

# STATE-CHARTERED CHARTER SCHOOL FY15 AUDIT FINDINGS AND CORRECTIVE ACTION PLANS

**AGENCY:** Public Education Department

**DATE:** July 13, 2016

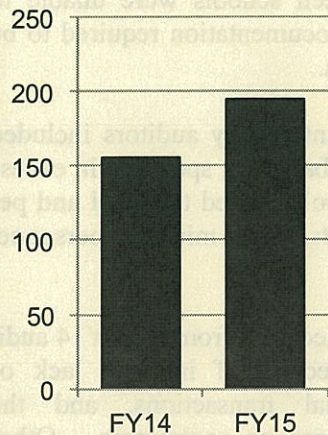
**PURPOSE OF HEARING:**  
Review of state-chartered charter school audit findings and corrective action plans

**WITNESS:** Sunalei Stewart, Chief of Staff, Office of the State Auditor; Paul Aguilar, Deputy Secretary, Finance and Operations, PED; Tori Stephens-Shauger, Executive Director and Principal, ACE Leadership High School; Katarina Sandoval, Assistant Superintendent, Equity and Access, Albuquerque Public Schools

**PREPARED BY:** Kevin Force

**EXPECTED OUTCOME:**  
Understanding of trends in audit findings for state-chartered charter schools and improved PED oversight.

**State-Chartered Charter School Audit Findings FY14 v. FY15**



Source: LESC Files

Charter school growth has boomed in New Mexico, as it has nationally. Current enrollment in New Mexico charter schools has more than doubled since the Great Recession, resulting in a commensurate amount of public funds allocated to charter schools in the state. Charter schools were authorized to allow educators to explore new methods and models of teaching; charter schools are exempt from many of the regulations governing the traditional public school system and are arguably less accountable to the general public than school districts, which have elected boards of education. The risk of fraud, waste, and abuse in the charter sector, both nationally and in New Mexico, continues to grow with the continued growth in the charter sector.

In 2008, the state’s Public Education Commission (PEC) was granted the authority to authorize and oversee state-chartered charter schools, which are considered component units of the Public Education Department (PED). The number of state-chartered charter schools authorized by the PEC has grown from four in FY09 to 62 in FY16; state funds received by state-chartered charter schools grew 1,530 percent over this time, from \$7.9 million to \$129.6 million. However, PEC and PED oversight of state-chartered charter schools continues to be a concern.

On March 11, 2016, the Office of State Auditor (OSA) released PED’s FY15 annual financial and compliance audit, noting 195 findings related to 59 state-chartered charter schools. (See **Attachment 1**, “Comparison of FY14 and FY15 Audit Findings for PED and Component State-chartered Charter Schools.”) As a result, OSA required PED to provide a corrective action plan detailing the measures PED intends to take to increase oversight and provide additional support to charter schools in key areas. (See **Attachment 2**, “State Auditor Request for PED Corrective Action Plan.”)

This brief outlines FY15 audit findings of state-chartered charter schools, OSA’s efforts to ensure accountability and oversight of state-chartered charter schools and more than \$129 million in public funds, and PED’s efforts to resolve audit findings and improve accountability.

**OSA Release of PED Fiscal Year 2015 Audit.** In March 2016, OSA released PED’s FY15 annual audit, including state-chartered charter schools, which raised concerns about financial practices at many state-chartered charter schools and PED’s oversight of these schools. In a March 14, 2016 letter to PED, OSA acknowledged that charter schools are run by their respective governing bodies, but highlighted PED’s critical ongoing role in monitoring and supporting these schools and ensuring financial accountability, including assistance from the Charter School Division and School Budget and Finance Analysis Bureau of PED. Ultimately, PED is responsible for providing regulatory oversight of charter schools; PED received more than \$2.2 million from state-chartered charter schools pursuant to the 2 percent state equalization guarantee (SEG) withholding to provide administrative services to state-chartered charter schools (this grew to almost \$2.6 million in FY16).

Creative Education Preparatory Institute's charter was revoked by the PEC at a special meeting March 22, 2016. CEPi ceased operations with the close of the 2015-2016 school year.

The Public Education Department began acting as the board of finance for the four Southwest charter schools in 2014 as result of ongoing significant financial issues. OSA released an audit in August of that year, alleging conflicts of interest and other potential violations of law. The Federal Bureau of Investigation (FBI) began looking into the Southwest Learning Centers in July of 2014, and is investigating their former head administrator.

**Audit Findings.** Auditors discovered 195 findings across all state-chartered charter schools, including significant deficiencies, material weaknesses, and noncompliance. Of the 59 state-chartered charter schools included as PED component units in the report, six have “disclaimed” opinions – auditors were unable to form an opinion about the schools’ financial statements and there may be material and pervasive misstatements. The auditor notes the following six schools represent 10 percent of state-chartered charter schools and have one of the worst opinions possible:

- Creative Education Preparatory Institute #1 (CEPi);
- Southwest Intermediate Learning Center;
- Southwest Primary Learning Center;
- Southwest Secondary Learning Center;
- Southwest Aeronautics, Mathematics, and Science Academy; and
- Academy of Trades and Technology (Foundation).

**Trends in FY15 Audit Findings.** Audit findings included 33 significant deficiencies, 15 material weaknesses, and many issues of noncompliance regarding cash management and accounting practices. Of those findings, 73 were repeat findings that continued to go unaddressed, most of which originated in FY14, with a few going back as early as FY09, FY11, and FY12.

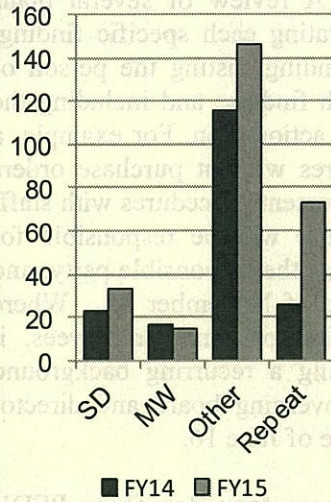
The most serious findings were noted at the six schools with disclaimed audits. Most other material weaknesses and significant deficiencies were related to accounting practices.

There were frequent instances of purchase orders being prepared after a school was invoiced rather than before, cash payments made late or in excess of invoiced amounts, as well as missing receipts and a lack of other supporting documentation for revenues, expenditures, and cash transactions and balances. Other frequently arising deficiencies had to do with personnel matters, such as improper tax calculations or FICA withholdings, mistaken exclusion from or late remittance of required pension payments, missing personnel files or background checks, timesheet discrepancies, and improper designation of a worker as either an employee or contractor. Fifteen schools were unable to produce licensure or background check documentation required to be kept on file for a number of personnel files.

Other notable matters of concerns encountered by auditors included improper recording and reporting of fund balances, spending in excess of budget authority, lack of internal controls related to travel and per diem reimbursements, untimely deposits, and missing personnel documents.

The most common findings that were carried over from the FY14 audit were purchase orders prepared after receipt of invoice, lack of supporting documentation for financial transactions, and the misclassification of workers as employees or contractors. Other frequently recurring issues included untimely deposits and errors in travel and per diem calculation, documentation, and management.

### Comparison of Types of Audit Findings FY14 v. FY15



SD: Significant Deficiency  
MW: Material Weakness

Source: LESC Files

As a result, OSA requested a corrective action plan from PED, detailing any measures that the department intends to implement in order to increase oversight and technical assistance to schools.

**Corrective Action Plan.** In addition to evaluating whether additional actions may be required to ensure appropriate PED oversight controls are in place, OSA required PED to provide a corrective action plan to OSA by April 15, 2016, detailing measures the department intends to take to increase oversight and provide additional support in key areas, such as in technical assistance, training, and other steps necessary to develop and maintain adequate financial controls at charter schools.

**PED's Fiscal Year 2015 Corrective Action Plan for Charter Schools.** PED submitted a corrective action plan to OSA as requested, which included the following steps to resolve issues of concern to OSA:

- On April 8, 2016, PED requested each state-chartered charter school to submit an individual corrective action plan by May 8, 2016 and quarterly, for all audit findings they received for FY15, to be reviewed by the Audit and Accounting Bureau of PED for follow-up with each school on a quarterly basis.
- Additional training is to be provided to newly-authorized state-chartered charter schools, including information on good accounting practices, school budget and financial rules, as well as basic training on Public Schools Accounting and Budgeting.
- Each charter school is assigned a budget analyst, who will be available to answer questions and provide technical assistance. Analysts receive quarterly cash reports from their schools, and will forward any concerns to the department's School Budget and Finance Director.
- In collaboration with the New Mexico Association of School Business Officials, PED will offer training to schools twice a year on school business-related topics; PED will also be monitoring attendance at these trainings to ensure participation from all state-chartered charter schools.

**PED Progress on Department Corrective Action Plan.** PED progress on their corrective action plan may be limited. An email to PED from OSA dated April 12, 2016 requested a compilation reflecting PED review of the charter schools' corrective action plans and the department's schedule to follow up on charter school progress; however, to date, OSA indicates PED has not yet addressed this request. (See **Attachment 3**, "PED State-chartered Charter School Corrective Action Plan Request.") Additional communication between PED and OSA dated May 31, 2016, acknowledges training was held on May 9, 2016. PED provided a copy of the slides and training documents presented to Student Athlete Headquarters and Six Directions Indigenous School (the only two charter schools in attendance) at the training. Materials presented appear to be basic in nature for the two newly-authorized charter schools and focus on procurement policies and procedures and internal controls. It is unclear if any other progress has been made to date.

On April 8, 2016, the department issued a memo to all state-chartered charter schools to prepare a corrective action plan for all FY15 audit findings. The charter schools had until May 8, 2016 to submit their corrective action plans to the Audit and Accounting Bureau Chief. The bureau will follow up on progress with the charter schools on a quarterly basis.

**State-Chartered Charter School Corrective Action Plans.** PED indicated the department would require a corrective action plan from each state-chartered charter school by May 8, 2016 as part of the department's corrective action plan. LESC staff did not receive information on the charter school individual corrective action plans until close of business, July 11, 2016. A review of several plans showed affected charter schools: enumerating each specific finding, and steps to be taken to resolve each finding; listing the person or persons responsible for correction of each finding; and including the due date for each step in their corrective action plan. For example, a school with a finding of cash expenditures without purchase orders will require the principal to review procurement procedures with staff; staff who do not follow proper procedure will be responsible for paying the bill. The principal was named as the responsible party, and the action item was assigned a due date of November 15. Where another school lacked background checks for some employees, it committed to reviewing and implementing a recurring background check policy for all staff, named the governing board and director responsible parties, and assigned a due date of June 16.

Also attached to each corrective plan was a form describing PED's monitoring of the school and its plan. It would name PED personnel responsible for review, include the date of PED's review, and list the corrective and preventative measures implemented. The form also includes notes for the effectiveness of action plans and supporting documentation.

**Conclusion.** With the potential for fraud, waste, and abuse growing as the number of charter schools increases, it will be increasingly important for PED to improve its oversight over both state-chartered and locally chartered charter schools. Past issues, including recent FBI investigation into allegations of fraud and embezzlement at a number of Albuquerque-based state-chartered charter schools, highlight the real threat of misallocation and misuse of public funds that ultimately should be used to improve educational outcomes for New Mexico students.

PED currently receives a significant amount of funds from state-chartered charter school SEG distributions to provide administrative services; however, it is often unclear how the department spends these funds and there have been instances where funds have gone to support statewide efforts that are arguably not administrative services for state-chartered charter schools, such as a statewide IT disaster recovery plan. Because revenue collection at the state level appears likely to remain weak into the near future, it will be that much more important for PED to improve oversight of state-chartered charter schools to ensure limited state dollars are being appropriately spent on practices that will best support students in the public education system.

**Comparison of FY14 and FY15 Audit Findings for the Public Education Department and  
Component State-chartered Charter Schools**

DISTRICT/CHARTER	FY14							FY15								
	Opinion	# All	# SD	# MW	Rep.	Oldest	Notes on Findings	Notes on Other Matters	Opinion	# All	# SD	# MW	Rep.	Oldest	Notes on Findings	Notes on Other Matters
1 ACADEMY OF TRADES & TECH ST. CHARTER (APS)	Multiple	3	0	1	2	2012			Unmodified	3	1	1	2	2012	(SD): Purchase orders not in compliance with state purchasing requirements; (MW): foundation does not have proper oversight (repeat finding)	
2 ACE (APS)	Unmodified	1	0	0	0	2014		Composition of Board: does not have the proper oversight as required in rule.	Unmodified	4	1	1	0	2015	(SD): Purchase orders not in compliance with state purchasing requirements; (MW): Cash Reconciliation: PED does not have an accurate accounting of school's activity and personnel have not been able to identify and correct all variances.	Funded Balance: amounts reported to PED could be inaccurate and available funds may be improperly recorded.
3 ALBUQUERQUE INSTI. MATH & SCI. (AIMS) ST. (APS)	Unmodified	1	0	0	0	2014		New Mexico Educational Retirement Board and Retiree Health Care Act Contributions Testing: remittances to the educational retirements fund and retiree health care fund were incorrect.	Unmodified	1	0	0	1	2014		Charter is non-compliant with state law and expenditures exceeded budgetary authority
4 ALBUQUERQUE SCHOOL OF EXCELLENCE ST. CHAR (APS)	Unmodified	2	0	0	0	2014		Personnel Files and Payroll Approval: 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. Improper mileage reimbursement	Unmodified	4	2	0	0		(SD): PO was not created for expenditure; unable to locate documentation for cash receipts	
5 ALBUQUERQUE SIGN LANGUAGE ST. CHARTER (APS)	Unmodified	2	0	0	0	2014		Improper mileage reimbursement; Staff Qualifications: unable to locate educational assistant's license in PED's system.	Unmodified	2	0	0	0	2014		improper mileage reimbursements; and Staff Qualifications and Payroll: 3 employees did not have an educational assistant's license and 3 employees did not contribute to retiree health care.
6 ALDO LEOPOLD ST. CHARTER (SILVER CITY)	Unmodified	1	0	0	1	2011		State Cash Report: PED does not have an accurate accounting of the school's activity.	Unmodified	0	0	0	0			
7 ALMA D' ARTE STATE CHARTER (LAS CRUCES)	Unmodified	2	0	0	0	2014		Timely deposits; exceeded budgetary authority and expenditures were not adequately monitored by management.	Unmodified	5	0	0	1	2014		Budget Adjustment Requests not properly submitted; Timely Deposits: lack of quality controls over cash and check receipts (repeat finding); Improper mileage and per diem reimbursements
8 AMY BIEHL ST. CHARTER (APS)	Unmodified	4	0	1	0	2014		<b>Material Weakness:</b> Lack of Segregation of Duties: Assistant director receives payments, records the payments on the general ledger, makes bank deposits, and prepares the monthly bank reconciliation.	Unmodified	2	0	0	1	2014		improper mileage reimbursements; expenditures exceeded budgetary authority and budget adjustment request was never submitted
9 ANTHONY CHARTER (GADSDEN)	Unmodified	4	1	0	0	2014		<b>Significant Deficiency:</b> Supporting Documentation: In a sample of 60 expenditures, there were 8 disbursements without supporting documentation.	Unmodified	5	0	0	3	2014		Lack of controls over cash receipts/timely deposits; improper mileage and per diem reimbursements; school does not have the required members on their audit committee; budget was not properly monitored and cash carryover was greater than the school had available for operational fund.
10 ASK ACADEMY ST. CHARTER (RIO RANCHO)	Unmodified	1	0	0	1	2013		Timely Deposits: Deposits of cash receipts did not have indication of date received.	Unmodified	3	0	1	1	2013	<b>Material Weakness:</b> Bank reconciliations are not prepared on a monthly basis and the president is involved in various phases of the accounting process.	improper mileage reimbursements; timely deposits
11 CESAR CHAVEZ COMM. ST. CHARTER (APS)	Unmodified	3	0	0	1	2013		Total amount of applicable salaries is not being reported to ERB and RHC; missing payroll documents; school is not in compliance with the Manual of Model Accounting practices in case of missing laptop computer	Unmodified	1	0	0	0			Procurement Code: school did not obtain 3 quotes for security services whose payments are \$25,968.00 - internal controls were not in place.
12 CIEN AGUAS INTERNATIONAL ST. CHARTER (APS)	Unmodified	6	1	0	2	2013		<b>Significant Deficiency:</b> Segregation of Duties: management has not conducted a basic risk assessment to identify duties that should be segregated to reduce the risk of errors and fraud.	Unmodified	5	0	0	3	2014		POs not created ; improper mileage reimbursement; employee background checks not available for review; employee FICA/Medicare calculated on gross wages and not gross wages less applicable benefits; does not have the required audit committee members; expenditures exceeded the total approved budgeted expenditure; school did not properly budget prior year cash carry-over.
13 CORAL COMMUNITY (APS)	Unmodified	2	0	0	0	2014		Deposits not made timely; payments made without invoice	Unmodified	4	0	0	2	2014		Untimely deposits; lack of purchase orders or proper approval for payment of travel expenses; improper background checks; expenditures exceeding authority;
14 COTTONWOOD CLASSICAL ST. CHARTER (APS)	Unmodified	3	0	0	0	2014		Late audit report; Improperly executed employee contracts, missing I-9; School secured debt on behalf of foundation in violation of NM Anti-donation Clause	Unmodified	6	1	0	2	2014	<b>Significant Deficiency:</b> purchase order before invoice	Incomplete I-9 forms; Secure debt of foundation in violation of anti-donation clause; travel reimbursed at wrong rate; late deposits; expenditures exceeding budget
15 CREATIVE ED. PREP INST #1 ST. CHARTER (APS)	Disclaimer	12	1	4	7	2009		<b>Significant Deficiency:</b> Purchase order after invoice; without signature; <b>Material weaknesses:</b> beginning balances do not match prior-year audited statements; lack of supporting documentation for journal entries; bank-reconciled ledger amounts did not match g general ledger; improper check signer	Unmodified	11	1	6	11	2009	<b>Significant Deficiency:</b> Purchase order after invoice; without signature; <b>Material weaknesses:</b> beginning balances do not match prior-year audited statements; lack of supporting documentation for journal entries; bank-reconciled ledger amounts did not match g general ledger; improper check signer	Expenditures exceed budget authority; did not seek bid for vendors of software; did not reconcile IDEA-B expenditures; ERB contributions did not match ledger; late deposits; improper mileage reimbursements

**Comparison of FY14 and FY15 Audit Findings for the Public Education Department and  
Component State-chartered Charter Schools**

DISTRICT/CHARTER	FY14							Notes on Findings	Notes on Other Matters	FY15								
	Opinion	# All	# SD	# MW	Rep.	Oldest	Opinion			# All	# SD	# MW	Rep.	Oldest				
16 DREAM DINE' (CENTRAL)							Dream Dine' was authorized in FY15 and thus does not have a FY14 audit.			Unmodified	2	0	1	0	2015	(MW) Payroll transaction errors, missing documents (background checks, employee contracts), errors in tax calculations and benefits deductions	Other. "Internal Control Structure" noncompliance. Disbursement for goods was paid for an amount greater than the invoice (school overpaid for goods).	16
17 DZIT DIT LOOL DEAP (GALLUP)							Dzit Dit Lool Deap was authorized in FY15 and thus does not have a FY14 audit.			Unmodified	0	0	0	0	N/A	No findings		17
18 EAST MOUNTAIN HIGH SCHOOL	Unmodified	3	2	0	0	2014	Significant Deficiencies: Grant compliance, still needed to reimburse PED for monies received for Early College HS Initiative; purchase orders after invoice	Improper mileage reimbursement		Unmodified	3	1	0	2	2014	Significant Deficiency: Purchase order after invoice	Improper mileage reimbursement; More cash carryover budgeted than the school had available in Operational Fund	18
19 ESTANCIA VALLEY (MORIARTY)	Unmodified	3	0	2	0	2014	(MW): School incorrectly expensed a \$100,000 security deposit to the Foundation for building lease, personnel provided inaccurate information for preparation of financial statements; Foundation did not adequately reconcile and analyze capital assets, debt, and liabilities for FY13 financial statements, foundation inadvertently missed the accrual for property taxes.			Unmodified	2	1	0	0	2015	Excess of Expenditures over Budget. School's actual expenditures for instruction exceeded the total approved budget expenditures, which could result in deficit fund balances.	Other. "Internal Control Structure Over Payroll." Payroll disbursement concerns, such as employee being undercharged for insurance, pre-tax payroll tax deductions inaccurate, and employee exempt from ERB was assessed ERB contributions.	19
20 EXPLORE ACADEMY (ALBUQUERQUE)							Opened in FY15			Unmodified	3	1	0	0	2015	Significant Deficiency. Lack of support for payroll salary calculations. Errors included unable to determine how pay was calculated or support for pay raises. Proper documentation not maintained.	PO Created after invoice. Expenditures exceed budget. Actual expenditures exceeded budgetary authority. BAR not submitted to account for additional expenditures.	20
21 GILBERT L. SENA STATE CHARTER (APS)	Unmodified	2	0	1	0	2014	(MW): Support could not be found for journal entries, invoices and forms could not be located.	Pledged Collateral. Proper amount of pledged collateral was not being maintained.		Unmodified	5	2	0	1	2014	Supporting Documentation. (Significant Deficiency). Travel disbursement documentation could not be located. PO Subsequent to Invoice. 14 instances totaling over \$50,000 in which PO prepared subsequent to vendors invoice date.	Penalties/Fees. Incurred penalties of almost \$5,000 for late payroll tax deposits. Budget Adjustment Requests (BAR). School budgeted more cash carryover of almost \$5,000 than school had available for SB 9 Capital Improvement Funds. Check Signing. Instances of check with one authorizer.	21
22 HEALTH LEADERSHIP CHARTER (APS)	Unmodified	2	0	0	0	2014		School failed to submit several claim reports to the Student Nutrition Bureau; school does not have a parent member or a volunteer community member on their audit committee.		Unmodified	6	0	0	0	2015		Missing personnel documents; procurement code procedures not followed; ERB rules not followed for transmitting and reporting contributions; BAR does not consider prior carryover amount and BAR not prepared and submitted to PED; school does not have a pledged collateral agreement in place in FY15.	22
23 HEALTH SCIENCE ACADEMY							Opened in FY15			Disclaimer	4	1	0	0	N/A	Significant Deficiency: Purchase orders after invoice and not posted to proper ledger code	Missing background checks; improper mileage reimbursements; fund where expenditures exceeded budget authority.	23
24 HORIZON ACADEMY WEST ST. CHARTER (APS)	Unmodified	5	0	0	0	2014		Payroll transactions, background checks not on file. Timely deposits, funds not deposited w/in 24 hours. Internal Control Structure, POs not created and approved, goods and services received before PO approval. BAR, reviewed but not in governing council minutes. Anti donation clause issues.		Unmodified	5	0	0	0	2014		Background checks not on file. Violation of NM's Anti-Donation Clause. Pledge with third party lender to secure debt of legally separate entity; school did not follow applicable requirements when disposing of capital assets; procurement code violation, excess of expenditures over budget.	24
25 INT'L SCHOOL MESA DEL SOL ST. CHARTER (APS)	Unmodified	4	3	0	1	2013		Audit Committee/Exit Conference issues. Mileage reimbursement issues. Pledged collateral requirements.		Unmodified	1	0	0	1	2014		Mileage Reimbursement issues.	25
26 J. PAUL TAYLOR ACADEMY (LAS CRUCES)	Unmodified	1	1	0	0	2014		Significant Deficiency. For 27 items totaling over \$51,000, there was no indication of approval or review by someone other than the business manager.		Unmodified	4	1	1	1	2014	Significant Deficiency. Supporting documentation. For 37 items totaling over \$82,000, no POs or signed contract. No travel receipts/documentation. Material weakness. Operating after school childcare program that was not documented in school's general ledger.	Budgetary (BAR) issues.	26
27 LA ACADEMIA DOLORES HUERTA (LAS CRUCES)							Not Listed in FY2014 PED Audit			Unmodified	5	2	0	1	2015	(SD): Missing supporting documents for transactions, Form 1099 MISC, not kept current; does not inventory technology items and keep historical values; Large cash balance left at PED, no reconciliations. Missing I-9 form.		27
28 LA JICARITA (PENASCO)	Unmodified	5	2	1	1	2013	(MW): Employee records incomplete; (S): Supporting Documentation not available for disbursements; No documentation supporting selection of contractor for capital improvement;	(NC): Travel and Per-Diem; segregation of foundation duties		Unmodified	2	0	0	1	2014		(NC): Missing some personnel documents (ex. I-9s, background checks); wage miscalculation for ERB;	28
29 LA PROMESA ST. CHARTER (APS)	Unmodified	3	1	0	0	2014	(S): Purchase Orders prepared after vendor invoice;	(NC): ERB contributions late; exceeded budgetary authority		Unmodified	3	2	0	1	2014	(S): Purchase Orders prepared after vendor invoice; Cash controls, payments made late, cash disbursement exceeded invoiced amount;	(NC): per diem miscalculated	29

**Comparison of FY14 and FY15 Audit Findings for the Public Education Department and Component State-chartered Charter Schools**

DISTRICT/CHARTER	FY14							Notes on Findings	Notes on Other Matters	FY15								
	Opinion	# All	# SD	# MW	Rep.	Oldest	Opinion			# All	# SD	# MW	Rep.	Oldest				
30 LA RESOLANA LEADERSHIP (APS)	Unmodified	1	0	1	0	2014	(MW): net negative position			Unmodified	2	1	0	0	2015	(S): purchase order dated after invoice;	(NC): expenditures exceeded budgetary authority	30
31 LA TIERRA MONTESSORI (ESPANOLA)	Unmodified	1	1	0	0	2014	(S): Purchase Orders prepared after vendor invoice, disbursement when PO not approved			Unmodified	0	0	0	0	N/A			31
32 MASTERS PROGRAM ST. CHARTER (SANTA FE)	Unmodified	3	1	0	0	2014	(S): PO dated after invoice, no supporting documentation	(NC): Travel and Per-Diem; Missing employee records		Unmodified	4	1	0	3	2014	(S): purchase requisitions missing, POs dated after invoice;	(NC): per diem miscalculated; missing some personnel documents; journal entry missing documentation	32
33 MCCURDY CHARTER SCHOOL (ESPANOLA)	Multiple	8	4	1	1	2013	(MW): not adequate controls over financial reporting at governance level; (S): No procedure for manual journal entries; purchase requisitions missing, PO dated after invoice; missing timecard, pay rates not consistent with contract; ban account not collateralized	(NC): school did not bid for services; cash not deposited timely; exceeded budget authority		Unmodified	3	1	0	3	2014	(S): school's bank account not properly set up	(NC): cash not deposited within 24 hours; expenditures exceed budget amounts	33
34 MEDIA ARTS COLLAB. ST. CHARTER (APS)	Unmodified	1	0	0	0	2014		(NC): Travel and Per-Diem;		Unmodified	1	0	0	1	2014		(NC): mileage reimbursement miscalculated	34
35 MISSION ACHIEVEMENT & SUCCESS-MAS (APS)	Unmodified	2	1	0	0	2014	(S): Purchase Orders prepared after vendor invoice;	(NC): Travel and Per-Diem;		Unmodified	3	2	0	2	2014	(S): purchase order dated after invoice; official unable to properly reconcile cash balances	(NC): mileage	35
36 MONTESSORI ELEMENTARY ST. CHARTER (APS)	Unmodified	2	0	0	2	2010		(NC): exceeded budget authority; School budgeted more carryover cash than available		Unmodified	0	0	0	0	N/A			36
37 NEW AMERICA CHARTER SCHOOL ST. CH. (APS)	Unmodified	2	0	0	1	2012		(NC): Purchase Orders prepared after vendor invoice; RHC contribution was late; Travel and Per-Diem; Timely deposits		Unmodified	4	0	0	1	2012		(NC): school not following their P-card policy; mileage and per diem compliance; payroll taxes improperly calculated; carry-over cash was not properly budgeted	37
38 NEW AMERICA SCHOOL (LAS CRUCES)	Unmodified	2	0	0	0	2014	(NC): Mileage Reimbursements; Timely Deposits;			Unmodified	3	0	0	2	2014		(NC): Mileage Reimbursements; Timely Deposits; expenditures exceeded budgetary authority	38
39 NEW MEXICO CONNECTIONS VIRTUAL (SANTA FE)	Unmodified	6	1	0	0	2014	(S): PO dated after invoice;	(NC): not properly collateralized; mileage reimbursement; large checks only signed by one authorized signer; timely deposits; expenditures exceeded budgetary authority		Unmodified	4	1	0	3	2014	(S): PO prepared after invoice;	(NC): Mileage Reimbursements; large checks only signed by one authorized signer; missing files from personnel files	39
40 NEW MEXICO INTERNATIONAL SCHOOL (APS)	Unmodified	5	1	0	0	2014	1 Significant Deficiency: Failed to report a \$14.7K capital asset that had been filed to "Other Contract Services," another for \$10K filed to "Supply Assets."	4 Noncompliance: actual expenditures exceeding budget authority; Auditor not apprised of disposition of two pieces of equipment; missing I-9 forms, unsigned contract; deductions too low for health; untimely deposits		Unmodified	2	0	0	1	2014		2 noncompliance: untimely deposits	40
41 NEW MEXICO SCHOOL FOR THE ARTS ST. CH (SANTA FE)	Unmodified	3	0	0	0	2014		3 Noncompliance: School used familiar vendor rather than procurement process; Services paid for in excess of approved purchase order; travel reimbursement too high at 100% IRS rate, rather than 80%, as required by NMAC		Unmodified	3	0	0	0	2015		3 Noncompliance: lack of documentation for travel reimbursement; unapproved affidavit of lost receipt; expenditures exceed budget authority	41
42 NORTH VALLEY ACADEMY ST. CHARTER (APS)	Unmodified	3	0	0	0	2014		1 Other Matter: 2 checks signed by only one authorized signer. 1 Noncompliance: travel reimbursement too high; school was under-collateralized by approx \$36K		Unmodified	3	1	0	1	2014	1 Significant Deficiency: cash disbursement after invoice.	2 Noncompliance: travel reimbursement rate too high; untimely deposits; late ERB reports and contributions.	42
43 Ralph J. Bunche	Unmodified	5	0	1	0	2009	Material Weakness: lack of supporting documentation for disbursement, no purchase order for 2 disbursements, ten disbursements where PO was made after invoice.	Noncompliance: Checks signed by only one signer; improper mileage reimbursements; missing personnel file, 6 missing background checks, 1 missing certification; more cash carryover than in Operational Fund		Unmodified	1	0	0		2015		Noncompliance: expenditures exceeded budget authority, a cash report not available from PED for 6/30/15.	43
44 RED RIVER VALLEY (QUESTA)	Unmodified	2	0	0	0	2014		2 Noncompliance: expired teaching license, and dental deduction not made for one employee; remaining balance owed PED for unspent transportation funds.		Unmodified	4	1	0	0	2015	1 Significant Deficiency: 2 employees at > .25 FTE not contributing to ERB; 3	3 noncompliance: school lacks procurement officer; unverified cafeteria funds reports; no annual inventory of capital assets in 2014	44
45 SAGE MONTESSORI CHARTER (APS)	Unmodified	3	1	0	0	2014	1 Significant Deficiency: lack of supporting docs for deposits, improper calculation of employer/employee taxes; overpayment of personnel; unapproved return-to-work employee	Missing personnel forms; violation of Procurement Code, and late fees; expenditures exceeding budget authority. Noncompliance: one missing employee contract; invoices prior to purchase orders		Unmodified	4	1	0	1	2014	1 Significant Deficiency: improper calculation of taxes, overpayment of one employee, no approval for return-to-work employee.	3 noncompliance: missing background checks, I-9 forms, W-4 forms; no bids for rental furniture in violation of Procurement Code, and late fees; expenditures exceeding budget authority.	45

**Comparison of FY14 and FY15 Audit Findings for the Public Education Department and Component State-chartered Charter Schools**

DISTRICT/CHARTER	FY14							FY15								
	Opinion	# All	# SD	# MW	Rep.	Oldest	Notes on Findings	Notes on Other Matters	Opinion	# All	# SD	# MW	Rep.	Oldest	Notes on Findings	Notes on Other Matters
46 SCHOOL OF DREAMS ST. CHARTER (LOS LUNAS)	Unmodified	1	0	0	0	2014		1 Other Matter: No receipts provided for meals for travel and per diem reimbursement.	Unmodified	3	0	0	1	2014		3 'Other Matters': lack of receipts for reimbursement, reimbursement of in-state travel at out-of-state rate; invoice prior to purchase order; expenses exceed budgetary authority;
47 SOUTH VALLEY PREP ST. CHARTER (APS)	Unmodified	0	0	0	0	N/A	No Findings.		Unmodified	0	0	0	0	N/A	N/A	
48 SOUTHWEST AER., MATH & SCIENCE-SAMS (APS)	Disclaimer	2	0	1	0	2014	1 Material Weakness: Insufficient audit evidence to perform audit on cash, receivables, payables, assets, etc.	1 Noncompliance: insufficient audit evidence to perform audit on account balances.	Disclaimer	2	0	1	2	2014	(MW): lack of internal controls over accounting records resulting in inability to perform audit procedures	1 Noncompliance: insufficient audit evidence to review account balances.
49 SOUTHWEST INTERMEDIATE LEARNING CENTER (APS)	Disclaimer	2	0	1	0	2014	1 Material Weakness: Insufficient audit evidence to perform audit on cash, receivables, payables, assets, etc.	1 Noncompliance: insufficient audit evidence to perform audit on account balances.	Disclaimer	2	0	1	2	2014	(MW): lack of internal controls over accounting records resulting in inability to perform audit procedures	1 Noncompliance: insufficient audit evidence to review account balances.
50 SOUTHWEST PRIMARY LEARNING CENTER (APS)	Disclaimer	2	0	1	0	2014	1 Material Weakness: Insufficient audit evidence to perform audit on cash, receivables, payables, assets, etc.	1 Noncompliance: insufficient audit evidence to perform audit on account balances.	Disclaimer	2	0	1	2	2014	(MW): lack of internal controls over accounting records resulting in inability to perform audit procedures	1 Noncompliance: insufficient audit evidence to review account balances.
51 SOUTHWEST SECONDARY LEARNING CENTER (APS)	Disclaimer	2	0	1	0	2014	1 Material Weakness: Insufficient audit evidence to perform audit on cash, receivables, payables, assets, etc.	1 Noncompliance: insufficient audit evidence to perform audit on account balances.	Disclaimer	2	0	1	2	2014	(MW): lack of internal controls over accounting records resulting in inability to perform audit procedures	1 Noncompliance: insufficient audit evidence to review account balances.
52 TAOS ACADEMY ST. CHARTER (TAOS)	Unmodified	1	0	0	0	N/A		1 Noncompliance: Procurement Code. School failed to send written bid requests, instead doing them by phone.	Unmodified	3	0	0	1	2014		3 Noncompliance: Procurement Code. School failed to send written bid requests, instead doing them by phone; untimely deposits; improper FICA calculations
53 TAOS INTEGRATED SCHOOL OF ARTS ST. (TAOS)	Unmodified	1	0	0	0	2014		(NC): Timely Deposits	Unmodified	3	0	0	0	2015		(NC): Improperly calculated FICA taxes; school paid sales tax; vendors paid more than contract or expenses exceeded PO
54 TAOS INTERNATIONAL (TAOS)							Not Listed in FY14 PED Audit		Unmodified	4	0	0	0	2015	(S): missing personnel file document;	(NC): Mileage Reimbursements; Timely Deposits; Late ERB payments
55 THE GREAT ACADEMY (APS)	Unmodified	0	0	0	0	N/A	No Findings.		Unmodified	2	0	0	0	2015		(NC): Mileage Reimbursements; expenditures exceeded budgetary authority
56 THE LEARNING COMMUNITY CHARTER SCHOOL	Unmodified	5	0	0	2	2009		(NC): lack of documentation for 3 transactions, POs not created for employee reimbursement; missing personnel forms for several employees, missing payroll registers; timely deposits; no bid process for contractor; longstanding unreconciled debits, no capital asset list.	Unmodified	4	1	0	3	2009	1 Significant Deficiency: 2 journal entries not reviewed by anyone other than the journal preparer	3 Other Matters: longstanding unreconciled debits; no bid process for contractor in violation of Procurement Code; lack of supporting documentation for disbursements
57 TIERRA ADENTRO ST. CHARTER (APS)	Unmodified	1	0	0	0	2014	contractor should have been classified as employee, expenditure did not have supporting documentation		Unmodified	6	2	0	1	2014	(S): Contractor should have been classified as employee; employee pay did not match time sheet, improperly calculated FICA;	(NC) no one with accounting experience on audit committee; Timely deposits; quotes not obtained for purchases exceeding \$5,000; carry-over cash not properly budgeted
58 UPLIFT COMMUNITY SCHOOL (GALLUP)	Unmodified	5	1	0	1	2013	(S): missing supporting documentation for expenditure, missing receipts and deposit slips for cash sales.	(NC): school did not notify auditor of criminal misappropriation of fund (school did notify police); mileage reimbursements; expenditures exceeded budgetary authority; no contract with food service vendor	Unmodified	7	2	0	4	2013	(S): no supporting documents for a cash disbursement, missing receipts, missing deposit slip; PO prepared after invoice date;	(NC): no contract in place for food service vendor; mileage reimbursement; expenditures exceeded budget authority; missing personnel file items; checks only had 1 authorized signer
59 WALATOWA CHARTER HIGH (JEMEZ VALLEY)	Unmodified	5	0	0	3	2013		(NC): no reconciliation of tickets sold at sporting events; missing personnel file items; timely deposits; travel & per diem; retroactive salary increases without documentation	Unmodified	9	2	0	4	2013	(S): school not properly recoding revenues and expenditures for each fund; not properly recording cash transactions and reporting accurate cash balances;	(NC): Timely deposits; travel and per diem; missing supporting documentation for cash sales and fundraisers; missing items from personnel files; BARs not approved by governing council according to minutes; journal entries not approved by two people, missing supporting documentation; did not properly budget carryover cash
60 WILLIAM W & JOSEPHINE DORN CHARTER (APS)	Unmodified	5	0	0	0	2014		(NC): Timely Deposits; missing items from personnel files; purchase requisitions and invoices not review by principal; BAR requests not included in governing council minutes; formal minutes not always maintained	Unmodified	4	0	0	3	2014		(NC): timely deposits; missing items from personnel files; minutes of governance council not always maintained; expenditures exceeded budget
61	Total Findings	156	23	17	26				Total Findings	195	33	15	78			

Source: LESC Files



**Timothy M. Keller**  
State Auditor



**ATTACHMENT 2**

**Sanjay Bhakta, CPA, CGFM, CFE, CGMA**  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

**VIA EMAIL AND U.S. MAIL**

March 15, 2016

Hanna Skandera  
Secretary of Education  
Public Education Department  
300 Don Gaspar Avenue  
Santa Fe, NM 87501

Re: FY2015 Public Education Department Audit

Dear Secretary Skandera:

On March 11, 2016, the Office of the State Auditor (OSA) released the Fiscal Year 2015 (FY15) annual financial and compliance audit for the New Mexico Public Education Department (PED). The report, which was completed by the public accounting firm Axiom, LLC, raises serious concerns regarding financial practices at many state-chartered charter schools.

The number of state-chartered charter schools has grown substantially in recent years, from just two in 2008 to 59 in 2015. While charter schools are run directly by their respective governing bodies, PED plays a critical ongoing role in monitoring and supporting these schools and ensuring financial accountability, including assistance from the Charter School Division and the School Budget and Finance Analysis Bureau. Ultimately, as PED noted in the audit report, the "Department is responsible for providing regulatory oversight of the Charter Schools..." (Vol. I, Page 105, Note 1).

Of the 59 state-chartered charter schools included as PED component units in the report, six have "disclaimed" opinions. This means the auditor concluded that the schools' financial statements are such that it is not possible to even form an opinion and that there may be material and pervasive misstatements. It is deeply troubling that about 10 percent of state-chartered charter schools have one of the worst audit opinions possible.

Additionally, the audit contains 195 findings across all the charter schools, including significant deficiencies, material weaknesses, and material non-compliance regarding cash management and accounting practices. Furthermore, the report found 15 schools where licensure or background check documentation was lacking in personnel files. Other significant problems identified include the inability to reconcile cash, weak internal controls, procurement violations, overspending, lack of sound accounting practices, and payroll deficiencies. Many of these findings were repeated from previous fiscal years and have continued to go unaddressed.

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PED needs to improve financial and regulatory oversight of charter schools and provide additional training and support to help address these shortcoming and to ensure compliance with applicable state and federal laws, rules and regulations. Millions of dollars of funds are potentially at risk due to the various issues highlighted in the report and schools are susceptible to fraud, waste and abuse.

The OSA is evaluating whether additional actions may be required to ensure appropriate PED oversight controls are in place. Therefore, the OSA requests that PED provide a corrective action plan detailing the measures PED intends to take to increase oversight and provide additional support in key areas, such as technical assistance, training, and other steps necessary to develop and maintain adequate financial controls at charter schools. This plan should be submitted to the OSA no later than April 15, 2016.

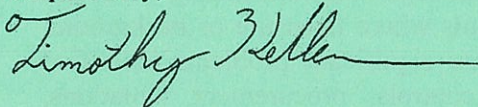
In addition to the issues related to charter schools, the audit also includes several concerning findings specific to PED and its Division of Vocational Rehabilitation (DVR). For example, due to material weaknesses in PED's financial reporting processes, Severance Tax Bond Capital Outlay expenditures were understated by over \$21 million, Public School Capital Improvement revenues were understated by about \$101,000, and the Department over reverted \$2.2 million to the General Fund for teacher and school leader programs and support for training, preparation, recruitment and retention.

DVR had a maintenance of effort deficit of \$2.7 million for a U.S. Department of Education vocational rehabilitation grant, which resulted in a reduction of the grant award by this amount in federal fiscal year 2015. Furthermore, DVR audit testing revealed that about 10 percent of the Individual Plans For Employment reviewed, which must be completed with 90 days of a determination of eligibility, were not completed in a timely manner. This means eligible individuals may not receive vocational rehabilitation benefits in a timely manner. The federal government could also reduce funding for non-compliance with program requirements.

The issues identified in the audit report are not simply accounting technicalities. The failure to address these shortcoming directly impacts our state's ability to deliver quality educational and vocational services to New Mexicans. Taking prompt corrective action will promote efficient and effective operations of charter schools, safeguard public resources, and provide the support necessary for schools to succeed.

Please do not hesitate to contact Deputy State Auditor Sanjay Bhakta, CPA, CGFM, CFE, CGMA at (505) 476-3800 if you have any questions regarding this matter.

Respectfully,



Timothy M. Keller  
State Auditor

cc: Deputy Secretary Aguilar, Public Education Department

**PED STATE-CHARTERED CHARTER SCHOOL  
CORRECTIVE ACTION PLAN REQUEST**

New Mexico Public Education Department

FY 2015 CORRECTIVE ACTION PLAN	Charter School Name			
FINDING NUMBER	FINDING DESCRIPTION	STEPS TO RESOLVE FINDING	RESPONSIBLE PERSON	DUE DATE

Source: PED