



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas, State Auditor

For Immediate Release
Monday, July 15, 2013

Contact: Evan Blackstone
(505) 670-0171

**State Auditor Issues Directives to Public Education Department After Audit Finds
Numerous Financial Oversight Failures**

*Auditor Troubled by Mismanagement of Funds for New Mexico's Most Vulnerable Kids,
Requires Special Examination of PED's Actions Related to Potential Loss of Over \$34
Million for Students with Disabilities; Directives Also Include Measures to Protect Funds
for School Lunches and Students in Poverty*

(Santa Fe, NM)—Today, State Auditor Hector Balderas issued a series of directives to the Public Education Department (PED) following his review and public release of an audit report documenting numerous violations of laws, regulations and financial reporting requirements by PED and certain state-chartered charter schools. The Department's fiscal year 2012 audit, performed by PED's independent auditor, Moss Adams LLP, contains a total of 207 findings, 185 of which pertain to PED's charter schools. The findings include violations of federal special education grant requirements, procurement violations, and a lack of fiscal oversight of charter schools by PED.

Balderas expressed serious concern over the Department's failures to adequately protect public funds for New Mexico's most vulnerable kids, including students with disabilities. "The full protection of our students and public education funds can only be achieved by identifying and resolving these fiscal oversight failures," Balderas said.

Balderas mandated a special examination be performed to fully investigate the facts and circumstances surrounding the potential loss of over \$34 million in federal funding for special education in New Mexico. In a lengthy finding leveled at the Department, the independent auditor faulted PED's oversight weaknesses and noncompliance with federal "maintenance of effort" special education grant requirements, and cited PED's failure to inform the U.S. Department of Education and New Mexico Legislature on a timely basis of the impact of the funding shortfall. In a letter sent today, Balderas notified Secretary-Designate Hanna Skandera of the special examination and stated that he is "troubled by the substantial risks created by the State's maintenance of effort failures, the Department's untimely waiver requests, and the apparent lack of transparency regarding the potential funding loss."

Balderas' letter also outlined other directives which are necessary "in order to reduce risks to New Mexico's education funds and restore financial accountability to the Department." The directives include:

- 1) The Department must submit detailed corrective action plans for numerous audit findings to the Office of the State Auditor and Moss Adams by August 5, 2013. The timely submission of corrective action plans will assist Balderas' office and the independent auditor in assessing the Department's progress in remedying and reducing risks to public education funds. Balderas also stressed that PED should take immediate action to request and actively monitor corrective action plans for the 185 findings noted for certain state-chartered charter schools. Among the findings requiring corrective action are:
 - Eight procurement violations at the Department that occurred during fiscal year 2012 for a total of \$184,920. The violations included continued service after the expiration of a contract, making purchases without a valid contract, and other violations of Department of Finance and Administration rules.
 - In a finding that PED has failed to correct since 2010, the independent auditor noted that PED has not implemented a fiscal monitoring plan or conducted financial compliance visits with charter schools, as required by the Public Education Commission in 2009. The purpose of the monitoring plan and financial compliance visits are to test areas of financial deficiencies and assess what actions charter schools have taken to address prior year audit findings. Moss Adams noted that charter schools have been approved at the state level for charter status despite the lack of fiscal responsibility and oversight.
 - In another finding that PED has failed to correct since 2010, the independent auditor found instances of inadequate communication by PED with its charter schools in regards to fiscal management, financial internal controls, and financial structure. As stated by the audit, "this includes lack of site visits to the schools, incorrect information as to what qualifies as capital assets, incorrect budget requirements, and the required procurement thresholds."
- 2) Balderas ordered expanded audit work regarding PED's recent error in distributing funding to approximately 50 school districts for at-risk students, including students in poverty. The error resulted in some school districts receiving overpayments, while others were shorted funds and may have to cut back on services they provide.
- 3) Balderas directed audit work to review risks related to PED's administration of National School Lunch Program (NSLP) funding. A recent federal audit found inadequate monitoring by school districts over the receipt of discounts and rebates for school lunches, and auditors found PED failed to formally communicate required NSLP information to districts that receive NSLP money from PED.

Balderas stated he intends to work with the Department, the Governor and the New Mexico Legislature to strengthen financial oversight of education funds for the benefit of New Mexico's kids.

#



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

July 15, 2013

Via Facsimile, Email and U.S. Mail

Hanna Skandera, Secretary-Designate
New Mexico Public Education Department
300 Don Gaspar
Santa Fe, New Mexico, 87501

**Re: Risk Advisory and State Auditor Directives for the Public Education
Department – Fiscal Year 2013**

Dear Secretary-Designate Skandera:

Today, my office officially released the New Mexico Public Education Department's (PED) fiscal year 2012 financial audit report. The audit was performed by Moss Adams LLP, the Department's independent public accountant (IPA). In our comprehensive risk review of the report, Office of the State Auditor (OSA) staff examined numerous findings that evidence PED's lack of compliance with certain state statutes, state and federal regulations, and financial reporting requirements that pertain to the oversight of taxpayer dollars for education. In short, I am gravely concerned by your Department's violations of law and inadequate internal controls related to certain financial oversight matters, particularly with regard to PED's noncompliance with federal grant requirements for special education funding for our state's most vulnerable students.

As State Auditor, it is my duty under the Audit Act (Section 12-6-1 NMSA 1978 et seq.) to provide New Mexico's citizens with an independent opinion of all government agencies' financial affairs in a greater effort to increase transparency, promote accountability, and eliminate financial fraud, waste and abuse. The Audit Act also vests the State Auditor with the authority to "cause the financial affairs and transactions of an agency to be audited in whole or in part." Accordingly, pursuant to the State Auditor's authority, I have determined that your Department must comply with a series of directives in order to reduce risks to New Mexico's education funds and restore financial accountability to the Department. This letter advises you of those risks and outlines the associated directives.

1) Required Corrective Action Plans for Current and Prior Year Audit Findings

In our review of the audit report, we examined dozens of findings that exhibit poor fiscal management, lack of internal controls or failure to adhere to internal controls at the Department and certain state-chartered charter schools. PED's fiscal year 2012 audit report contains a total of 207 findings, 185 of which pertain to the Department's charter

schools. Under state law, charter schools are responsible for their own operation, “including preparation of a budget, subject to audits pursuant to the Audit Act” (Section 22-8B-4 NMSA 1978). Each charter school received state authorization from and is operated discretely and under the supervision of the Department, as noted in the fiscal year 2012 audit report. Governmental Accounting Standards Board (GASB) Statement number 14 as amended by statements 39 and 61, require that the Department’s charter schools be reported as component units within the financial audit and the financial statements of the Department due to the nature and significance of their relationship. Additionally, the Audit Rule (2.2.2 NMAC) requires that each charter school be included as a discretely presented component unit in the audited financial statements of the Department.

Of the 207 findings, at least 85 were identified in prior years (26 of these findings are from fiscal year 2010 and prior), but had yet to be remedied. The IPA deemed five of the total 207 findings to be material weaknesses, 43 to be significant deficiencies, and disclosed at least 158 instances of noncompliance. As defined in AU Section 325.06, a material weakness is a deficiency, or 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. AU Section 325.07 defines a significant deficiency as a deficiency or 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.

The audit report identifies 16 findings related to PED’s financial oversight and compliance failures, including PED’s violation of procurement requirements and inadequate communication with charter schools regarding matters of fiscal management, financial internal controls and financial structure. These findings also include a number of prior year findings which PED has not yet remedied. The Department’s deficiencies and weaknesses in these areas increase various risks, such as the risk of fraud or the loss of federal funding. Given their importance, certain PED-specific findings in the audit report deserve discussion here. For example:

- The IPA noted four findings related to PED’s violations of federal grant compliance requirements, many of which involve federal funding under the Individuals with Disabilities Education Act (IDEA). Most concerning is PED Finding 12-07, which identifies the State’s failure to maintain the required level of financial support over the special education cluster of federal programs during fiscal years 2010 through 2012, and cites PED’s associated untimely waiver requests for these fiscal years. The Department’s noncompliance and inadequate internal controls over maintenance of effort (MOE) requirements has resulted in a significant adverse impact on federal funding for a protected class of students. In fact, the U.S. Department of Education (USDOE) has preliminarily denied PED’s waiver request for fiscal year 2011 in the amount of \$34,120,713.
- Additionally, as identified in PED Finding 12-02, the Department did not follow established processes for monitoring subrecipients of federal funding, which increases risks that the funds are not expended in accordance with grant requirements. This finding appears to be a modification of PED Finding 11-02 from the Department’s fiscal year 2011 audit report which identified a material weakness

Risk Advisory and State Auditor Directives – PED Fiscal Year 2013

provide for segregation of duties, a system of authorization and recording procedures, and sound accounting practices in performance of duties and functions.

- The IPA noted at least six instances where charter schools were in violation of 2.20.1.16 NMAC due to the failure to perform an annual inventory of capital assets or the failure to maintain a listing of those assets.
- The IPA included 28 findings related to budget violations where charter schools either over-expended their legally adopted budgets or did not make the appropriate budget adjustment requests. Pursuant to 6.20.2.9(A) NMAC, 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 and over-expenditure of a function shall not be allowed. These findings indicate a significant lack of internal controls over cash disbursements and budgeting.
- The IPA noted at least 17 instances where amounts recorded in the general ledger of certain charter schools did not reconcile to the amounts reported to PED in violation of 6.20.2.14 NMAC et seq.
- In addition, the IPA noted at least eight findings related to bank reconciliations not being performed in accordance with 6.20.2.14(K) NMAC, which provides all bank accounts shall be reconciled on a monthly basis. Reconciled bank statements are to be reviewed by the business manager or assistant superintendent for business administration.
- Findings CS 11-59-VV and CS 09-25-U indicate concerns related to journal entries. CS 11-59-VV indicates that adequate supporting documentation for a journal entry could not be provided. CS 09-25-U indicates that multiple journal entries which impacted fund balance were made without supporting documentation. Since journal entries allow for adjustments to be made to the general ledger in a non-routine manner, they circumvent controls and expose charter schools to risk of record manipulation. Record manipulation can be used to cover embezzlement and other misuse of funds. Risks of fraud and manipulation are increased when an employee is able to post entries without review or approval. Furthermore, lack of support for the entries prohibits the auditor's ability to determine the validity of the transactions.

In sum, I am troubled by the number and severity of both repeated and current year findings contained in PED's 2012 financial audit report. These findings, which include material weaknesses and significant deficiencies at both the Department and charter school levels, present myriad risks to public education funds. Pursuant to Generally Accepted Government Auditing Standards (GAGAS) 4.33 (July 2011 Revision) and 2.2.2.10(I)(3)(b) NMAC, agencies must prepare corrective action plans for all audit findings included in their annual audit reports. Moreover, GAGAS Section 4.05 (July 2011 Revision) requires auditors to "evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements or financial data significant to the audit objectives." Upon my office's review of the Department's management responses to the 16

Risk Advisory and State Auditor Directives – PED Fiscal Year 2013

in the area of subrecipient monitoring. That finding specifically stated that approximately \$450 million of the total \$515 million paid to subrecipients was not included in the monitoring process.

- As discussed in PED Finding 12-03, the IPA noted eight procurement violations at the Department that occurred during fiscal year 2012 for a total of \$184,920. The violations included continued service after the expiration of a contract, making purchases without a valid contract, and other violations of Department of Finance and Administration (DFA) rules. Moreover, in PED Finding 10-04, the IPA noted a procurement violation for the State Assessment Grant with a questioned cost of \$27,191. Violations of procurement laws and rules increase the risk of fraud, may impact future funding, and could subject Department personnel to penalties.
- In PED Finding 12-01, the IPA noted the Department failed to perform an annual inventory of its information technology assets. Section 12-6-10 NMSA 1978 requires all agencies to perform a physical inventory of all its capital assets. The Department's exposure to material misstatements or asset misappropriation increases significantly when there is a lack of accounting for and tracking of capital assets.
- In PED Finding 10-02, the IPA noted that the Department has not implemented a fiscal monitoring plan or conducted financial compliance visits with the charter schools as required by the Public Education Commission (PEC) in December 2009. The purposes of the monitoring plan and financial compliance visits are to test areas of financial deficiencies and assess what actions charter schools have taken to address prior year audit findings. The Department has failed to correct this finding since fiscal year 2010, and the IPA noted that charter schools have been approved at the state level for charter status despite the lack of fiscal responsibility and oversight.
- Furthermore, in PED Finding 10-03, the IPA noted instances of inadequate communication between the Department and charter schools in regards to fiscal management, financial internal controls, and financial structure. As stated by the IPA, "this includes lack of site visits to the schools, incorrect information as to what qualifies as capital assets, incorrect budget requirements, and the required procurement thresholds." The Department has also failed to correct this finding since 2010, which results in increased risks for taxpayer dollars at the charter school level.

The inclusion of PED Findings 10-02 and 10-03 is even more concerning when considering the numerous financial accountability problems the IPA found among certain state-chartered charter schools. The following is a summary of some of the significant findings included in the audit report as they relate to certain state-chartered charter schools:

- The IPA included at least 33 findings ranging from compliance and other matters to material weaknesses related to internal control structure of charter schools. Pursuant to 6.20.2.11(B) NMAC, each school district shall develop, establish and maintain a structure of internal accounting controls and written procedures to

Page 5 – Office of the State Auditor
Risk Advisory and State Auditor Directives – PED Fiscal Year 2013

PED-specific findings, I am concerned that certain responses are not sufficiently detailed or adequate to discern what actions PED plans to implement in order to correct the identified deficiencies.

Therefore, no later than Monday, August 5, 2013, please submit the Department's detailed corrective action plans for each of the PED-specific findings included in the 2012 audit report (PED Findings 10-02, 10-03, 10-04, 10-07, 11-01, 11-10, 11-11, 12-02, 12-04, 12-05, 12-07 and 12-08) to the OSA and your fiscal year 2013 IPA. At a minimum, the plans should specify which Department personnel are responsible for carrying out the planned corrective actions, the specific steps the Department plans to take or has taken to address the findings, and the timeframes in which PED aims to complete the corrective actions. Your Department's timely submission of these corrective action plans will assist my office and your IPA in assessing the PED's progress in remedying and reducing risks to public education funds.

The Department should also take immediate action to request and monitor corrective action plans for state-chartered charter schools that have findings identified in the 2012 audit report. We also noted six findings, one of which is material weakness, pertaining to the Division of Vocational Rehabilitation (DVR, which is a blended component unit). It is my expectation that PED will move expeditiously to implement and monitor corrective action plans for all audit findings in order to reduce risks to public education funds and the students they benefit.

2) Designation of PED for an Examination of Financial Affairs and Transactions Related to the Department's Noncompliance with Federal Grant Requirements Under the Individuals with Disabilities Education Act for Fiscal Years 2010 through 2012

The Audit Act, specifically Section 12-6-3(C) NMSA 1978, provides that the State Auditor "may cause the financial affairs and transactions of an agency to be audited in whole or in part." Accordingly, pursuant to the State Auditor's authority, you are hereby notified that PED is designated for an examination of financial affairs and transactions related to the Department's noncompliance with federal grant requirements for special education funding support under the Individuals with Disabilities Education Act (IDEA) for fiscal years 2010 through 2012.

I determined this designation was necessary after my office's review of the aforementioned PED Finding 12-07, which identifies the Department's noncompliance with federal grant requirements and the associated failure to maintain the State's required level of financial support over the special education cluster of federal programs during fiscal years 2010 through 2012. Federal law provides that a State is eligible for federal financial assistance for education of children with disabilities if the State submits a plan that provides assurances to the USDOE that the State has policies and procedures in effect to ensure certain conditions are met (20 U.S.C. § 1412(a)). One of those conditions is that the State will not "reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year," unless a waiver is granted by the USDOE (20 U.S.C. § 1412(a)(18)(A)).

Risk Advisory and State Auditor Directives – PED Fiscal Year 2013

and 34 CFR § 300.163(a)). The Department made assurances to the USDOE that the State would not reduce financial support for special education; however, the State's subsequent failures to meet its MOE requirements for fiscal years 2010 through 2012 has placed these funds, which support education for a protected class of individuals, at risk. This noncompliance issue also resulted in the IPA's qualification of its opinion for the special education major program in the fiscal year 2012 audit report.

The condition of Finding 12-07 specifies that in early 2011 it was determined that the Department did not meet its required level of support for IDEA funding. In late 2012, approximately 17 months after this determination, the Department formally submitted waiver requests which the DOE preliminarily denied in December 2012. Additionally, it appears that approximately 22 months passed from the time the initial determination was made until the Department notified the New Mexico Legislature of the State's failure to meet its MOE requirements. Moreover, in February 2013, the Department determined that its original 2012 MOE calculation had certain incorrect assumptions. It is also important to note that it appears the Department's IPA did not learn of the Department's waiver request and DOE's subsequent denial until January 2013.

On June 3, 2013, the USDOE issued a 16-page response letter notifying the Department of the decision to accept the waiver request for fiscal year 2010, with a preliminary denial for the fiscal year 2011 in the amount of \$34,120,713. The fiscal year 2011 preliminary denial is pending your Department's request for a hearing within 30 days of the date of the letter. It is our understanding that PED has requested a hearing. The USDOE letter noted certain deficiencies, including but not limited to, the following items: (1) the assumptions used in the formula for making the MOE determination; (2) the Department's failure to certify the information submitted; (3) the receipt of inconsistent data from the Department supporting their claims; and (4) the non-submission of the fiscal year 2012 waiver request by the deadline.

While Finding 12-07 identifies particular aspects of the State's failure to maintain funding for special education under IDEA, there are certain questions related to the funding reduction which could not be fully addressed within the time period allowed for the Department's fiscal year 2012 financial audit. As State Auditor, I am troubled by the substantial risks created by the State's MOE failures, the Department's untimely waiver requests, and the apparent lack of transparency regarding the potential funding loss. Therefore, I believe an examination of these financial affairs and transactions is necessary to help improve the Department's internal controls and management related to the State's MOE obligations for special education and related services for children with disabilities.

Enclosed with this letter is a copy of Audit Rule Section 2.2.2.15(B) NMAC, which details the required IPA selection process an agency must follow once it has been designated for an attestation engagement. The examination must be performed by an IPA selected by the Department and approved by the State Auditor in accordance with Section 2.2.2.15 NMAC. The examination also must be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). Please note that the Department is required to bear the cost of the examination pursuant to Section 12-6-4 NMSA 1978.

The IPA selected must appear on the State Auditor's "2013 Approved Firm List" which is located at www.osanm.org. The Department's IPA recommendation and the professional services contract are subject to the State Auditor's review and approval prior to commencement of the work. Also enclosed with this letter are the required minimum objectives that my office has mandated must be included in the examination. The OSA will actively oversee the IPA during the examination. Please note that the objectives or scope of the examination may evolve as information is provided to the OSA or the IPA. The deadline for the Department to submit an IPA recommendation to conduct the engagement is Thursday, August 29, 2013. It is my expectation that the examination report will be completed and publicly released prior to the 2014 legislative session so that the New Mexico Legislature and Governor may consider the report's recommendations.

3) Required Fiscal Year 2013 Audit Test Work Related to PED's Error in Funding Calculations for State Equalization Grant Funds

My office recently learned of the Department's error in its funding calculations for the at-risk funding distribution through the State Equalization Guarantee for approximately 50 school districts for the 2012-2013 school year. The error resulted in some school districts receiving overpayments, while others were shorted funds and may have to cut back on services they provide. The error impacted funding for vulnerable students who live in poverty, do not speak English or who drop in and out of school.

When this error was first reported back in May of 2013, PED stated that the schools which received excess funding would not be required to pay these funds back; however, in June of 2013, the Department notified these schools that they would have one year to pay back the funds. Additionally, the OSA has recently received verbal complaints that small school districts and regional educational cooperatives have not received adequate information from Department to 1) properly classify funding as either state or federal funding; or 2) easily determine the restrictions related to these funds. Based on the information, it appears that the Department may not have adequate controls or processes in place to effectively monitor funding provided to local education agencies (LEAs).

It is management's responsibility to ensure the Department has adequate internal controls related to the distribution of funds to LEAs and the monitoring of funding for LEAs. The Department should also ensure any accounts payable and accounts receivable related to the error is properly recorded and reported. Finally, the Department should provide clear guidance to each LEA regarding the purpose and requirements for all funding distributed to the LEA. Therefore, the OSA has directed the Department's IPA to conduct expanded test work in these areas during PED's fiscal year 2013 financial and compliance audit.

4) Required Fiscal Year 2013 Audit Test Work Regarding the National School Lunch Program

Lastly, my office has directed PED's fiscal year 2013 IPA to conduct test work related to National School Lunch Program funding. I issued this directive to the IPA after reviewing a deficiency highlighted in PED Finding 12-02 related to the Department's

**Examination of Financial Affairs and Transactions Related to the Public Education
Department's Noncompliance with Federal Grant Requirements Under the
Individuals with Disabilities Education Act for Fiscal Years 2010 through 2012**

The Audit Act, specifically Section 12-6-3(C) NMSA 1978, provides that the State Auditor "may cause the financial affairs and transactions of an agency to be audited in whole or in part." In accordance with the State Auditor's designation of the Public Education Department for an examination of financial affairs and transactions related to the Department's noncompliance with federal grant requirements for special education funding support under the Individuals with Disabilities Education Act (IDEA) for fiscal years 2010 through 2012, the specific objectives of the examination shall include, at a minimum:

1. Determine which government agencies are responsible for ensuring compliance with the State's MOE requirements for fiscal years 2010 through 2012 pursuant to 20 U.S.C. § 1412 and 34 CFR § 300.163. During this determination, the IPA should consider assurances submitted by the Department to DOE for meeting federal grant requirements, specifically that the State will not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year.
2. Determine what parties were responsible for authorizing or causing the State's reduction in funding in the required amount of financial support for special education under IDEA for fiscal years 2010 through 2012;
3. Identify and examine the facts and circumstances relating to the determination that the State failed to meet its MOE requirements for each of the fiscal years 2010, 2011 and 2012. This should include:
 - a. How it was determined that the State failed to meet the MOE requirements for each fiscal year, including:
 - i. Who was responsible for monitoring MOE requirements and compliance;
 - ii. Whether the Department ever determined that it had met the MOE requirements for each fiscal year. If so, who was responsible for the determination, how was the determination made, and when was the determination made;
 - iii. Who made the initial determination that the State had failed to meet the compliance requirement for each fiscal year;
 - iv. For the individual or individuals who made the initial determination, at what point in time did the individual or individuals know that the State had failed to meet the MOE requirements for each fiscal year; and

- v. Once the determination was made, what did the individual or individuals do with the information; and
 - b. Whether the parties responsible for ensuring compliance with the State's MOE requirements pursuant to 20 U.S.C. § 1412 and 34 CFR § 300.163 took appropriate action once they had knowledge that the State had failed to meet its MOE requirements for each fiscal year, including:
 - i. What individuals knew and when were they aware that the State had not met its MOE requirements for each fiscal year;
 - ii. How the Department reported the failure to meet the MOE requirements for each fiscal year;
 - iii. Who should have notified appropriate stakeholders, including the New Mexico Legislature, the DOE and the Department's IPA, about the failure to meet MOE requirements for each fiscal year;
 - iv. At what point in time were appropriate stakeholders, including the New Mexico Legislature, the DOE and the Department's IPA, notified about the failure to meet MOE requirements for each fiscal year and whether the notifications were made in a timely manner. If not, why were the notifications untimely; and
 - v. Why the Department made untimely waiver requests to the DOE regarding the State's failure to meet MOE requirements for fiscal years 2010 and 2011.
- 4. Identify and document the Department's internal controls specifically related to compliance with MOE requirements for fiscal years 2010 through 2012, including, but not limited to, the following:
 - a. Who determines the information necessary for the calculation;
 - b. What type of data is included;
 - c. Whether the data is used consistently from one year to the next year;
 - d. How the Department reports compliance with MOE requirements to the DOE, the New Mexico Legislature, and other stakeholders; and
 - e. Whether the internal controls over compliance with MOE calculation are adequate.
- 5. Regarding the Department's monitoring of local education agencies (LEAs):
 - a. Determine whether the Department has adequate controls in place for monitoring LEA compliance with Federal requirements; and
 - b. Determine whether the Department verifies the accuracy of the LEA calculation of local-level maintenance of effort.
- 6. Throughout the examination, the IPA should note any noncompliance with applicable laws, standards, and related guidance. Any noncompliance should be included as findings in accordance with Section 2.2.2.10 I NMAC. The IPA also

should make recommendations based on the results of the examination and with the goal of helping to improve the Department's internal controls and management related to the State's MOE obligations for special education and related services for children with disabilities.

"At Risk" Designation through Fiscal Year 2013

Group	Agency #	Agency Name	Last Year of Audit Report Received by OSA
Hospitals	2030	Eunice Special Hospital District	FY10
Hospitals	2084	Roosevelt General Hospital	FY12
Counties	5008	Eddy County	FY12
Counties	5018	Mora County	FY12
Counties	5025	Sandoval County	FY12
Counties	5033	Cibola County	FY12
Higher Education	972	Mesalands Community College	FY12
Municipality	6002	City of Alamogordo	FY12
Municipality	6004	City of Albuquerque	FY12
Municipality	6005	Village of Angel Fire	FY11
Municipality	6022	City of Carlsbad	FY12
Municipality	6028	Village of Santa Clara	FY12
Municipality	6030	Village of Chama	FY12
Municipality	6032	Village of Cimarron	FY11
Municipality	6034	Town of Clayton	FY12
Municipality	6040	Village of Columbus	FY11
Municipality	6044	Village of Corrales	FY12
Municipality	6060	City of Espanola	FY10
Municipality	6072	Village of Folsom	FY09
Municipality	6081	Village of Grenville	FY10
Municipality	6084	Village of Hatch	FY12
Municipality	6090	Village of Hope	FY11
Municipality	6098	Village of Jemez Springs	FY12
Municipality	6100	Town of Lake Arthur	FY09
Municipality	6108	City of Lordsburg	FY12
Municipality	6118	Village of Magdalena	FY11
Municipality	6120	Village of Maxwell	FY12
Municipality	6126	Village of Milan	FY12
Municipality	6130	Village of Mosquero	FY10
Municipality	6138	Village of Questa	FY12
Municipality	6140	City of Raton	FY12
Municipality	6146	Village of Reserve	FY12
Municipality	6148	City of Roswell	FY12
Municipality	6150	Village of Roy	FY09
Municipality	6158	Village of San Ysidro	FY11
Municipality	6162	City of Santa Rosa	FY12
Municipality	6178	City of Tucumcari	FY12
Municipality	6182	Town of Vaughn	FY09
REC	7100	Northern NM Network for Rural Education	FY12
School	7022	Des Moines Municipal Schools	FY11
School	7034	Gadsden Independent Schools	FY12
School	7043	Jal Public Schools	FY12
School	7046	Lake Arthur Municipal Schools	FY12
School	7048	Las Vegas City Schools	FY12
School	7062	Mountainair Public Schools	FY12

School	7079	Socorro Consolidated Schools	FY12
School	7084	Truth or Consequences Municipal Schools	FY12
Special Districts	4012	Arch Hurley Conservancy District	FY12
Special Districts	4021	Hammond Conservancy District	FY08
Special Districts	4031	North Central Solid Waste Authority	FY06
Special Districts	4040	Williams Acres Water & Sanitation District	FY12
Special Districts	4060	Pojoaque Valley Irrigation District	FY11
Special Districts	4066	Anthony Water & Sanitation District	FY12
Special Districts	4076	Tri-City Landfill Authority	FY12
Special Districts	4080	Rio San Jose Flood Control District	FY04
Special Districts	4090	Yah-ta-hey Water & Sanitation District	FY06
Special Districts	4098	Ramah Water & Sanitation District	FY01
Special Districts	4104	Eddy-Lea Energy Alliance, LLC	FY12
State Agency	420	Regulation & Licensing Department	FY12
State Agency	505	Department of Cultural Affairs	FY12
State Agency	605	Martin Luther King, Jr. Commission	FY12
State Agency	630	Human Services Department	FY12
State Agency	647	Developmental Disabilities Planning Council	FY12
State Agency	669	Health Policy Commission	FY09
State Agency	547	Cumbres & Toltec Scenic Railroad Commission	FY12
State Agency	770	Corrections Department	FY12
Council of Governments	803	Eastern Plains Council of Governments	FY12
NM CAFR	341-A	Comprehensive Annual Financial Report (CAFR)	FY12*

As of January 15, 2014

Hospitals - 2

Special Districts - 11

Schools - 8

Council of Gov't - 1

Counties - 4

Municipalities - 31

State Agencies - 8

REC - 1

Higher Education - 1

State CAFR - 1

*Note: There has been a review of the Comprehensive Annual Financial Report (CAFR) through fiscal year 2012. However, an audit of the CAFR has never been conducted pursuant to Section 12-6-3 NMSA 1978. An audit of the CAFR of fiscal year 2013 is anticipated.

Total on "AT RISK" List

68



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

May 19, 2010

VIA FACSIMILE AND U.S. MAIL

Barbara Vigil-Lowder, Superintendent
and
Members of the Board of Education
Bernalillo Public School District
224 Camino del Pueblo
Bernalillo, New Mexico 87004

**Re: Risk Examination – Financial Audit Reports for the Bernalillo Public Schools –
Fiscal Years ended June 30, 2006 through June 30, 2009**

Dear Superintendent Vigil-Lowder and School Board Members:

As State Auditor, it is my duty under the Audit Act (Section 12-6-1 NMSA 1978 et seq.) to provide New Mexico's citizens with professional and unbiased opinions regarding the financial affairs and integrities of government agencies. Accordingly, the purpose of this letter is to notify you of my concerns about the financial well-being of Bernalillo Public Schools (District). These concerns arise from my office's recent comprehensive risk examination of the District's last four audit reports for the fiscal years ended June 30, 2006 through June 30, 2009. The latest audit report for the fiscal year ended June 30, 2009 discloses several internal control deficiencies, material weaknesses and instances of noncompliance that expose the District's students and taxpayer dollars to myriad risks. The District also received a qualified opinion on compliance with the requirements applicable to its Title I, Impact Aid and Title III -Native American federal grant programs. In addition, the District failed to submit three of the four aforementioned audit reports to the Office of the State Auditor (OSA) by the deadline mandated by the Audit Rule, 2.2.2 NMAC. It is my hope the District and appropriate oversight agencies will take immediate action to restore accountability to the District's fiscal and grant management operations.

Although the District received an unqualified opinion on its June 30, 2009 financial statements, I remain gravely concerned about the District's past and present heedlessness for the safeguarding of assets. My concerns are largely due to the District's entity-wide control deficiencies and failure to comply with the federal grant requirements. As a result, the District's governing body, the students and the public cannot be certain that the District is properly safeguarding public assets and utilizing public funds appropriately. The results of our risk examination revealed severe risks for fraud and risks for misappropriation of taxpayer funds. The District should take

immediate action to address these risks in order to protect the District financially and prevent threats to student services.

Our examination of the last four audit reports revealed numerous findings that exhibit poor fiscal management and failure to comply with various laws, regulations and grant agreements. The most recent audit report contains multiple findings, many of which the District has fundamentally failed to correct year after year since 2005. Given their importance, certain findings deserve further discussion as noted below:

1) Accounting and Financial Reporting - Internal Control Deficiencies and Material Weaknesses:

Finding FS 2009-07 (material weakness) reveals that the District has an entity-wide control deficiency. The District's independent public accountant (IPA) stated that the District's control environment or "tone at the top" did not adequately display accountability and transparency, and that risk assessments and monitoring activities were not documented or sufficiently designed. The IPA reported the following specific internal control deficiencies:

- Finding FS 2009-07 states that the District does not have a documented policy for conflicts of interest. The IPA stated that "No policy for conflicts of interest create(s) a tone from the top that promotes favoritism and abuse of District resources." The response to the finding states "The District will adopt a conflict of interest policy." However, the District does not provide an expected time frame for the implementation of such a policy. Furthermore, due to the District's lack of a conflict of interest policy, the District should evaluate current staff and their relationships to each other to determine whether conflicts of interest may exist, as well as evaluate the potential impacts these relationships may have on the District.
- Finding FS 2009-07 states that there is a lack of internal controls over cash, credit cards, payroll, student activity funds, capital assets, and insufficient documentation for additional compensation, including stipends and overtime pay. I find this particularly alarming since these areas, specifically in payroll, have been recently susceptible to fraud in certain New Mexico school districts. The District's response to the finding states that "Management has begun establishing internal control procedures and will incorporate the five elements of the COSO internal control integrated framework." The District's response to the finding fails to sufficiently provide a specific corrective action plan. The District should provide a corrective action plan, complete with timelines, to address the lack of internal controls in each area.
- Finding FS 06-04 (material weakness) states that the District did not perform a bank reconciliation for the retainage fund account (agency fund) in a timely manner. Finding FS 09-01 (material weakness) states that the District's bank reconciliations were not reviewed by someone other than the preparer for the first seven months of the fiscal year. Finding FS 09-02 (significant deficiency) states that blank checks of the District are not adequately safeguarded and are accessible to unauthorized personnel. The finding also states that the checks are kept in a vault that is left unlocked throughout the day. In its response to the finding, the District states "The vault area where blank checks are kept is locked throughout the work day and at night." It is unclear whether the District is not in

agreement with the finding, or if the measure of locking the vault during the day was recently implemented. The District also responds by stating that “Individuals are restricted to enter the vault area and must check with the business staff first. Only authorized personnel are allowed to enter the vault.” This response is ambiguous and does not clarify if the District has policies or procedures to ensure that only authorized individuals enter the vault, or what personnel has access to the vault and how authorization is granted. The District should take swift action to safeguard blank checks. Leaving blank checks unsafeguarded increases the risk of theft and embezzlement.

- Finding FS 09-06 (significant deficiency) states that the payroll clerk performs all the duties that are required to process payroll with little or no supervision or review; management does not review payroll reports, employee stipends for additional compensation, or outside contractors hired by the District; and management does not review timesheets for additional compensation. The lack of supervision and review exposes the District to a plethora of risks, including undetected errors, misappropriation of assets and resources, and fraudulent activity.
- Finding FS 09-05 (material noncompliance) states that a District employee’s personal use of government vehicles was not properly added to their W-9 as a fringe benefit. Failure to report taxable income to the IRS could result in fines and penalties for noncompliance.
- Finding FS 06-05 and FS 09-08 (material weakness and noncompliance) states that the District and the charter school (Village Academy) did not perform an annual inventory of its capital assets as required by state law. Finding FS 09-04 (noncompliance) states that the District did not notify the OSA prior to the disposition of property as required by state law. Opportunities for employees to misappropriate government property are created when laws and regulations for the proper tracking and reporting of assets and their dispositions are not followed. Misappropriation could occur through the donation of property to an unauthorized party, sale of property where profits are not reported or reverted back to the District, the potential mishandling of confidential information from computer hard drives, and the theft of capital assets.
- Finding FS 06-11 (material weakness) states the charter school made two cash disbursements totaling \$13,971 without a purchase requisition and proper authorization.
- Finding FS 09-10 (material weakness) states the charter school’s general ledger did not balance by fund due to posting errors during the year which caused the operational fund to be out of balance by \$5,339. The IPA stated the charter school lacks sufficient knowledge of governmental accounting.

2) Federal Grant Programs – Internal Control Deficiencies, Noncompliance and Questioned Costs:

After reviewing the District’s federal award findings for fiscal year 2009, I was particularly concerned that the IPA issued a qualified opinion on compliance because the District did not comply with the requirements regarding allowable costs applicable to its Title I and Title III-Native American Programs, and did not comply with special tests and provisions applicable to its Impact Aid Program, as follows:

- Finding FA 09-01 (Title I Program, CFDA # 84.010) states that the District does not obtain a semi-annual certification that the administrative personnel have been engaged solely in activities supported by the cost objectives of the federal programs. Failure to comply with the aforementioned semi-annual certification increases the risk of charging unallowable costs to a federal grant program.
- Finding FA 09-02 (Impact Aid Program, CFDA #84.041) states that the District did not complete a calculation to illustrate that services provided to federally connected children with disabilities must be at least equal to the amount of funds received or credited for that fiscal year. This noncompliance could result in the misappropriation of federal funds for unallowable costs, the overpayment of federal funds to the District, and a decrease or revocation of federal award funding.
- Finding FA 09-03 (Title III -Native American Program, CFDA #84.365C, Material Weakness) states that the District paid overtime compensation out of Title III funding for managing and securing the facilities for after-hours programs of state universities that were being conducted on the District's grounds, resulting in \$24,991 of questioned costs. The IPA states that the cause of the inadequate documentation is due to the fact that the District did not review the grant agreement for allowable costs. The District's failure to appropriately and diligently review the grant agreement for allowable costs increases the risk that federal grant funds are misappropriated in violation of the federal grant agreement, which could result in a liability to the federal government and other sanctions, including a decrease or revocation of federal award funding. Unallowable administrative costs reduce the amount of money used to fund other programs and activities within the District. It is imprudent, at best, to ignore the implications of noncompliance with the federal grant requirements and specifications.

3) On-Site Review of Federal Grant Program – Noncompliance and Questioned Costs:

It has also come to my attention that an on-site review of the program and fiscal management of two federal awards under the Title III Native American and Alaska Native Children in School Program was conducted by the Office of English Language Acquisition (OELA) and the Office of the Secretary, Risk Management Service, Grants Policy Team of the U.S. Department of Education. As a result of the on-site review, OELA found the following:

- The District charged costs to these grants that fell outside the scope of the approved grant application.
- The District failed to provide adequate documentation that the grant was implemented in accordance with the approved application.
- The District failed to provide adequate documentation to support the costs of tuition and stipends for coursework.
- The District failed to demonstrate that the teachers receiving tuition and stipends for coursework are serving the students in the program.
- The District provided information in the annual performance report which is not supported by financial records.

OELA stated they were unable to verify whether the District is making progress implementing this program or using grant funds in an allowable manner. I find it exceptionally troubling that OELA made the following statement in their letter to the District dated May 3, 2010: "Given these issues, we have concluded Bernalillo Public Schools has a history of unsatisfactory performance and has a management system that does not meet the requirements set out in 34 CFR Part 80. As a result, we have concluded that Bernalillo Public Schools is, for purposes of its grant awards, a high-risk grantee." OELA imposed a special condition on the District: payment to the District under the program will now be done on a cost reimbursement basis, and the District will have to pay for grant related expenditures out of its own funds and submit receipts and other appropriate supporting documentation for those expenditures to the Department before the Department releases grant funds to the District.

Given the serious nature of these issues, it is my expectation that the District and the charter school (Village Academy) take immediate corrective action to resolve the current findings reported by the IPA and the U.S. Department of Education. Those charged with governance (board members) have the duty to oversee the strategic direction and accountability of the District and the charter school, including the financial reporting process or program under audit including related internal controls. The members of the governing body should ensure that management is taking corrective action to address all of the audit findings in a timely manner. Management is responsible for establishing effective internal controls over: 1) accounting and financial reporting; 2) compliance with laws, regulations, contracts and grant agreements; 3) the safeguarding of assets; and 4) the prevention and detection of fraud, waste and abuse of public funds and resources.

In conjunction with the OSA's risk examination outlined in this letter, I have directed my staff to conduct a site visit at the District within the next two weeks. The OSA's Chief of Staff, Antonio Corrales, will contact you by May 21, 2010 to schedule this visit. My staff will also continue to monitor the District's progress and I respectfully request that you keep me apprised of your corrective action. I look forward to working with you to protect vital student resources and improve accountability at the Bernalillo Public School District.

Respectfully,



Hector H. Balderas
State Auditor

HB:eb

cc: Dr. Veronica C. Garcia, Secretary, New Mexico Public Education Department
Representative Luciano "Lucky" Varela, Chair, Legislative Finance Committee
Senator John Arthur Smith, Vice-Chair, Legislative Finance Committee
Accounting and Consulting Group, LLP

Griego Professional Services, LLC



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas
State Auditor

Carla C. Martinez
Deputy State Auditor

February 16, 2010

VIA FACSIMILE AND U.S. MAIL

Winston Brooks
Superintendent
Albuquerque Public Schools

and

Members of the Board
Albuquerque Public Schools
6400 Uptown Blvd. Suite 300E
Albuquerque, NM 87110

Re: Albuquerque Public Schools Financial Audit for Fiscal Year Ended June 30, 2009

Dear Superintendent Brooks and School Board Members:

On January 14, 2010, the Office of the State Auditor (OSA) officially released the Albuquerque Public Schools (District) financial audit report for the fiscal year ended June 30, 2009. The audit was performed by Moss Adams, the District's independent public accountant (IPA). Although the District received an unqualified opinion on its financial statements, I am troubled by the numerous risks highlighted in the audit report that threaten the financial welfare of New Mexico's largest school district. As a consequence, my office conducted a comprehensive review of the audit report's 378 findings. In accordance with the Audit Act, Sections 12-6-1 through 12-6-14 NMSA 1978, it is the OSA's mission to provide New Mexico's citizens with professional and unbiased opinions regarding the financial affairs and integrities of government agencies. Therefore, the purpose of this letter is to notify you of our concerns resulting from the review which we completed on February 12, 2010.

In our review of the audit report, we examined hundreds of findings that exhibit poor fiscal management and failure to adhere to internal controls in the District. The vast majority of the report's 378 findings pertain to certain charter schools chartered by the District's Board of Education. Under state law, charter schools are responsible for their own operation, "including preparation of a budget, subject to audits pursuant to the Audit Act" (Section 22-8B-4 NMSA

2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507

Toll Free 1-800-432-5517

Local (505) 476-3800 • Fax (505) 827-3512

<http://www.osanm.org> • 1-866-OSA-FRAUD

1978). Each charter school chartered by the District is managed independently by its own governing body. However, as noted in the audit report, because revenues are passed through the District to the charter schools, Governmental Accounting Standards Board (GASB) rules 14 and 39 require that the District's charter schools be reported as component units within the financial audit and the financial statements of the District. Additionally, the Audit Rule (2.2.2 NMAC) requires that each charter school be included with the audited financial statements of the District by discrete presentation.

Of the 378 findings, over 120 were identified in prior years but had yet to be remedied. The IPA deemed 152 of the 378 findings to be significant deficiencies in the District's internal control over financial reporting. A significant deficiency is a control deficiency that adversely affects the entity's ability to report financial data reliably, such that there is more than a remote likelihood that a significant misstatement of the financial statements will not be prevented or detected. Given their importance, certain findings in the audit report deserve discussion here. For example:

- The IPA noted at least 21 findings due to lack of segregation of duties. Inadequate segregation of duties results in increased fraud risks. For example, in finding 06-38 for Academia De Lengua Y Cultura, the IPA found that the business manager performs all accounting related functions with no oversight or review from the principal or board. The IPA identified this deficiency as a significant deficiency. Additionally, in finding 09-211, also a significant deficiency, the IPA found that at The Learning Community Charter School the same person receives the check, prepares the deposit slip and deposits the check. In addition, the IPA found that the same person writes the Foundation's checks, signs them and mails them.
- The IPA found several contract and procurement process issues. For example, in finding 09-11 for Academia de Lengua Y Cultura, the IPA found that certain employees were paid as contractors, which could subject the school to fines or penalties. In finding 09-48, the Creative Education Preparatory Institute #1 failed to comply with procurement requirements by not going out for bid for IT services in the amount of \$51,275. Additionally, the school paid a vendor \$64,211 for a new curriculum license without going out for bid. On another occasion, finding 09-186, the Southwest Primary Learning Center did not go out for bid on an item where the total amount paid to the vendor was \$129,260. Additionally, finding 09-189 indicates that the Southwest Secondary Learning Center did not out for bid where the total amount paid to the vendor was \$274,570. Noncompliance with the Procurement Code creates increased risk of abuse of public resources.
- On at least 12 separate occasions, the IPA noted that various schools' general ledgers did not reconcile with the reports that were submitted to the Public Education Department (PED). For instance, in finding 08-23 for the Albuquerque Institute for Math and Science, the IPA noted that 941 and Retiree Health Care (RHC) reports did not reconcile to the general ledger for the fiscal year ended June 30, 2009. The 941 reports had a difference of \$3,467 and the RHC reports had a difference of \$5,711. The IPA stated that

the effect of this control deficiency is that penalties and interest may be assessed to the school.

- In at least 8 findings, all significant deficiencies, the IPA noted a lack of signatory authority on payroll accounts. For instance, in finding 09-71 for Corrales International Charter School, the IPA noted that none of the payroll registers reviewed had any type of authorization or review sign offs, despite the school's representation to the IPA that the payroll registers are reviewed by the business manager. The IPA stated that the "risk of fraudulent activity is high" as a result. The IPA noted strikingly similar conditions in La Academia de Esperanza. In finding 09-92, the IPA noted that out of all the payroll registers reviewed for La Academia de Esperanza, none of them had any type of authorization or review sign offs. The IPA also noted that the school had no controls in place to keep employees from being paid the wrong amounts. The effect of this condition, the IPA stated, is that the "risk of any fraudulent activity is high" due to the lack of a review process.
- The IPA noted several findings related to cell phone use. In finding 09-227, the Albuquerque Talent and Development Secondary Charter School paid for the cell phone of an independent contractor. The IPA also found that school employees who have cell phones issued by the school do not keep track of personal use. Additionally, in two separate findings (08-52 for Christine Duncan Charter School and 09-43 for Creative Education Preparatory Institute #1) the IPA found that the schools pay for the principals' cell phones; however, the principals do not discern business related phone calls from personal phone calls which is a violation of IRS rules.
- The IPA noted at least 18 findings in which there were a number of issues concerning bank reconciliations. The effects of these conditions, as noted by the IPA, are that the schools' books and records are at risk for containing material misstatements that are not detected timely, and the schools' could be misstating revenues and expenses when reporting budget amounts to PED. There is also the potential for fraudulent activity within the schools' accounts.
- In at least 2 instances, the IPA noted findings related to noncompliance in conducting timely background checks. For example, in finding 08-92 for La Resolana Leadership Academy, the IPA noted that during its review of payroll, 1 out of 3 employees did not have a background check on file until 11 months after they were hired. As stated by the IPA, the school is vulnerable to lawsuits by not performing timely background checks as required by state statute.
- The IPA found one school was not in compliance with the state statute governing nepotism. In finding 09-226 for the Albuquerque Talent and Development Secondary Charter School, the executive director's daughter was a contractor of the school and there was no evidence that contracts were approved by the business manager as required by the charter. Shockingly, the IPA stated the cause for this condition was that the "founder of the school did not advertise jobs and hired individuals within the family in order to control the school."

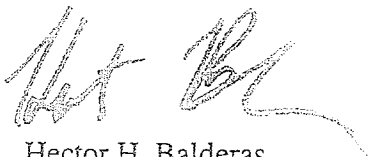
- Another major area of concern is lack of internal controls over journal entries. The audit report contained at least 14 findings relating to this area of concern, all of which the IPA deemed significant deficiencies. For example, in finding 08-21 for the Albuquerque Institute for Math and Science, the IPA found that 20 of 20 journal entries tested did not have supporting documentation, 16 of 20 tested did not have sufficient explanation of the entry to determine if it was reasonable, and one could not be located. In another example that highlights this area of concern, finding 06-153 for Nuestros Valores charter school notes that not all journal entries posted had a description of why the journal entry was made, and the wrong account code was used in one instance. The IPA also noted in the same finding that someone from the board of directors does not review the journal entries.

As State Auditor, it is my responsibility to remind you of the roles of those charged with governance and the responsibilities of management as they relate to financial accountability. Auditing standards provide that management, along with those charged with governance, bear the responsibility of making certain that all of the District's financial affairs are properly reported in the financial statements and that fraud does not occur within the District. Particularly, the District's School Board and the charter schools' governing bodies should be involved in the financial reporting process and ensure management is taking corrective action to address audit findings. With regard to the District's and charter schools' management, they should establish adequate internal controls over financial reporting, implement measures to prevent and detect fraud, and implement corrective action for audit findings in a timely manner.

In sum, current state law and auditing standards impose a shared fiduciary responsibility on the District and the charter schools. The governing bodies and management of those charter schools identified by the audit should take swift action to ensure compliance with laws, rules and standards that relate to fiscal management. I also encourage the District, as the chartering authority under the Charter Schools Act (Chapter 22, Article 8B NMSA 1978), to cooperate and work with those charter schools to facilitate appropriate and timely corrective action as required by the findings. Additionally, it is my hope that PED, in conjunction with the District and the New Mexico Coalition of Charter Schools, will continue to provide support and training for charter schools that face challenges in complying with accounting rules and requirements. By working together to fulfill those responsibilities, you can reduce significantly the opportunities of fraud in the District's schools.

My administration always stands ready to assist in efforts to strengthen financial accountability in our public schools. To this end, my staff will continue to monitor these matters and I respectfully request that you keep me apprised of your progress in addressing the findings. I look forward to working with you as you confront the challenges ahead.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Hector H. Balderas', with a stylized flourish extending to the right.

Hector H. Balderas
State Auditor

HB:eb

cc: Dr. Veronica C. Garcia, Secretary, New Mexico Public Education Department
Representative Luciano "Lucky" Varela, Chair, Legislative Finance Committee
Senator John Arthur Smith, Vice-Chair, Legislative Finance Committee