish appropriate controls and procedures to ensure all purchases are recorded accurately and comply with approved travel rates as applicable	The school and the business manager will establish a procedure for ensuring that appropriate travel reimbursement rates and appropriate UCOA codes are utilized	Sufficient	This is rated as sufficient as the school stated that they would establish procedures to have this audit finding resolved by January 1, 2025.

Missing from the CAP but in the management response

The school and the business manager will establish a procedure for ensuring that appropriate travel reimbursement rates and appropriate UCOA codes are utilized	<p><i>Note: Betty Seeley found it to be sufficient with a January 1, 2025 deadline. This has now been pushed out by 6 month in the CAP, but the two key items to complete look to have been completed. Betty can confirm if her concern has been satisfied.</i></p> <p><i>CAP additions needed:</i></p> <ul style="list-style-type: none"> <i>a) Identify and then upload by a date certain a document that outlines the procedures and</i> <i>b) Provide an assurance at set intervals that confirms that each process has been implemented</i>
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The school identified the following action in the CAP:

Provide training to Office Manager regarding UCOA (Completed)	<i>Note: What is this documentation showing this?</i>
Provide UCOA training to Office Manager and Business Manager through NMASBO (Completed)	<i>Note: What is this documentation showing this?</i>
Provide an internal self-assessment of record keeping in Human Resources	<i>Is there a document that will show the self-assessment that will be uploaded? Will this be done more than once or how will the results that need to be corrected be reviewed and corrected?</i>

6. Budgetary Conditions

Category	Cause	Auditor Recommendation	Management Response		CSD analysis
Budgetary Conditions	Lack of adequate internal control structure	We recommend management establish controls necessary to monitor the budget and submit any necessary adjustments on a timely basis to avoid any over expended functions and allow sufficient time to have a budget adjustment request approved. We also recommend the school implement procedures to ensure that the reporting of actual expenditures and revenues to PED reconciles to the schools books of record	The school and business manager will implement a procedure to process and review budget adjustment requests and projection for expenditures. Appropriate budget adjustment requests will be made in a timely manner.	Partially sufficient	Although the school addressed implementing a procedure to monitor the budget and submit BARs in a timely manner, they did not address another point in this finding of misreported actual revenues and expenditures.

Missing from the CAP but in the management response

The school and business manager will implement a procedure to process and review budget adjustment requests and projection for expenditures.	<p><i>Note: Betty Seeley found it to be partially sufficient. She points out that they did not address another point in this finding of misreported actual revenues and expenditures</i></p> <p><i>CAP additions needed:</i></p> <ul style="list-style-type: none"> <i>a) Identify and then upload by a date certain a document that outlines the procedures and</i> <i>b) Provide an assurance at set intervals that confirms that each process has been implemented</i> <i>c) Identify how the school will investigate the misreported actual revenues and expenditures and identify if any action needs to be taken.</i>
Appropriate budget adjustment requests will be made in a timely manner.	<p><i>CAP addition needed:</i></p> <ul style="list-style-type: none"> <i>a) Identify how this will be accomplished and</i> <i>b) Provide an assurance at set intervals that confirms that each process has been implemented</i>

The school identified the following action in the CAP:

Provide training to Office Manager regarding UCOA (Completed)	<i>Note: What is this documentation showing this?</i>
Provide reporting training to Office Manager and Business Manager through Skyward	<i>Note: What is this documentation showing this?</i>
Provide an internal self-assessment for positional coding and budgetary internal controls	<i>Is there a document that will show the self-assessment that will be uploaded? Will this be done more than once or how will the results that need to be corrected be reviewed and corrected?</i>