

AGENDA ITEM EXECUTIVE SUMMARY

- I. **Public Education Commission Meeting Date:** August 31, 2016
- II. **Item Title: Report from Options For Parents and the Charter School Division--Discussion and Possible Actions**
 - A. Charter School Division Update
 - B. La Promesa Audit and Board of Finance
 - C. J Paul Taylor Financial Status
 - D. School Governance Changes
- III. **Executive Summary and Proposed Motions:**
 - A. **Charter School Division Update**

The On-going Actions and Monitoring document on the next pages identifies the status of all on-going monitoring and/or actions.

CSD Director will provide a verbal update on CSD staffing and CSD work over the past month.

Public Education Commission

On-going Actions and Monitoring as of June 8, 2016

Status of Charters Under a Notice of Intent to Revoke, Revocation Decision or Non-Renewal Decision

Charter School Name	Commission Action and Date	Alleged Violation	Status
Anthony Charter School	Non-renewal - December 10, 2014	<ul style="list-style-type: none"> • Failure to meet prior renewal conditions including: <ul style="list-style-type: none"> • Identifying how the Discovery short cycle aligns with academic program • Strategic planning by governing counsel to measure student progress • Strategic planning by governing counsel to evaluate principal • Approving all policies required by law • Failure to meet improvement plan requirements • Violations of material terms and failure to meet goals of contract • The application is otherwise contrary to the best interests of the charter school's projected students, the local community, or the school district in whose geographic boundaries the charter school applies to operate. 	<ul style="list-style-type: none"> • PED Office of General Counsel indicates it has negotiated a settlement with the school that retains the contract terms of the prior two year contract, but extends that contract an additional three years through June 30, 2018. • In September the PEC voted to have a subcommittee of the PEC engage in a negotiation process with the school to establish 2015-2016 framework goals for this school. • After this vote the school's attorney contacted CSD and stated that the settlement agreement negotiations included a performance framework and negotiations with the PEC would not be appropriate. • CSD confirmed with the PED Office of General Counsel that it is including Performance Framework goals in the negotiations. • In November the PEC voted to

Public Education Commission
On-going Actions and Monitoring as of June 8, 2016

			invite the school to engage in a negotiation process a subcommittee of the PEC on December 2 nd . The school declined the invitation, asserting that the 2015-2016 framework goals for this school will be established in the settlement agreement.
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Status of Commission Requested Reports, Monitoring, Inquiries, Site Visits

Charter School Name	Date of Commission Request	Matter	Status
Southwest Learning Centers		Ongoing investigation.	

Status of Corrective Action Plans

Charter School Name	Date of CAP Assignment	Matter	Status	Next Reporting Date
La Resolana Leadership Academy	May 15, 2015	<p>Special education compliance.</p> <p>The school has not been developing accurate IEP schedule of service pages resulting in placement in incorrect levels.</p> <p>The school reported 13 level 4 students on their</p>	<ul style="list-style-type: none"> - School submitted a corrective action plan that was accepted by the PED on June 19, 2015. - CSD evaluated the school's report on the implementation of the corrective action plan that was submitted on October 15. CSD has 	Reporting will continue through June 30, 2017 on October 15 , December 15, March 15, and May 15 annually.

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		80th day and 120th day STARS report and received the funding accordingly, but at both the 80th day and 120th day the school had only 3 level 4 students enrolled.	<p>provided the school findings regarding the report.</p> <ul style="list-style-type: none"> - CSD evaluated the school's report on the implementation of the corrective action plan that was submitted on October 15. CSD has provided the school findings regarding the report. - CSD conducted a site visit to the school the week of May 2nd; the school has received its evaluation. 	
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Schools Looking for a New Facility

Charter School Name	Date of Notification to PEC
South Valley Preparatory School	August 19, 2015
Tierra Adentro: The New Mexico School Of Academics, Art and Artesanía	September 24-25, 2015
Technology Leadership High School	November 13, 2015
La Academia Dolores Huerta	March 11
Explore Academy	March 11
International School at Mesa Del Sol	July 20

B. La Promesa Audit and Board of Finance

The NMPED has conducted an investigation into the La Promesa Early Learning Center, a PEC authorized charter school, concerning activity related to a request for reimbursement for the Executive Director. Upon discovery of the altered Carpet Care invoice, the NMPED expanded the audit scope to include an audit requests for reimbursement from the Charter School to NMPED for the K-3 Plus fund as well as reimbursements to all administrators.

Attached is the report identifying 18 areas of concern. The Department is notifying the PEC that alleged fraud at the Charter School has occurred. Please reference Area of Concern #7, #12 (Carpet Care), and #13.

As a result of the audit, the NMPED has assumed Board of Finance over the Charter School effective, August 12, 2016. Additionally, the Department has referred the school to the 2nd District Attorney's Office as well as notified the Office of the State Auditor.



STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
300 DON GASPAR
SANTA FE, NEW MEXICO 87501-2786
Telephone (505) 827-5800
www.ped.state.nm.us

HANNA SKANDERA
SECRETARY OF EDUCATION

SUSANA MARTINEZ
GOVERNOR

August 12, 2016

Dr. Analee Maestas
Executive Director
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

Ray Rivera
Governing Council Member
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

Julian Munoz, President
Governing Council Member
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

Yvonne Baca
Governing Council Member
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

Regina Sanchez, Vice President
Governing Council Member
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

Selia Cervantes
Governing Council Member
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

Irene Byars, Secretary
Governing Council Member
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

Diego Trujillo
Governing Council Member
La Promesa Early Learning Center
7500 La Morada, NW
Albuquerque, NM 87120

RE: NOTICE OF SUSPENSION OF BOARD OF FINANCE AUTHORITY

Dear Ladies and Gentlemen:

Events occurring over the last year have raised serious concerns regarding the fiscal management and accountability of La Promesa Early Learning Center. As a result of the work of the Public Education Department's (PED's) Audit and Accounting Bureau, multiple issues regarding a lack of internal controls over procurement or cash disbursements have been brought to our attention, including:

- missing back-up documentation for purchases;
- missing purchase orders;
- purchase orders created subsequent to purchases;
- lack of vendor support or details on invoices submitted for payment;
- lack of evidence for goods received or services rendered,

- a lack of Chief Procurement Officer as required by law; and
- missing policies and procedures as approved by the Governing Council

Additionally, the work of the Audit and Accounting Bureau identified numerous issues related to management controls in the internal controls over procurement or cash disbursements, including:

- numerous issues related to an altered invoice;
- cash disbursements to management without supporting documentation;
- requests for reimbursement made by management pre-empting the procurement code; and
- reimbursement to management of public funds for purchases like fencing without supporting documentation indicating services were rendered or goods received

A recently released risk review report from the State Auditor's Office expressed similar concerns regarding the altering of an invoice for personal services after being notified by PED of the altered invoice in compliance with the state's audit rule. That report identified the possibility of numerous criminal violations associated with the altering of an invoice for personal services and submitting it for reimbursement of public funds. The report also identifies some of the same weakness in the procurement process and internal controls of the school; though the risk review report was narrower in scope.

The statutory framework for the operations of a public school places considerable budgetary authority and autonomy on local school boards. However, with that authority comes the responsibility for ensuring a strong system of internal controls and ensuring decisions of charter school management instill public confidence in the leadership of public schools. Ultimately, it is the local school board and governing councils that are accountable for the operations of charter schools they represent.

The Legislature has provided multiple legal processes to be invoked should a local school board fail to meet its obligations under the law. Among these processes includes the authority granted to the Secretary of Education to suspend a local school board from acting as a board of finance if the Secretary, "reasonably believes there is mismanagement, improper recording or improper reporting of public school funds under its control [Sections 22-8-39 and 22-2-1 NMSA 1978]."

After reviewing the audit report from the Audit and Accounting Bureau, I am exercising the authority granted to the Secretary of Education pursuant to the sections of law previously cited. Effective immediately, I am suspending La Promesa Early Learning Center from acting as a board of finance. Therefore, the approved fiscal year 2017 operating budget will be implemented under oversight of the PED. In addition, the following actions are to be taken as required by statute:

1. I will, through the PED, immediately take control of all public school funds under control of the Board of Education of La Promesa Early Learning Center.
2. I will, through the PED, act as the fiscal agent for La Promesa Early Learning Center and will take actions as I deem necessary to attempt to bring the fiscal management of funds of the charter school into strict compliance with the law and generally accepted accounting principles.
3. I will report any violations to proper agencies or authorities, including law enforcement or prosecutorial authorities if criminal activity is suspected.
4. Your assigned PED budget analyst will be discussing compliance with the attached financial oversight plan, subject to additional changes.

The PED's School Budget and Finance Analysis Bureau will be monitoring the school's operations and reviewing the practices of the charter school with the goal of instilling an increased degree of accountability, better financial controls, better management and oversight, and adherence to the generally accepted audit principles, including a

strong internal control framework. Remediation of these deficiencies will require strong support from the La Promesa Early Learning Center Board of Education. An analyst from the PED's School Budget and Finance Analysis Bureau will be contacting the school about adherence to the financial oversight plan, necessary transition of business office procedures and discussing additional steps to improve the financial environment of the school, including possible contractors.

I believe we can work together to improve the business practices of the La Promesa Early Learning Center and ensure that the charter school continues to provide a quality education in a positive financial environment.

Warm regards,

A handwritten signature in black ink, appearing to read 'Hanna Skandera', written in a cursive style.

Hanna Skandera
Secretary of Education

HS/dtc

Enc: (Financial Oversight Plan)

cc: Hipolito "Paul" Aguilar, Deputy Secretary, Finance and Operations, PED
Eileen Marrujo-Gallegos, Director of Operations, PED
David Craig, Director, School Budget and Finance Analysis Bureau, PED
Katherine Poulos, Director, Options for Parents Division, PED
Pamela Bowker, Deputy Director, School Budget and Finance Analysis Bureau, PED

School Year 2016-2017 Initial Financial Oversight Plan

Effective with the suspension of Board of Finance, the charter school will take the following steps with regard to its financial practices:

- all pertinent business office functions (payroll, purchasing, etc.) will transfer to the Public Education Department (PED) or its designee;
- review and approval of all contracts will be submitted to the assigned executive budget analyst;
- the school will submit policies and procedures conforming to the procurement code to the assigned Executive budget analyst;
- the school will work conform its procurement and payroll practices to adhere strictly to the procurement code and submit to the PED for approval;
- the school's business officer will relinquish all access to the school's accounting information system;
- the school will transfer signatory authority over all bank accounts to a designee of PED;
- all check stock will be inventoried in the presence of an employee of the PED, and await further instructions for the transfer of control of all check stock.

Additionally, staff from the PED's School Budget and Finance Analysis Bureau will be monitoring for compliance with the following areas:

- ceasing unnecessary expenditures;
- submitting expenditures must meet guidelines for allowability (i.e., the purchase is related to the mission of education, is necessary, serves a public benefit or purpose, and is feasible given available budget and available resources);
- conforming to taxpayer and other stakeholder expectations of propriety of expenditures; and
- rectifying any past financial mismanagement, including identification of procurement violations, exceeding budget authority or inaccurate financial reporting.

The primary focus areas for La Promesa Early Learning Center is to conform procurement processes to the procurement code, identify in areas of violation to inform this process and ensure management controls are reinstated. In addition, the school, in conjunction with the PED or its designee, may be required to submit the following monthly reports related to its financial practices, subject to request of the PED's School Budget and Finance Analysis Bureau:

- a high-level budget status report that allows the Bureau staff to quickly identify areas where budget availability has changed;
- a cash report;
- a voucher report showing all checks issued (including voids) and a brief explanation of expenditures; and

- a budget adjustment request (BAR) report that summarizes the monthly BAR requests it has made of the Bureau as well as notable maintenance BAR's.

This initial financial oversight plan is designed to provide an initial picture of the current financial practices of the charter school and are subject to change, either written or verbal, in order to bring the financial practices of the school into conformance with law, rule and stakeholder's expectations of fiscal responsibility. This steps outlined in this initial plan are not prescriptive, subject to change at any time and instead represent an important first step in identifying areas of needed improvement to restore fiscal control.



**THE NEW MEXICO PUBLIC
EDUCATION DEPARTMENT**

***AUDIT OF LA PROMESA
EARLY LEARNING CENTER***

AUGUST 12, 2016



STATE OF NEW MEXICO
PUBLIC EDUCATION DEPARTMENT
300 DON GASPAR
SANTA FE, NEW MEXICO 87501-2786
Telephone (505) 827-5800
www.ped.state.nm.us

HANNA SKANDERA
SECRETARY OF EDUCATION

SUSANA MARTINEZ
GOVERNOR

Public Education Department
La Promesa Early Learning Center—A State-Chartered Charter School
Audit Results
Fiscal Year 2016

Public Education Department (PED)—Audit Division has recently reviewed various procurement documents from La Promesa Early Learning Center (La Promesa or LPCC), a state-chartered charter school. The focus of the review was to verify that La Promesa has proper internal control over the purchasing, receiving, and payment processes prescribed by PED's Public School Accounting and Budgeting (PSAB) Number 13 and was in compliance with the NM Procurement Code regarding expenditures using public funds in FY16. Also considered were relevant statutes, such as those that relate to the K-3 Program and taxation, as it effects the purchases for the school.

Section 13-1-30 NMSA 1978. Application of the code.

A. (Unless otherwise exempted) the code shall apply to every expenditure by state agencies or local public bodies.

B. When procurement involves the expenditure of federal funds, the procurement shall be conducted in accordance with mandatory applicable federal law and regulation. If those laws are inconsistent with the Procurement Code, compliance with federal law or regulations shall be deemed compliant with the Procurement Code.

Section 13-1-196 NMSA 1978. Civil Penalty.

Any person, firm or corporation that knowingly violates any provision of the Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978] is subject to a civil penalty of not more than one thousand dollars (\$1,000) for each procurement in violation of any provision of the Procurement Code.

The areas concentrated on were the documentation provided by La Promesa for the K-3 Plus Program (Summer 2015). Documentation included the Request for Reimbursements (RfRs) #528-000-1516-27166-0001 and #528-000-1516-27166-0002. Additionally, La Promesa provided documentation supporting the administration's reimbursements to the executive director, principal, and vice-principal.

The PED audit has verified inconsistencies with the internal control processes and noncompliance with the NM Procurement Code, as well as non-compliance with various other state statute sections and the NM Administrative Code. Please see the following 18 areas of concern regarding the issues found by the Audit Division:

Area of Concern #1—K-3 Plus RfR 528-000-1516-27166-001

A) Confirm all document support (invoice, purchase order, purchase requisition) is attached to the check copy. Recalculate invoice, including extensions and totals. Recalculate hours worked multiplied by hourly rate and include location of services.

For 1 out of 10 items tested, the auditor noted that no purchase order was provided by LPCC for review of the transaction. The test item is included in the testwork for Administration—Reimbursements.

For 4 out of 10 items tested, the auditor was unable to recalculate the hours worked by the hourly pay rate and the location of services performed. No detailed statement or equivalent documentation was received from LPCC. The auditor noted that the payment processing to vendors appeared to have been completed without receipt of the required documentation specified by the contract.

For 1 out of 10 items tested, the auditor was unable to recalculate the hours worked by the hourly pay rate, nor was the auditor able to determine the location of the services performed. Per the contract, “the processing of payment will begin upon receipt of a detailed, certified statement of account, which shall include dates and hours reported for the period covered, along with details and percent of work expended.” The auditor noted that the payment processing to vendors appeared to have been completed without receipt of the supporting documentation required by the contract.

For 9 out of 10 items tested, the auditor noted no purchase requisition was issued prior to the purchase. In reviewing the La Promesa Policy and Procedures for Purchasing, it is stated that a purchase requisition must be submitted to the business office for review by the business manager. The business manager will then assign a purchase order. The auditor noted that the payment processing to vendors appeared to have been completed without following La Promesa’ Policies and Procedures for Purchasing.

Criteria. Per the executed professional services contracts, “the processing of payment will begin upon receipt of a detailed, certified statement of account, which shall include dates and hours reported for the period covered, along with details and percent of work expended.” Per PSAB 13—for procurements less than statutory thresholds, the central purchasing office shall develop, implement, and maintain its own purchasing procedures consistent with the Procurement Code and the policies adopted by the local boards of education or governing councils as applicable. La Promesa’s policy and procedures for purchasing states that purchasing policies and procedures must be followed and that a purchase requisition is required prior to an executed purchase order.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures that could lead to over- or under-statement of fund activity.

B) Verify the expenditure and meet the expenditure guidelines outlined in FY15 K–3 Plus Program Guide.

For 1 out of 10 items tested, the auditor noted that there is no notation showing the expenditure is related to K–3 Plus Program. That one tested item was for the purchase of sheet protectors.

For 1 out of 10 items tested, the auditor was unable to determine the scope of work and whether it was a professional services contract or for goods and services. The expenditure was coded for Instruction—General Materials and Supplies. It was not clear by the description what was actually purchased; however, the invoice states "program development, classroom support". It was unclear how the expenditure met the expenditure guidelines of the FY15 K–3 Plus Program Guide.

Criteria. The FY15 K–3 Plus Program Guide states that the allowable expenditures must be directly related to providing for the K–3 Plus Program. K–3 Plus funds may not be used to supplant funding designated for year-round expenses and executed professional services contracts.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures, which could lead to over- or under-statement of fund activity. In addition, La Promesa is not in compliance with Educational Standards—General Requirements for the K–3 Plus Program NMAC 6.30.12.

C) Verify that the expenditure for professional development (PD) meets 6.30.12.11 NMAC for the areas identified (early reading, math, and English as a second language).

For 1 of 10 items tested, the auditor noted that the PD, as provided, did not meet the PD areas identified per 6.30.12.11 NMAC. The tested item was PD, with the scope shown as Wellness vs Exercise/Nutrition, Wellness Psychology, and Playing Well with Others.

Criteria. The K–3 Plus Program Guide as defined by 6.30.12.11 NMAC states that PD for K–3 Plus teachers should be provided in the areas of early literacy and its implications for instruction, best practices of English as a second language/English language learner instruction, and best practices in early mathematics instruction.

Effect. The impact to La Promesa in providing PD in the areas defined by 6.30.12.11 NMAC is significant in that it is essential for PreK–3 teachers to improve the education of their students in the noted areas.

D) Verify receiving document that includes verification of receipt of goods, including approval notation of *OK TO PAY* or similar coding and that the purchase order number is written on the receiving document.

Of all 10 items tested, the auditor noted no verification/support of receipt of goods/services, nor approval notations, nor purchase order numbers on the invoice or sales receipt. There was no evidence of the business manager's review.

Criteria. Per PSAB 13 Purchasing, the receiving document shall be manually or electronically signed by authorized receiving personal and processed for payment according to procedures established by charter school boards' of education local procedures. Per La Promesa's Policy and Procedures for Purchasing, the business manager will review the vendor invoice for mathematical accuracy; compare terms, quantities, and prices to the purchase order, packing list, and purchase requisition; and initial the original invoice to indicate evidence of such review.

Effect. The impact to La Promesa is the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state funding.

E) Verify, prior to payment made, that the corresponding, receiving documentation is certified indicating that the goods/services have been received by LPCC, as required by the Procurement Code.

For all 10 items that were tested, the auditor noted that there was no receiving document for goods/services.

Criteria. Per Section 13-1-158 NMSA 1978, no warrant, check, or other negotiable instrument shall be issued in payment for any purchase of services, construction, or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction, or items of tangible personal property have been received and meet specifications.

Effect. The impact to La Promesa is the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state funding.

F) Trace the account code utilized on the purchase order that is executed in the financial management system (APTA) and to ensure it agrees with the actual expenditure, as noted in the general ledger.

For 1 out of the 10 items tested, the auditor noted that no purchase order was provided by LPCC for review of the transaction.

Criteria. Per PSAB 13, local procedures shall demonstrate that appropriate controls are in place. General controls also require that the accounting department compares the invoice to the purchase order and receiving documentation. Additionally, all purchase orders and requisitions

are reviewed to ensure that account codes that include fund, function, and object are used appropriately.

Effect. La Promesa has the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state funding

G) Verify that the account code is accurate and appropriate for the expenditure submitted for reimbursement.

Auditor noted that the account code does not support the actual expenditure as follows:

For 1 out of 10 items tested, \$1,100 was charged to the function code “1000”, which includes the activities dealing directly with the interaction between teachers and students. The function code “2100”— Support Services— Students appears to be appropriate for the expenditures. This function provides administrative, technical and logistical support to facilitate and enhance instruction. These activities supplement the instructional processes. The expenditure is for professional development of teachers and staff and was held when no students were in attendance. The invoice provided shows a three-hour PD session—Wellness versus Exercise/ Nutrition, Wellness Psychology, and Playing Well with Others.

The auditor noted that of 4 out of the 10 items tested, a total of \$9,933, which was charged to the expenditure account code 1000, does not support the transaction submitted. Function “1000”— Instruction is used for direct instructional costs. The correct function code appears to be “2100”— Support Services—Students. In a second item, the object code “55915” was used for expenditures for Inter-Educational, Inter-Agency Purchased Services, and it appears to be mis-coded. The correct code appears to be “53414” —Other Services under Other Professional Services. For the professional services contracts, the scope appears to be for management consultation of teachers and not for providing educational content to students; therefore, the account code is not properly recorded per the PSAB Chart of Accounts.

For 1 out of 10 items tested, the auditor noted that no purchase order was provided by LPCC for review of transaction.

For 1 out of 10 items tested, the auditor noted that \$1,800 was charged to “56118—General Merchandise and Supplies”. The auditor is unable to determine the scope of work—goods or services. The expenditure code indicates it was for instructional materials and supplies. However, the description line of the invoice states “Program Development, Classroom Support”. The description does not clarify what was actually purchased.

For 1 out of 10 items tested, the auditor noted that \$83.56 of a sales receipt of \$2,004.49 was for the purchase of office supplies. The \$83.56 apparently requires the expenditure code “56118— General Materials and Supplies”. The items purchased were rulers, folders, and receipt books. The entire invoice was coded to “57332”—Supply Assets (\$5,000 or less); therefore, the \$83.56 was not properly recorded per the PSAB Chart of Accounts.

For 1 out of the 10 items tested, the auditor noted that \$1,400 was coded to “55915”— Other Contract Costs under Inter-Educational, Inter- Agency Purchased Services and appears to be coded incorrectly. The correct object code is “53414”— Other Services under Other Professional Services. The expense was related to nursing services. However, no contract for nursing services was provided. The school made two payments to this vendor (one payment in RfR 528-000-1516-27166-001 and one in RfR 528-000-1516-27166-002) at two different rates.

Criteria. Executed Professional Services Contracts, the PED’s PSAB 3, establishes a complete fund accounting system, including the recording of assets, liabilities, fund balance, revenues, and expenditures, which is implemented and designed to meet key objectives of the accounting process.

Effect. La Promesa has the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state funding.

H) Verify that the purchase order was executed prior to the expenditure.

For the 1 out of 10 items that were tested, the auditor noted that no purchase order was provided by LPCC for review of the transactions.

For 2 out of 10 items tested, the auditor noted that no purchase order was issued prior to the purchase. The auditor noted that the purchase order was executed after the date of the professional services contract became effective and the work was to begin.

Criteria. The PED’s PSAB 13 states that the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services, or construction.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures which could lead to an over- or under-statement of fund activity.

I) For invoices for services, verify gross receipts tax is included in the invoice amount.

For 6 of the 10 items tested, the auditor noted that there was no gross receipts tax shown on the invoice for professional services. La Promesa is not exempt from applicable taxes on services. The taxes are to be added as a separate item with the grand total clearly shown. The tested invoices did not include a separate line item for gross receipts.

For 1 of the 10 items tested, the auditor noted that, for goods purchased, there was gross receipts tax shown on the sales receipt. La Promesa is able to deduct the amount of gross receipts charged and therefore not required to pay gross receipts tax. The auditor noted that the reimbursement of gross receipts tax to the employee is evidence of statutory non-compliance. La Promesa holds a Type 9 Non-Taxable Transaction Certificate.

Criteria. Executed Professional Services Contracts, Section 7-9-54 (A) NMSA 1978 states that receipts from selling tangible personal property to ... agency, department or instrumentality

thereof may be deducted from gross receipts. The deduction provided by this subsection does not apply to ... (4) that portion of the receipts from performing a “service” that reflects the value of tangible personal property utilized or produced in performance of such service.

Effect. The procurement process is not being adhered to, and the lack of internal control over monitoring is not mitigating the potential issue of over- or under-paying the vendor the proper amount due.

Area of Concern #2—K-3 Plus RfR 528-000-1516-27166-002

A) Confirm all document support (invoice, purchase order, purchase requisition) is attached to the check copy. Recalculate invoice including extensions and totals. Recalculate hours worked multiplied by hourly rate and location of services performed.

For 1 out of 17 items tested, the auditor noted that the support provided did not agree with the actual payment remitted to the vendor. Check #6159 for \$1,607.80 did not agree with the invoice for \$1,050.43. The difference is \$557.37.

For all 17 out of the 17 items tested, the auditor noted that no purchase requisition was issued prior to the purchase. The auditor noted that the payment processing to vendor appeared to have been completed without receipt of any required documentation.

For 1 out of the 17 items tested, the auditor recalculated the total sales receipts to equal \$652.61. The amount paid was actually \$656.61. The executive director had been over paid, and the K-3 Plus Program had been overcharged by \$4.00. The error was not found by La Promesa staff or the external business manager.

For 3 out of the 17 items tested, the auditor was unable to recalculate hours worked by hourly pay rate for the services performed. The invoices show only a total amount. Therefore, the auditor cannot recalculate or verify the hours worked and/or verify that the services were related to the K-3 Plus program. In addition, no contract was provided. The auditor also noted that the address on the invoice was incomplete and did not agree with the invoice on the purchase order.

For the 1 of 17 items tested, no purchase order was provided by LPCC for review of the transaction. The invoice packet was created for the executive director. It was noted that one receipt, totaling \$287.33, was to be charged to the K-3 Plus Program. However, it was coded in the general ledger to 11000—Operational. The sales receipt was dated Saturday, 8/15/15 at 7:34pm, after the conclusion of the K-3 Plus Program. There was no notation by management or business manager as to the lack of required documentation.

For the 1 of 17 items tested, no contract was provided for nursing services. The school made two payments to this vendor (one payment in RfR 528-000-1516-27166-001 and one in RfR 528-000-1516-27166-002) at two different rates.

Criteria. Good accounting practices, PSAB 13 states that vendor invoices are received and reviewed first by the accounting department. The accounting department is to compare the invoice to the purchase order and receiving documentation.

Effect. The impact to La Promesa could result in over-expenditure of fund budgets, as well as improper recording of expenditures—which could lead to over- or under-statement of fund activity.

B) Verify the expenditure and meet the expenditure guidelines outlined in FY15 K-3 Plus Program Guide.

For the 1 of 17 items tested, there was no notation showing that the expenditure was related to the K-3 Plus Program. The invoice showed an allocation of \$10,000 to the K-3 Plus Program, and the invoice total was \$25,992.97. The auditor was unable to determine how the allocation was calculated by La Promesa and how the expenditure met K-3 Plus Program requirements. Additionally, the invoice included \$1,742.97 of gross receipts tax. The annual license renewal is a tangible personal property type item and should not be taxed; therefore, the cost should not be paid by the K-3 Plus Program.

For 3 of the 17 items tested, the auditor noted the use of the “27166 Plus Program Code.” However, it appears that the expenditures relate to items that will be used year-round. The correct code appears to be “11000”—Operational. The three purchased items were UltraPlay Official Sport Ball Pack—52 Pieces, Foam Rollers—Half Round, and a Narcotics Box—Double Door/Double Lock. The auditor considered all the items as necessary for operations at La Promesa. However, it is not clear how these items would be used only within the approved timeframe of the program.

Criteria. According to the K-3 Plus Program, Summer 2015 Application Technical Assistance Guide, K-3 Plus funds may not be used to supplant funding designated for year-round expenses.

Effect. Due to the lack of proper documentation, the charter school has the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state funding.

C) Verify that the expenditure for PD meets 6.30.12.11 NMAC for the areas identified (early reading, math, and English as a second language).

None of the 17 items tested were for PD expenditures. No exceptions were noted.

D) Verify that the receiving documentation includes verification of the receipt of goods/services, including approval notation of *OK TO PAY* or similar code and that the purchase order number is written on the receiving document.

For 17 of 17 items tested, there was no verification of receipt of goods/services, nor approval notations, nor purchase order numbers on invoice or receipt.

Criteria. Per PSAB 13, school personnel must write the purchase order number on invoices and receipts and sign *OK TO PAY* at the time of the receipt of the goods or services.

Effect. La Promesa has the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state funding.

E) Verify, prior to payment made, that the corresponding, receiving documentation is certified and that the goods/services have been received by La Promesa, as required by the Procurement Code.

For 15 of 17 items tested, there is no certification that the goods/services have been received by La Promesa.

Criteria. According to Good Accounting Practices, PED's PSAB 13, school personnel must write the purchase order number on invoices and receipts and sign *OK TO PAY* at the time of the receipt of the goods or services. All receipts must immediately be given to the school secretary for processing, if applicable. According to Procurement Code—Section 13-1-158 NMSA 1978, no warrant, check, or other negotiable instrument shall be issued in payment for any purchase of services, construction, or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction, or items of tangible personal property have been received.

Effect. La Promesa has the potential for receiving inaccurate or damaged goods or an inaccurate quantity/quality and not have a mitigating control before payment is made.

F) Trace the account code that was executed in the financial management system (APTA) and utilized on the purchase order. Agree with the actual expenditure as noted in the general ledger.

For 1 out of 17 items tested, there was no purchase order. This invoice packet was a reimbursement to the executive director.

Criteria. According to Good Accounting Practices, Section 13-1-127 NMSA 1978, emergency purchases are only allowed when there is an existence of an emergency need that cannot be met through normal procurement methods. These emergencies take into consideration health, safety of persons or property, and the functioning of government.

Effect. La Promesa has the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state funding.

G) Verify that the account code is accurate and appropriate for the expenditure submitted for reimbursement.

For 1 of the 17 items tested, there is no notation showing that the expenditure is related to the K-3 Plus Program. The allocation is coded to "27166"—K-3 Plus Program. However, the auditor was not able to determine how the allocation calculation was computed by La Promesa for the program.

For 1 of the 17 items tested, the auditor noted that the expenditure object code "55915" did not support the transaction. The correct expenditure object code was "55913"—Contracts—Interagency/REC. This code should be used for all contractual agreements with ... governmental entities. The vendor was Cooperative Educational Services (CES), a governmental entity.

For 1 of the 17 items tested, the auditor noted that the function code "1000" did not support the transaction. The correct function code appears to be Support Services— Central Services "2500". Also, the expenditures object code "53711"—Purchased Professional and Technical Services-Other Professional Services- Other Purchased Services- Other Charges did not support the transaction. The correct expenditure object code is "55400"—Advertising under Other Purchase Services. La Promesa purchased radio advertising for the charter school using K-3 Plus Funds.

For 1 of the 17 items tested, the auditor noted that the function code "1000"—Instruction did not support the transaction. The correct function code appears to be "2700"—Student Transportation. Also, the expenditure object code "55100"—Student Transportation Services did not support the transaction, because entries are not posted to the roll-up account. The correct expenditure object code to be used for the transportation of students is "55112"—Transportation Contractors. Per PED's PSAB 3, Page 19, the program code is "0000", since the function code did not additionally require a program code.

For 4 out of 17 items tested, the auditor noted that the object code 55915—Other Contract Services appeared to be coded incorrectly. The object code used is for "Inter-Educational, Inter-Agency Purchased Services". The correct object code appears to be 51100—Salaries Expense. The vendors were contract employees.

For 1 of the 17 items tested, the auditor noted that the expenditure account code did not support the transaction submitted. Function (Program 0000) and object codes (53414-Other Services) appear to be the correct account code components. The object code used was for "Inter-Educational, Inter-Agency Purchased Services". Per the scope of work, it appears that the service was for management consultation of teachers and was not for providing educational content to students. Therefore, the account code was not properly recorded for the transaction, and did not follow the PSAB Chart of Accounts.

For 1 of the 17 items tested, the auditor noted the expenditure's object code did not support the transaction submitted. The object code "55915" is used for Inter-Educational, Inter-Agency Purchased Services. The correct code appears to be 53330—Professional Development.

For 3 of the 17 items tested, the auditor noted that the “27166 Plus Program” code was used. However, it appears that the expenditures were for items that will be used year-round. The correct code appears to be “11000”—Operational. Allowable expenditures must be directly related to providing for the K-3 Plus Program. K-3 Plus funds may not be used to supplant funding designated for year-round expenses. The three items purchased were the UltraPlay Official Sport Ball Pack—52 Pieces, Foam Rollers—Half Round, and a Narcotics Box—Double Door/Double Lock. While the auditor considered all of these items necessary for operations at La Promesa, it was not clear how these items would be used only in the approved timeframe of the program.

For 1 of the 17 items tested, the auditor was unable to verify the account coding as accurate and appropriate for the expenditure submitted for reimbursement. It was noted that this invoice packet was coded to “11000”—Operational. The cost was transferred to the K-3 Plus Program with an approved journal entry. The journal entry was not provided to the auditors.

Criteria. According to Good Accounting Practices, PEDs PSAB 3 establishes a complete fund accounting system, including the recording of assets, liabilities, fund balance, revenues, and expenditures—which is designed and implemented to meet key objectives of the accounting process.

Effect. La Promesa has the potential for inappropriate purchases, unallowable expenditures, and fraud—which could affect future federal and state.

H) Verify that the purchase order was executed prior to the expenditure.

For 1 out of 17 items tested, no purchase order was provided by LPCC for review of the transaction. The auditor was unable to verify that the purchase order was executed prior to the expenditure. The one item was an invoice packet was for the executive director.

Criteria. PED’s PSAB 13 states that the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services, or construction.

Effect. The impact to La Promesa is over-expenditure of fund budgets, as well as improper recording of expenditures—which could lead to over- or under-statement of fund activity.

I) For invoices for services, verify that gross receipts tax is included in the invoice amount.

For 8 out of 17 items tested, the auditor noted that, for services received, there was no gross receipts tax shown on the invoice. La Promesa is not exempt from applicable taxes on services. The taxes are to be added as a separate item with the grand total clearly shown. The invoice was not in compliance with the contract.

For 1 of 17 items tested, the auditor noted that the total tax of \$1,742.97 was for gross receipts tax on an invoice for goods. La Promesa, as a state-chartered charter school, is not required to pay sales tax on goods purchased.

Criteria. Executed Professional Services Contracts, Section 7-9-54 (A) NMSA 1978, which states receipts from selling tangible personal property to ... agency, department or instrumentality thereof may be deducted from gross receipts. The deduction provided by this subsection does not apply to ... (4) that portion of the receipts from performing a “service” that reflects the value of tangible personal property utilized or produced in performance of such service.

Effect. The impact to the school has the potential to be significant. The procurement process is not being adhered to, and the lack of internal control over monitoring is not mitigating the potential issue of over- or under-paying the vendor the proper amount due.

Area of Concern #3—Reimbursements to Administrative Staff

A) Confirm that all document support (invoice, purchase order, purchase requisition) is attached to the check copy. Confirm that the administrative reimbursement support documentation is provided. Recalculate invoices, including extensions and totals.

For 17 out of 19 items tested, the auditor noted that no purchase order was provided by LPCC for testing. The auditor noted that the procurement process appeared to be circumvented for the transactions reviewed. There was no sign-off on the documentation by the chief procurement officer approving the purchase. Also with the purchase order, the budget check process was circumvented so that staff and management were not able to determine if funds were available prior to the expenditure. The payment processing to vendors appears to have been completed without proper documentation.

For 2 out of 19 items tested, no documentation was provided by La Promesa. It appears there was a lack of internal controls regarding document management. The auditors were unable to determine the procurement procedures and determine if there was proper recording of the transactions.

For 8 out of 19 items tested, the auditor noted that no purchase requisitions were provided by LPCC for review of those transactions. The auditor noted that the procurement process appeared to be circumvented for the transactions that were reviewed. Without the purchase requisition, the purpose of the expenditure and the expected account coding were excluded, and staff and management could not determine the required procurement process to initiate purchasing. Therefore, the process was circumvented. The processing of payment to vendors appears to have been completed without proper documentation.

For 3 out of 19 items tested, the auditor noted the documentation was incomplete. The sales receipts provided did not support the amount reimbursed to the employee.

- Receipts totaled \$1,060.55. However, the amount of the reimbursement was \$1,237.60. The principal appears to have been overpaid by \$177.05.
- Receipts totaled \$1,365.38. However, the reimbursement was \$1,320.00. One of the receipts, for \$45.14, was not included in the reimbursement. The principal appears to have been underpaid by \$.24. The auditor presumed that there was a miscalculation of the required reimbursement. Additionally, gross receipts tax was included on three of six receipts for the reimbursement.
- Receipts did not total the amount reimbursed to the executive director. The attached receipts total \$307.47. However, the reimbursement was \$292.25. The executive director appears to have been underpaid by \$15.22. The process of payment to vendors appears to have been completed without proper supporting documentation.

For 2 out of 19 items tested, the auditor was unable to review the invoice for the transaction, since it was not provided. An email of the Payment Reminder Notice was provided to the PED as support for the transaction. Payment from emails is not a sound accounting practice. The auditor noted that the processing of payment to the vendors appears to have been completed without proper attention to the detail of the supporting documentation.

For 1 out of 19 items tested, the auditor noted that the reimbursement request included a receipt from May 2015, the prior year. The handwritten note on the receipt indicated that it was for "Construction Materials". Receipt was not submitted timely. The prior year documentation was not noted by La Promesa staff or by an external business manager. The auditor noted that the processing of payment to the vendors appears to have been completed without proper attention to the detail of the supporting documentation.

For 2 out of the 19 items tested, the auditor noted that the reimbursement request does not agree with the amount included in the purchase requisition. The amount submitted was paid to the executive director who was overpaid \$10.55 and \$3.50 respectively.

For 16 out of 19 items tested, the auditor noted that no evidence for reimbursement was provided from administration staff. The auditor was unable to verify that the original transaction was paid by the employee prior to the reimbursement request being submitted.

For 1 out of the 19 items tested, the auditor noted that no invoice or sales receipt was provided by LPCC for review of the transaction. The auditor was unable to verify the transaction with the invoice or sales receipts, since it was not provided.

Criteria. Per LPCC purchasing policies and procedures, the business manager will review the vendor invoice for mathematical accuracy; compare terms, quantities, and prices to the purchase order, packing list, and purchase requisition; and initial the original invoice to indicate evidence of such review.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures—which could lead to over- or under-statement of fund activity.

B) Verify that the purchase requisition is submitted to the business office and submitted to a budget check, and the business manager will assign a purchase order (a duly authorized document per PSAB 13), signed by the chief procurement officer.

For 7 out of 19 items tested, the purchase requisition was approved by the executive director. However, it did not appear that it was submitted to the business manager for a budget check and purchase order generation. Nor was it signed and approved by the acting chief procurement officer.

For 1 out of 19 items tested, a minimally completed purchase requisition for reimbursement to the executive director had a description of items purchased "Reim Supplies," did not assign an account code to charge, and was not approved. Additionally, the purchase requisition was dated after the purchases were made.

For 2 out of the 19 items tested, no documentation was provided by La Promesa. It appears that there was a lack of internal controls regarding document management. The auditors were unable to determine the procedures for procurement and if there was proper recording of the transactions.

For 8 out of the 19 items tested, the auditor noted that no purchase requisition was provided by LPCC. Without the purchase requisition, the purpose of the expenditure and the expected account coding was excluded, and staff and management could not determine the required procurement process to initiate purchasing. The processing of payment to vendors appears to have been completed without proper documentation.

For 2 out of the 19 items tested, the auditor was unable to determine when the executive director signed approval of the purchase requisition. The purchase order was signed; however, the document was not dated.

Criteria. According to the LPCC Purchasing Policies and Procedures, the purchase requisition must be submitted to the business office for review. PSAB 13 requires that all purchase transactions are executed through issuance of duly authorized school district purchase order. Per Section 13-1-95.2 NMSA 1978, only the chief procurement officer may issue purchase orders and authorize small purchases pursuant to the procurement code.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures—which could lead to over- or under-statement of fund activity.

C) Not Used

D) Verify that the receiver initialed and dated the packing list, invoice, or sales receipt prior to submitting to the business office, per LPCC Policy and Procedures and PSAB 13.

For 17 out of the 19 items tested, the auditor was unable to verify either the receiver's initials or date, even with the invoice or sales receipt provided. This was due to not receiving the notation.

For 2 out of the 19 items tested, no documentation was provided by La Promesa. It appears that there is a lack of internal controls regarding document management. The auditors were unable to determine the procedures for procurement and if there were proper recording of the transactions.

Criteria. According to La Promesa Policy and Procedures, the receiver must compare the quantities received to the quantities recorded on the packing list. Once this information is verified, the receiver must initial and date the packing list and submit it to the business office where it will be compared and attached to the open purchase order and original requisition and filed in the *Pending Invoice* file until receipt of the invoice. According to PSAB 13, upon verifying and recording the receipt of all the items or services ordered, the receiving document shall be signed by authorized personnel and processed for payment, according to procedures established by the school district or by the charter school board's local procedures.

Effect. The potential for inappropriate expenditures and unallowable costs are a risk to the charter school. Items could be purchased without the knowledge of the chief procurement officer as well as initiating procurement that is not in compliance with regulatory policy.

E) Per PSAB13, verify document support that includes the initials of the business manager, as a notation for the approval of the transaction and as evidence of comparing terms, quantities, and prices to the purchase order and to establish that the transaction is certified as received by school staff, as required by the Procurement Code.

For 17 out of the 19 items tested, the auditor noted that there were no initials, nor approval to pay notation, nor certification of receipt, nor purchase order numbers noted on the invoice.

For 2 out of the 19 items tested, no documentation was provided by La Promesa. It appears there is a lack of internal controls regarding document management. The auditors were unable to determine the procurement procedures and determine if there was proper recording of the transactions.

Criteria. La Promesa Policy and Procedures require that when invoices are received, the date is stamped by the business office. The business manager will review the vendor invoice for mathematical accuracy; compare terms, quantities and prices to the purchase order, packing list and purchase requisition; and initial the original invoice to indicate evidence of such review. Per PSAB 13, upon verifying and recording the receipt of all the items or services ordered, the receiving document shall be signed by authorized personnel and processed for payment, according to procedures established by the school district or the charter school board's local procedures. Per the Procurement Code, Section 13-1-158.A NMSA 1978, no warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction, or items of tangible personal property unless the using agency certifies that the services, construction, or items of tangible personal property have been received and meet specifications.

Effect. The potential for inappropriate expenditures, unallowable costs, and fraud are a risk to La Promesa. Items could be purchased and received, which could obligate the school and require reimbursement to staff that is not in compliance with school policy.

F) Trace the account code utilized on the purchase requisition to ensure it agrees with PED's Chart of Accounts.

For 5 out of 19 items tested, the auditor noted that no account code was included on the purchase requisition. Also, the purchase requisition did not appear to be submitted to the business office for approval. The purchase requisitions appeared to be completed after the purchasing occurred and reimbursements had been made to the executive director.

For 8 out of the 19 items tested, the auditor noted that no purchase requisition was provided by LPCC for review of the transaction. The auditors were unable to verify with the purchase requisition, since it had not been provided.

For 2 out of the 19 items tested, no documentation was provided by La Promesa. It appears that there is a lack of internal controls regarding document management. The auditors were unable to determine the procedures for procurement and determine if there was proper recording of the transactions.

Criteria. PED's PSAB 3 establishes a complete fund accounting system, including the recording of assets, liabilities, fund balance, revenues, and expenditures, which is implemented and designed to meet key objectives of the accounting process.

Effect. The impact to La Promesa is over-expenditure of fund budgets, as well as improper recording of expenditures—which could lead to the over- or under-statement of fund activity.

G) Trace the account code utilized on the purchase order to ensure it was executed in the financial management system (APTA Fund) and that it agrees with the general ledger.

For 13 out of the 19 items tested, no purchase order was provided by LPCC for review of the transactions.

For 2 out of the 19 items tested, no documentation was provided by La Promesa. It appears that there is a lack of internal controls regarding document management. The auditors were unable to determine the procedures for procurement and determine if there was proper recording of the transactions.

For 1 out of 19 items tested, the auditor noted that the expenditure account code did not support the transaction submitted. The items included on the purchase requisition were not "Other Charges" under "Purchased Services." The auditor notes that the items purchased appeared to be supplies for the operation of the charter school, which appear to be coded under "56118."

Criteria. According to 6.20.2.8 NMAC, all school districts shall account for financial transactions and develop and maintain their budgets in accordance with the Public School Code, Generally Accepted Accounting Principles (GAAP), and department procedures for public school accounting and budgeting.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures—which could lead to over- or under-statement of fund activity.

H) Trace from purchase requisition to the invoice or sales receipt for the quantity and type of item purchased.

For 5 out of the 19 items tested, the auditor was unable to trace the quantity and type of item purchased, tracking from the purchase requisition to the invoice or sales receipt.

For 2 out of 19 items tested, no documentation was provided by La Promesa. It appears there is a lack of internal controls regarding document management. The auditors were unable to determine the procurement procedures and determine if there was proper recording of the transactions.

For 8 out of 19 items tested, no purchase requisition was provided by LPCC for review of transaction. The auditors were unable to verify with the purchase requisition, since it was not provided.

For 1 out of 19 items tested, the auditor noted that the support to the invoice did not include price per item with the extensions. The auditor was unable to trace the attached inventory list support to the total that was charged on the invoice.

Criteria. La Promesa Policy and Procedures states that invoices will be received and date stamped by the business office. The business manager will review the vendor invoice for mathematical accuracy; compare terms, quantities and prices to the purchase order, packing list and purchase requisition; and initial the original invoice to indicate evidence of such review. Per PSAB 13, upon verifying and recording the receipt of all the items or services ordered, the receiving document shall be signed by authorized personnel and processed for payment according to procedures established by the school district or the charter school education board's local procedures. Per the Procurement Code, Section 13-1-158.A NMSA 1978, no warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction, or items of tangible personal property unless the using agency certifies that the services, construction, or items of tangible personal property have been received and meet specifications.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures—which could lead to over- or under-statement of fund activity.

I) Verify compliance with gross receipts tax statutes for the purchase/procurement by LPCC.

For 2 out of 19 items tested, no documentation was provided by La Promesa. It appears that there is a lack of internal controls regarding document management. The auditors were unable to determine the procedures for procurement and determine if there was proper recording of the transactions.

For 7 out of 19 items tested, the auditor noted gross receipts tax on invoice or sales receipt. La Promesa, as a state-chartered charter school, is not required to pay sales tax on goods received. LPCC has been remitting gross receipts tax when it is not statutorily required.

For 1 out of 19 items tested, the auditor was unable to review the invoice for the transaction, since it was not provided. An email of a Payment Reminder Notice was provided to the PED auditor as support of transaction.

Criteria. Section 7-9-54 (A) NMSA 1978 states that receipts from selling tangible personal property to ... agency, department, or instrumentality thereof may be deducted from gross receipts. The deduction provided by this subsection does not apply to ... (4) that portion of the receipts from performing a “service” that reflects the value of tangible personal property utilized or produced in performance of such service.

Effect. The impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures—which could lead to over- or under-statement of fund activity.

Area of Concern #4—Allocation of Charges

The auditor noted in the 2015–2016 Parent/Student Handbook, the statement “...we also have a beautiful site at 5201 Central NW that is dedicated to servicing children from birth to first grade.” Per the 2015–2016 school calendar, July 9, 2015 is the first day of school for kindergarten through the 3rd grade. The handbook also includes a Parent’s Signature Form, which shows both school addresses. The auditor is unable to trace expenditures for the K–3 Plus Program for the two individual locations. If a vendor was working at both locations, the invoices did not provide a breakdown of work between the two sites.

Area of Concern #5—Policy and Procedures for La Promesa

The auditor noted that all of the policies that were provided upon request were listed in Date Adopted: Pending Governing Council (GC) Approval. The policies provided were for Activity Funds, Cash Receipts, Textbook Policy, Time Clock Policy, Travel—Per Diem and Mileage, and Purchasing. With the documentation that was provided, the auditor was unable to determine if the policies had been approved by La Promesa’s governing council and had not been updated. To the auditor, it appeared that the policies had not been approved. The Policy and Procedures for Purchasing is not current due to the statutory changes made regarding the chief procurement officer and two pages of the five-page document appears to be in draft form.

Per PSAB 2, each (charter school) is responsible for establishing and maintaining an internal control structure, including policies and procedures. Each is also responsible for ensuring that the (charter school) complies with laws and regulations to state and federal programs, (Section 22-1-1 NMSA 1978; 6.20.2.11 NMAC). Management is responsible for developing detailed policies, procedures, and practices and insuring that they are an integral part of the (charter school)'s operations.

Area of Concern #6—Professional Services Contracts Dr. A.A.

The professional services contract for Dr. A. A. states, in the scope, “to provide services to K–2 grades.” The PO 2016-014 description is “K-Plus Coaching”, and the invoice states “K & 1st Grade coaching on learning centers.” The documentation is not consistent. Also, there appears to be management consultation provided for teachers and no evidence of providing educational content to students. The address of record on the contract is the Central address, and no other location for services is noted. Based on the fact that the K–3 Plus is run out of two locations, it appears that there should be distinct clarification as to the requirements at both locations. It is unclear as to how two locations were staffed and how the K–3 Plus Program was administered based on the billing provided.

Area of Concern #7—Professional Services Contracts M.A.

The professional services contract for M. A. states in the scope “to provide services to K–2 grades.” The PO 2016-013 description is “K-Plus Coaching”, and the invoice states “K–3 Coaching for 1st and 2nd grades.” The documentation is not consistent. Also, there appears to be management consultation provided for teachers and no evidence of providing educational content to students. The address of record on the contract is the Central address, and no other location for services is noted. Based on the fact that the K–3 Plus is handled out of two locations, it appears that there would be distinct clarification as to the requirements at both locations. It is unclear how the two locations were staffed and the K–3 Plus Program administered based on the billing provided.

Check number 00006 for \$1,800, dated 08/06/2016, is out of sequence. In addition, the invoice submitted to La Promesa is a different format than the other two invoices that were submitted for reimbursement—on 7/17/2015, check number 6145 for \$2,000.00 and on 8/14/2015, check number 6269 for \$2,614.00. It appears that an invoice from Dr. A.A was altered/modified with M.A.'s information and was submitted for reimbursement.

Area of Concern #8—Professional Services Contracts Dr. A.A. and M.A

The auditor noted that the scope of work for the contract for instructional coaching support services appears vague and does not specify the actual work to be performed on the two professional service contracts provided. Each contract also states that the work order shall include, as a minimum, the specific deliverables, maximum level of effort, and required dates of completion for each task assigned. No such documentation was provided. Also, the auditor

noted that each contract states “tax rates will be added to invoice as a separate item with a clear grand total.” Per Purchase Order #2016-013 and #2016-014, no gross receipts tax was noted. The deduction of gross receipts tax does not apply to “services.”

Included in the testwork, the auditor was unable to determine the scope of the work—goods or services. The purchase order provided was to a vendor that has an active Professional Services Contract. The expenditure code was for “Instruction Materials and Supplies” for the amount of \$1,800. By the description, it was not clear what was actually purchased. However, the description line of the invoice states “Program Development, Classroom Support.” The purchase order description line indicates “Support Classrooms.” The auditor was unable to determine if the expenditure met the K-3 Plus Program guidelines.

Area of Concern #9—Procurement Violation

The assistant business manager has signed as the La Promesa procurement representative. The executive director has signed as the La Promesa representative. It is unclear by what authority the assistant business manager can sign a document such as a professional services contract. The chief purchasing officer is required to sign approval of procurement matters. It is noted by the auditor that the executive director appears to the acting chief purchasing officer. On or after July 1, 2015, it became a statutory requirement, 13-1-95.2 NMSA 1978, that only the certified chief procurement officer may do the following: make determinations pursuant to the Procurement Code, issue purchase orders and authorize small purchases to the Procurement Code, and approve procurements pursuant to the Procurement Code.

Area of Concern #10 – Procurement Violation

The auditors reviewed the requirements for chief procurement officers’ reporting requirements, training, and certification at Section 13-1-95.2 NMSA 1978. Per the General Services Department (GSD) website, La Promesa’s previous business manager is listed three times, each time with the registration date of 12/30/13.

Per section A—On or before January 1, 2014 and every time a chief procurement officer is hired, each state agency shall provide the state purchasing agent with the name of the state agency’s chief procurement officer and information identifying the state agency’s central purchasing office. For the last two years, La Promesa has not been in compliance with the statutory reporting requirement.

Per section B—On or before January 1, 2015, the state purchasing agent shall establish a certification program for the chief procurement officers that include initial certification and recertification every two years for all chief procurement officers. It is unclear when the executive director began as the acting chief procurement officer. The executive director is not listed on the GSD website in an official capacity. Auditors were not able to determine if the executive director had completed the required certification training program. La Promesa has not been, and currently is not, in compliance with the statutory training and certification requirement.

Per section C—Only certified chief procurement officers, on or after July 1, 2015, may do the following: make determinations pursuant to the Procurement Code, issue purchase orders and authorize small purchases to the Procurement Code, and approve procurement pursuant to the Procurement Code. La Promesa has not been, and currently is not, in compliance with the Procurement Code. Of 28 K-3 Plus transactions tested, 19 have the purchase order signed by the executive director, acting chief procurement officer. None of the transactions that were tested included signed purchase orders for the purchases made for the administration reimbursements.

Area of Concern #11—Circumvention of the Procurement Code by La Promesa

Per review of the expenditures, the auditor noted 19 out of 44 items tested (approximately 43 percent) were made prior to the purchase requisition or purchase order being executed. It appears the procurement process is circumvented by the management, staff, and external business manager due to the fact that management and staff are purchasing goods and requesting reimbursement without the procurement process being followed. The external business manager is not providing proper guidance or internal control to the school in the documentation requirements regarding purchasing. Many tested items show the purchasing date before the purchase order was executed.

The auditor did not receive purchase orders for 19 tested items for reimbursement to management. It appears that the management purchases goods/services and submits receipts for reimbursement with minimal support documentation. The procurement is not processed through normal procurement methods at La Promesa. Per Section (B), La Promesa does not demonstrate the existence of the emergency condition; therefore, the documentation does not support a serious need for services, construction, or items of tangible personal property that would warrant circumventing the mandated procurement process. The potential impact for the school not adhering to statutory and regulatory procurement requirements using public monies is significant, and there is a potential for material misstatement to the financial statements. Miscoding inappropriate expenditures and unallowable costs are a risk to the charter school. There is a lack of internal control. Control procedures should include the segregation of responsibilities, sound accounting practices, independent performance checks, and proper valuation. Another impact to La Promesa is over-expenditure of fund budgets as well as improper recording of expenditures, which could lead to over- or under-statement of fund activity.

Area of Concern #12—Executive Director Reimbursements

In addition to the exceptions noted above in the Area of Concern, additional concerns are noted by PED auditors related to reimbursements to the executive director.

Considering the review of the reimbursement to the executive director for \$292.25, per PSAB 1, districts and charter schools should use fund code 23000 to account for various activities that are, by nature, non-instructional but support the instructional process. The fund reflects fund-

raising activities that are managed by principals and staff that account for revenues and expenditures in accordance with administrative procedures approved by the board of education or governing councils. The object code used is “53711”—Other Charges, under Other Purchased Services. The auditor was unable to determine the best object code to use, since the items purchased appeared to be a direct benefit to those in attendance. It appeared to be a potential conflict with the Anti-Donation Clause of the NM Constitution. The auditor noted that the entire reimbursement to the executive director was for a “staff Luncheon Meeting.” The receipts appear to be for the food supplies of a “Thanksgiving” or “Holiday” meal, purchased on 11/23/15. The purchase included turkey, potatoes, stuffing, vegetables, salad, and soda. It was not indicated who prepared the meal. The auditor noted that the quantity of food purchased was significant. The account code used did not support the expenditure. The expenditure was charged to Instruction/Other Purchased Services/Other Charges. The account code, 23000 Fund—General Ledger, does not support the actual expenditure or the reimbursement to the executive director.

A reimbursement to the executive director for \$921.84 included an invoice from Clean Carpet Care (provided to the PED via OBMS), dated July 31, 2015. It identified the customer as Adeline Maestas at 2213 Cordova, Albuquerque, [NM 87105]. The vendor noted that 16 vents were cleaned for \$320.00 plus tax. When received by the PED, the invoice was submitted as support to a reimbursement request for the K–3 Plus Program. When PED staff followed up on the questionable reimbursement, La Promesa responded that “These [items] were submitted simply for back up so you could tie payment amount because in reimbursement there were different funds used not paid in same check, not just K-Plus.” On the invoice, clearly written over the original address, the name La Promesa CS, 5201 Central SW, Albuquerque, NM 87105 was penned by the Clean Carpet Care staff. The same ink was used to check off the cleaning of carpets in five rooms as was used in the alteration of the address. While the auditor noted that the school is actually located in the northwest quadrant, the altered address indicated that the school was located in the southwest quadrant. No documentation has been provided by La Promesa that shows that the work documented on the invoice was completed at the school. Additionally, the vendor has confirmed that his company completed work at the 2213 Cordova SW location.

The auditor considers the modification to the invoice to be an attempt to utilize public monies for personal purpose. Per Section 22-8-42 NMSA 1978, any person falsifying any record...or knowingly using money budgeted ... for public school use or for any other purposes ... is guilty of a petty misdemeanor and shall, in addition to all other civil or criminal penalties, forfeit his office or employment. The auditor inquired of the vendor and performed a public records search for the address shown on the invoice. The owner was shown to be the executive director of La Promesa. It is also noted that any person who knowingly violates any provision of the Procurement Code is subject to a civil penalty of not more than \$1,000, per Section 13-1-196 Civil Penalty.

Area of Concern #13— Principal Reimbursement

Principal Reimbursement—\$1,320.00 concerns. The auditor noted that two invoices were submitted for reimbursement by the principal from the company, “Solutions Unlimited.” Both

invoices state, "Make all checks payable to Solutions Unlimited." However, the reimbursement was made to the principal, not the vendor, "Solutions Unlimited." No documentation was provided to indicate that payment was made by the principal to the company to warrant the reimbursement. One invoice was for \$1,320 in library books. The attached inventory sheet is a list of 83 titles. The auditor was unable to identify books purchased by ISBN or UPC number. The total dollar amount due is handwritten at the bottom of the list—\$1,320 INV. The auditor was unable to obtain third-party evidence of the purchase, due to the fact that the company could not be found online, and the telephone number provided appeared to be a cell phone number and was not answered when called.

The auditor reviewed the Office of the Secretary of State's Business Services Division's website with the query for "Solutions." The auditor noted that two identified companies do not match the business named. By the agent detail, it appears that neither of the two companies listed is the company noted on the two invoices. Therefore, the company shown on the invoice(s) is not found on the NM Secretary of State's website and is considered not registered.

The second invoice was for Christmas Concert Brochures (500 @ \$1.45) for \$725.00. The auditor noted that there was no proof or template of the brochure to provide support as to the expenditure. The reimbursement was made to the principal. No documentation was provided to show that payment was made by the principal to the company to warrant reimbursement to the principal. The management, staff, and external business manager's attention to detail and their execution over the completed accounting tasks appears to be a significant risk for mis-recording of expenditures, over- and under- reporting of expenditures for state and federal funds, and possible fraud.

The address of record on invoice for the vendor, "Solutions Unlimited," is 8 Glory Lane, Estancia, NM. The location is noted as a rural residence. The auditor did an internet search for the vendor at this address and found no search results that were for the business. One website shows a vendor with the same business name; however, the address for this business is the same address as another vendor, Dr. A. A. The address is "1610 Los Alamos SW, Albuquerque, NM 87104." The phone number for this business is also the same one as listed on an invoice to La Promesa from Dr. A.A.

Principal Reimbursement—\$1,635.00 concerns. There is an unnumbered invoice totaling \$1,635 for fencing material, which shows *paid* on 11/8 to an individual. The simple invoice shows the individual's name, a PO Box address, and a social security number. There is one line item "Materials for Fence" for \$1,635. There is no detailed list of items purchased that was provided to auditors. The invoice was signed by the individual with the handwritten notation showing "pd 11/8." La Promesa check #6592 was made payable to the principal on 11/9 for invoice #20009. The auditor was unable to determine who completed the fence work with the material s purchased or where the fence work was completed. There was no documentation provided to auditors in support of the payment to the vendor by the principal warranting reimbursement to the principal. Due to the lack of providing the auditor a purchase requisition, purchase order, and line item detail, the accuracy of the account code 11000-2600-57332-0000-528001-0000-000 cannot be determined. The management, staff, and external business manager's attention to detail and execution over the accounting tasks completed appears to be a

significant risk for mis-recording of expenditures, over- and under- reporting of expenditures for state and federal funds, and possible fraud.

Principal Reimbursement—\$1,237.60 concerns. Supporting receipts do not total the amount reimbursed to the principal. The attached receipts total \$1,671.24. However, the amount of the reimbursement was \$1,237.60, via check #6822. The difference is \$566.36. Included in the receipts was a duplicate invoice for \$377.85, which was not included in the auditor's recalculation. Gross receipts tax was included on one of the five invoices included in the reimbursement. The receipts appear to include construction materials, teaching materials, supplies (which includes payment of duplicate invoices), and library cards. It is unclear to the auditor as to why such procurement is occurring for these goods outside of the La Promesa purchasing process; the date of purchase is New Year's Eve 2015, which is during the charter's holiday break. The management, staff, and external business manager's attention to detail and execution over the completed accounting tasks appears to be a significant risk for mis-recording of expenditures, over- and under- reporting of expenditures for state and federal funds, and possible fraud.

Additionally, it was noted that in the receipts provided was a duplicate copy of invoice for \$377.85. This was not included in the recalculation of the reimbursement request by the auditor. PSAB 13 states that General Controls shall demonstrate that internet controls are in place. One of the General Controls defined is that duplicate copies of invoices are to be destroyed to prevent duplicate payments. The management, staff, and external business manager's attention to detail and execution over the completed accounting tasks appears to be a significant risk for the mis-recording of expenditures, over- and under- reporting of expenditures for state and federal funds, and possible fraud.

Principal Reimbursement—1,320.00 concerns. The auditor noted that in the modification to one of the invoices included in the reimbursement, the date box appears to have been altered using white out. It is unclear as to who made the modification. Additionally, the "paid" check date appears modified. The modified date box does not coincide with other invoices and dates from the same vendor that is included in this reimbursement packet. It appears that the two invoices for Silva Screen Print have been modified; therefore, is not in compliance with Statute Section 22-8-42(D) NMSA 1978. 6.20.2.23 NMAC states that any person falsifying any record required to be kept (books of record)...is guilty of a petty misdemeanor and shall, in addition to all other civil or criminal penalties, forfeit his office or employment. The management, staff, and external business manager's attention to detail and execution over the completed accounting tasks appears to be a significant risk for mis-recording of expenditures, over- and under- reporting of expenditures for state and federal funds, and possible fraud.

Principal Reimbursement— \$1,234.00 concerns. Principal reimbursement check, #6472 for \$1,234, was processed on Sunday, 10/11/15. It appears that the processing was done when no other administrative or accounting staff was present. This occurrence appears to be a significant lack of internal control over the payment process. In addition, there was no supporting documentation provided.

Area of Concern #14— Business Manager

In review of all the documents submitted to the PED audit, there is a concern about the handling of public monies at La Promesa. Per 6.20.2.8 NMAC, business officials, serving in a capacity of a supervisor/ director/ manager of accounting and/or bookkeeping, as mentioned in 6.63.12.8 NMAC—responsible for the preparation and presentation of all financial documentation and budget maintenance— will meet the competency requirements enumerated in 6.63.12.9 NMAC. The transactions reviewed by the PED were only a small segment of the total number of transactions executed by the charter school. Review of the expenditures for the K–3 Plus Program and reimbursements for the administration demonstrates a significant concern over adequate monitoring, as well as reporting and recording of public monies. Management is responsible for the preparation and fair presentation of the financial statements (government-wide, fund, and agency). It is not evidenced by the documentation submitted to PED auditors that the design, implementation, and maintenance of the charter school’s internal controls relevant to the preparation and fair presentation of the financial statements, by management and the business manager, would be free from material misstatements.

Area of Concern #15— K–3 Plus Program Advertising

The invoice packet for radio advertising through Radio Lobo from 7/24 to 7/31/15 is labeled “K–3 Enrollment.” The 30-second radio spots aired from the 12th day to the 19th day of the program. It is unclear why the advertising was purchased for the time frame. Also, the auditor noted that the 2015–2016 school calendar shows that the first day of school is July 9 for kindergarten through third grade students. No distinction is noted for the existence of a K–3 Plus Program at La Promesa. The auditors question the authority and propriety of such expenditures. PSAB 1, page 36, the *Public Benefit and Purpose* criterion requires expenditures to contribute to an agency achieving its constitutional, statutory, or contractual mission. This can be done in two ways, by: 1) serving a public purpose and 2) providing a public benefit. Translation of the Spanish language advertising states that “there are new programs at La Promesa for K–3. Call if wanting more information.” It is unclear what benefit was received by La Promesa when the charter school included the K–3 Program by default in the scheduling of the school year and purchased advertising for airing during the latter half of the program.

Area of Concern #16—Reallocation of Expenses to K–3 Plus Program #28703

The item tested is a journal entry. The supporting documentation for the journal entry contained three complete invoice packets for monthly janitorial services, Type to Learn Web renewal, and printer/copier lease charges. The auditor was unable to verify the account coding as accurate and appropriate for the expenditure submitted. It was noted that the journal entry for the invoice packet was coded to “11000”—Operational. The cost was transferred to the K–3 Plus Program. The approved journal entry was not provided to the auditors. None of the invoice packets show any receipt of goods/services notations or approval to pay the invoices, which is non-compliant with PSAB and the Procurement Code.

The first invoice packet includes copy of check #6202 for \$3,800.60, Invoice #68927 for \$3,800.60, and Purchase Order Number 2016-051. Per the check, Invoice #1 utilizes PO15-0367, rolled over from FY2015 for \$2,065.10. It is unclear what funds were used that rolled over into FY16. Per GAAP, all open purchase orders are to be closed as of June 30, at the end of the fiscal year. Therefore, no active purchase order was used for that portion of the transaction. The remaining amount of \$1,735.50, Invoice #2 utilizes PO 2016-051 in the amount of \$1,735.50. It appears that there is inadequate oversight of the handling of purchase orders. It is unclear as to how the monthly cleaning charges for June and July 2015 could be allocated to the K-3 Plus Program. The auditors noted no notation on the purchase order or invoice that implicitly or explicitly shows this to be a K-3 Plus Program expenditure. The lack of internal control over the accounting process appears to be a risk for misappropriation of assets and for fraud.

The second invoice packet includes a copy of check #6314 for \$99.95, Invoice #P109840 for \$99.95, and Purchase Order Number 2016-039. The expenditure meets the requirements of the K-3 Program. The account coding appears accurate and appropriate.

The third invoice packet includes a copy of check #6205 for \$ 1,644.22 and Invoice #5002261290 for \$5,278.66. The line item for Invoice #5002338045 is dated 8/6/15, while the check is dated 7/1/15 (the attached invoice is dated 6/20/15) and shows the description of payment as PO Number PO15-0386 rolled over from FY2015. It is unclear what funds were used that rolled over into FY16. The current period covered on the attached invoice is 6/17/15 to 7/16/15. Per GAAP, all open purchase orders are to be closed as of June 30 at the end of the fiscal year. Therefore, no active purchase order was used for that portion of the transaction. The amount of \$1,644.22 was handwritten on the invoice. There is no allocation calculation as to how the handwritten amount was determined. An incomplete copy of the invoice was provided to the auditor, and they were unable to verify the entire cost as shown on the invoice. The provided invoice page appears to be the Minimum Usage Payment and Black/White and Color Copy Overages. The customer name listed on the invoice is La Promesa Early Learning Center Foundation, Inc. The auditors noted no notation on the invoice that implicitly or explicitly showed this to be a K-3 Plus Program expenditure. The lack of internal control over the accounting process appears to be a risk for misappropriation of assets and for fraud.

Area of Concern #17—K-3 Plus Program Journal Entry Testwork

The journal entry, transaction #28701 dated 10/20/2015, and Transaction Comment “Reallocate 26 days (of cafeteria worker) from fund 21000—Food Services to 27166—K-3 Plus Program.” The K-3 Plus Program at La Promesa ran for 25 days. The auditors noted that the explanation of the journal entry shows 26 reallocated days to be included in the reimbursement request from the school. No support to the journal entry was provided. It is not clear to the auditor as to how the amounts were calculated.

The journal entry, transaction #28702 dated 10/20/2015, and Transaction Comment “Reallocate 20 days of pay for (Executive Director) from fund 11000 – Operational to 27166—K-3 Plus Program.” The K-3 Plus Program at La Promesa was 25 days long. Auditors noted that the explanation of the journal entry showed 20 days to be reallocated, to be included in the

reimbursement request from the school. No support to the journal entry was provided. It is not clear to the auditor how the amounts were calculated. For the two items tested, the lack of internal control over the accounting process, attention to detail, and execution over the completed accounting tasks appear to be a risk for the mis-recording of expenditures and the over- and under- reporting of expenditures for state and federal funds.

Area of Concern #18—General Ledger Review

Per PSAB 4, Federal and State Grants, grants must have funds budgeted in the format provided in the grant application...the budget is accurately translated to the Financial Management System (FMS) format used to account for the grant. The LPCC uses APTAFund. It appears that the budget has not been properly set up in the FMS for adequate monitoring and oversight by LPCC management and those charged with governance. The K-3 Plus budget, as set up, is included in only a few line item categories for each function category; however, it appears that many actual expenditures are being coded to unbudgeted line items. The auditor noted that it would be extremely difficult to know the financial position of the K-3 Plus Program at any given time with the information provided by LPCC. The auditor also considered La Promesa's (charter school program manager) executive director, assistant business manager (daughter of the executive director), and the external contracted business manager's fiscal responsibilities over the K-3 Plus Program. In review of all of the documentation provided for the expenditures for the K-3 Plus Program, there is a severe lack of internal control over the accounting process. The management, staff, and the external business manager's attention to detail and execution over the accounting tasks completed appears to be a significant risk for the mis-recording of expenditures, the over- and under- reporting of expenditures, and for state and federal funds.

C. J Paul Taylor Financial Status

CSD has been made aware of financial difficulties at J Paul Taylor Charter School. These issues have been raised by both the PED Budget bureau as well as the school itself. CSD will provide additional information to the PEC as it is available.

D. School Governance Changes

In February the PEC approved a policy to address the requirement in Section 8.10(b) of the charter contract regarding notification of the authorizer within 30 (thirty) days of a member's resignation or designation of a new member and sign the appropriate forms to ensure that the governing body continues to qualify as a board of finance. CSD has received notification from four schools, CSD's summary and the school's forms are provided as follows:

- NONE provided at this time