

**AGENDA ITEM EXECUTIVE SUMMARY**

- I. **Public Education Commission Meeting Date: March 16, 2018**
- II. **Item Title: DISCUSSION AND POSSIBLE ACTION ON CARIÑOS DE LOS NIÑOS CHARTER SCHOOL CORRECTIVE ACTION PLAN COMPLIANCE**
- III. **Proposed Motions:**
- IV. **Executive Summary:**

**CSD Director Poulos will discuss the Corrective Action Plan for this school.**

Part A - School Budget and Financial Analysis Bureau and Audit Update



STATE OF NEW MEXICO  
PUBLIC EDUCATION DEPARTMENT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017



**CARIÑOS DE LOS NINOS CHARTER SCHOOL**

**2014-003 Unapproved Purchase Order (Significant Deficiency) - Revised and Repeated**

*Condition:* For four of seventy disbursements tested totaling \$6,168, the Purchase Order is dated after the vendor's invoice date.

The Charter School did not make any progress in resolving this finding. However, the Charter School's management is in the process of reviewing the policy and procedure with the appropriate personnel to ensure that this issue is resolved in subsequent years.

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

*Cause:* Personnel initiated and/or completed purchases prior to obtaining approval for the purchases.

*Effect:* Any purchases made without prior authorization have the potential to cause cash deficits in the funds from which they are made or violations of the approved budget.

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**CARIÑOS DE LOS NINOS CHARTER SCHOOL (CONTINUED)**

**2014-003 Unapproved Purchase Order (Significant Deficiency) - Revised and Repeated (continued)**

*Auditor Recommendation:* The importance of cash controls and adequate planning need to be made clear to all personnel that will be involved in making purchases for the school.

*Management Response:* The office manager is the procurement officer for the school. Having attended the CPO trainings and now being the person responsible for issuing PO's in the financial management system, will ensure PO's are issued prior to items being purchased or services being performed. Administration is responsible for correcting this finding by June 30, 2018.

**2015-002 Lack of Supporting Documentation - (Material Weakness) – Revised and Repeated**

*Condition:* During our testing of seventy various disbursements, we noted the following deficiencies:

- Twenty-one disbursements totaling \$73,589 where some or all of the supporting documentation was not available for inspection.
- Eight disbursements totaling \$74,448 where a copy of the canceled check was not available for inspection.
- One disbursement for \$1,506 included late payment penalty fees of \$63.

The Charter School did not make any progress in resolving this finding. However, the School's management is in the process of reviewing the policy and procedure with the appropriate personnel to ensure that this issue is resolved in subsequent years.

*Criteria:* Maintenance of adequate supporting documentation for all disbursements, including purchase requisitions, purchase orders, travel authorizations, receiving reports, travel reports, and approval of disbursements are an integral part of a sound internal control system to safeguard the assets, and accomplish timely preparation and submission of financial reports. NMAC 6.20.2.11 states that an internal control structure shall be established to safeguard assets and insure proper accurate records. Internal control system on revenue recognition requires that all receipts be maintained with adequate supporting documentation in order to be processed further.

*Cause:* Management did not follow proper internal control procedures over receipt and disbursements. The Charter School staff did not ensure that all of the required documentation that supports the expenditure and receipt was in place.

*Effect:* Without proper documentation, there are not adequate controls over revenue and expenditures. The lack of enforcing the Charter School's policies and procedures may result in the non-authorized or incorrect calculations of invoices. The Charter School could be subject to penalties or possible legal action.

*Auditor Recommendation:* The Charter School should implement procedures to maintain proper supporting documentation, retain all documents related to revenue and expenditure and train personnel to adhere to the policies and procedures. We also recommend that the Charter School develop and implement stronger internal controls over its accounting of disbursements to ensure that all financial activities are properly processed, recorded, and classified.

*Management Response:* The office manager, who is on site, is doing all accounts payable transactions. This will improve the efficiency and organization of the accounts payable process. Administration is responsible for correcting this finding by June 30, 2018.

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PUBLIC EDUCATION DEPARTMENT  
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**CARIÑOS DE LOS NINOS CHARTER SCHOOL (CONTINUED)**

**2016-001 - PED Cash Report (Significant Deficiency) Revised and Repeated**

*Condition:* The Charter School's cash report to the PED did not agree to the Charter School's General Ledger at year-end. At June 30, 2017, the General Ledger had a cash balance of \$56,775, the PED Cash Report had a cash balance of \$58,451, and the Bank Reconciliation had an expected General Ledger balance of \$72,333.

The Charter School did not make any progress in resolving this finding. However, the Charter School's management is in the process of reviewing the policy and procedure with the appropriate personnel to ensure that this issue is resolved in subsequent years.

*Criteria:* According to State regulation 6.20.2.11 (b) (6), NMAC and Regulation SBE-6, the reports sent to the New Mexico Public Education Department (PED) must agree to the general ledger and must be finalized by July 31 following year-end.

*Cause:* This is due to a lack of oversight by the management.

*Effect:* The Charter School is not in compliance with NMAC 6.20.2.11 (b) (6) and Regulation SBE-6.

*Auditor Recommendation:* All reports sent to PED must agree to the general ledger and must be finalized prior to the PED's stipulated deadlines. We recommend that all reports be reviewed before being submitted to PED.

*Management Response:* A draft version of the final FY17 cash report was sent as PBC documentation for the FY17 audit. A final version was not yet completed since a report was not able to be correctly completed using the FY16 financial statements as presented as of July 31, 2017. A final FY17 cash report is in the process of being completed; using the restated FY16 financial statements. Administration is responsible for correcting this finding by June 30, 2018.

**2016-004 Capital Asset Listing — Compliance and Internal Control — (Material Weakness) Repeated**

*Condition:* For the year ended June 30, 2017, the School had not maintained a capital asset listing that was reconciled to the general ledger and in compliance with the GASB 34.

The Charter School did not make any progress in resolving this finding. However, the Charter School's management is in the process of reviewing the policy and procedure with the appropriate personnel to ensure that this issue is resolved in subsequent years.

*Criteria:* The State Audit Act, 12-6-10 NMSA 1978 requires that the School prepare and maintain an accurate listing of capital assets. The School must have a capital assets management policy to provide accountability for the safeguarding of assets in accordance with GASB 34 and Section 12-2-10 NMSA 1978.

*Cause:* There are no procedures in place to ensure that all capital assets are accounted for in a capital asset inventory listing. Further, the School did not have a system in place to track capital asset additions and deletions and to calculate and account for depreciation and accumulated depreciation.

*Effect:* Lack of sufficient records results in assets that are not properly safeguarded. Asset identification and location are essential in the prevention of theft and loss of assets due to fraudulent activity. Capital assets cannot be depreciated due to lack of information that is being maintained. As a result, the financial statements of the School may be materially misstated due to the balances of capital assets and accumulated depreciation being materially misstated.

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**CARIÑOS DE LOS NINOS CHARTER SCHOOL (CONTINUED)**

**2016-004 Capital Asset Listing - (Material Weakness) Repeated (CONTINUED)**

*Auditor Recommendation:* The School should develop procedures to ensure that all capital assets are accounted for in a capital asset inventory listing. The School should establish controls over its capital assets in order to safeguard them and establish accountability for their custody and use. (Capital Asset Controls 2.20.1.15, NMAC) Such controls should apply to authorization to acquire fixed assets, receiving purchases, tagging the assets, assigned location, individuals responsible for tracking use and location, and fund and organizational unit fund and organizational unit.

*Management Response:* Purchased assets shall be monitored through the financial management system and added to the school's asset listing. The Chancellor shall notify the office manager and business manager of all new items acquired through donation and/or settlement. A policy to this effect will be presented to the board at the November board meeting. Administration is responsible for correcting this finding by June 30, 2018.

**2017-001 Annual Inventory (Compliance)**

*Condition:* The School did not perform an annual inventory of its capital assets during fiscal year 2017.

*Criteria:* Section 12-6-10 (A) NMSA 1978 requires each agency to conduct an annual physical inventory of moveable chattels and equipment on the inventory list at the end of each fiscal year. The agency shall certify the correctness of the inventory after the physical inventory. This certification should be provided to the School's auditors.

*Effect:* The School does not comply with state requirements regarding capital asset inventory.

*Cause:* Internal controls are not in place to ensure an annual inventory is performed.

*Auditor Recommendation:* On an annual basis, complete an inventory of the School's capital assets.

*Management Response:* An annual inventory of capital assets shall be conducted the last quarter of each fiscal year, presented to the board by the office or business manager for certification. Administration is responsible for correcting this finding by June 30, 2018.

**2017-002 Audit Committee Member (Compliance)**

*Condition:* During our test-work, we noted that the school did not have all four required audit committee members during the year.

*Criteria:* Per NM State Statute 22-8-12.3: "Each local school board shall appoint an audit committee that consists of two board members, one volunteer member who is a parent of a student attending that school district and one volunteer member who has experience in accounting or financial matters. The superintendent and the school district business manager shall serve as ex-officio members of the committee. "

*Effect:* The school is not in compliance with a state statute.

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**CARIÑOS DE LOS NIÑOS CHARTER SCHOOL (CONTINUED)**

**2017-002 Audit Committee Member (Compliance) (continued)**

*Cause:* The school has failed to recruit all required audit committee members during the fiscal year.

*Auditor Recommendation:* We recommend the school recruit all required members as soon as possible for the audit committee to meet state statute requirements.

*Management Response:* The Chancellor and Board shall ensure that that audit committee maintains the required members. Administration is responsible for correcting this finding by June 30, 2018.

**2017-003 EXPENDITURES EXCEEDED BUDGET (Compliance)**

*Condition:* The School had funds where expenditure functions exceeded budgetary authority:

Operational - 11000		
Instructional	\$	2,797
Operational - 11000		
Support Services	\$	87,776
Operational - 11000		
Operations and Maintenance of Plant	\$	22,674
Operational - 11000		
Capital Outlay	\$	61,468
Student Transportation - 13000		
Support Services	\$	1,114
Food Service Operations - 21000		
Operation of Non-Instructional Services	\$	12,422
New Mexico Reads to Lead K-3 - 27114		
Support Services	\$	577

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

*Effect:* The School is non-compliant with State Law, and the controls established with budgets have been compromised.

*Cause:* Budget adjustment requests were not submitted to the Public Education Department to obtain budgetary authority for these expenditures.

*Auditor Recommendation:* We recommend that the School establish a policy of budgetary review at year-end, to ensure that necessary budget adjustment requests are prepared, submitted, and approved.

*Management Response:* The school shall work in conjunction with the business manager to ensure that expenses do not exceed budget authority. In the event additional revenues are expected than budgeted, a budget adjustment request shall be submitted to PED for approval. Administration is responsible for correcting this finding by June 30, 2018.



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**CARIÑOS DE LOS NINOS CHARTER SCHOOL (CONTINUED)**

**2017-004 Timely Deposits (Compliance)**

*Condition:* During our test-work, we noted that the School did maintain all supporting documentation together as support for activity fund deposits. It was not possible to determine if deposits are being made in a timely manner.

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

*Effect:* The School does not comply with a State statute. In addition, cash could go missing, causing students not to retain the benefits of the funds received.

*Cause:* The school is not keeping all records pertaining to activity funds in an organized manner.

*Auditor Recommendation:* We recommend the School implement procedures to ensure that deposits are properly supported and that those deposits are made in a timely manner.

*Management Response:* A mail log shall be maintained by the school to record all cash receipts received by mail and a cash receipts book shall be maintained for all cash receipts received in person. Administration is responsible for correcting this finding by June 30, 2018.

**2017-005 Internal Control over Fund Balances (Significant Deficiency)**

*Condition:* During our fieldwork, we noted adjusting entries were posted to the fund balance for funds 24101,24106,24153,24154, and 31200, causing fund balance not to reconcile. Significant audit entries were required to agree the fund balances to the prior year financial statements.

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

*Effect:* The amounts reported to PED could be inaccurate and actual available funds may be improperly recorded, which could lead to funds being overspent and balances misstated in the financial statements.

*Cause:* Internal control procedures of the School were not properly followed.

*Auditor Recommendation:* We recommend the School review fund balances to ensure funds have proper ending balances and each fund is properly reconciled.

*Management Response:* Postings in the financial management system shall take place following GAAP and procedures in the PSAB's. Administration is responsible for correcting this finding by June 30, 2018.

## Cariños De Los Niños Monthly Reporting

Month	Due Date	Submitted On	Submitted By
March 2017	4/30/2017	4/17/2017	Vigil Group
April 2017	5/31/2017	6/8/2017	Vigil Group
May 2017	6/30/2017	6/8/2017	Vigil Group
June 2017	7/31/2017	8/9/2017*	Corinne Teller
July 2017	8/31/2017	12/27/2017	Corinne Teller
August 2017	9/30/2017	12/27/2017	Corinne Teller
September 2017	10/31/2017	12/27/2017	Corinne Teller
October 2017	11/30/2017	2/8/2018	Corinne Teller
November 2017	12/31/2017	2/14/2018	Corinne Teller
December 2017	1/31/2018	2/14/2018	Corinne Teller
January 2018	2/28/2018	2/14/2018	Corinne Teller

\*Although June 2017 report was submitted on 08/09/17, the corrected cash report was not submitted until 01/11/18.

- Constant FTE corrections required
- Despite repeated requests for additional information, entity has not provided reasoning for the multiple **FY16** Audit adjustments across several funds. Unsure why these are necessary since 06/30/17 audit is available.
- Outstanding loans (related to RFR's) not being listed on cash report.
- 06/30/17 balances different than audited figures and Business Manager claims audit is incorrect.
- Budget Maintenance required
- 11000.1000 budget balance is negative due to pending encumbrances
- 25153 has expenditures with no budget authority established
- As referenced in the attached 02/07/18 email, the Business Manager and Charter School personnel are suffering from lack of communication along with blaming one another for the tardiness of the submittal of financial reporting.
- SEG reduction in the amount of \$72,222.46 due to T&E audit which will negatively affect their already strained operational budget.
- Permanent Cash transfers have not been conducted in order to address audited deficit fund balances.
- June 30, 2017 Audit declared Disclaimer

- Not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Charter was unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the Carinos de los Ninos Charter School financial statements and the related fund financial statements as of and for the year ended June 30, 2017.
- Capital asset amounts are not properly supported, cash was not properly reconciled at year-end, journal entries are being posted to fund balance without adequate supporting documentation, and it is unclear if fund balance has been properly rolled forward from prior year fiscal years.

## **Pelayo, Icela, PED**

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**From:** Craig, David, PED  
**Sent:** Monday, March 12, 2018 9:15 AM  
**To:** Poulos, Katie, PED; Pelayo, Icela, PED  
**Subject:** FW: Cariños De Los Niños Monthly Reporting Status 3.12.18  
**Attachments:** Cariños De Los Niños Monthly Reporting Status 3.12.18.docx

David Craig  
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Public Education Department  
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**From:** Saucedo, Ernestine, PED  
**Sent:** Monday, March 12, 2018 8:35 AM  
**To:** Craig, David, PED  
**Subject:** Cariños De Los Niños Monthly Reporting Status 3.12.18

Good morning David,

Attached is the latest on Carinos De Los Ninos Monthly Reporting status. I will also put a hard copy on your desk.

Please let me know if you have any questions.

Thank you,  
Ernestine

**Ernestine Saucedo** | Executive Budget Analyst Senior | School Budget & Finance Analysis Bureau  
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February 9, 2018

Vernon Jaramillo, Chancellor  
Cariños de Los Niños Charter School  
[vernon\\_jaramillo@hotmail.com](mailto:vernon_jaramillo@hotmail.com)

Dear Mr. Jaramillo,

As you are aware, on February 9, 2018 the Public Education Commission (PEC) voted to "require that Cariños De Los Niños Charter School take corrective action to address all issues of non-compliance related to the school's academic, financial, and organizational performance." That vote required the school to:

1. Immediately come into complete compliance by adhering to all of terms of the Financial Corrective Action Plan as set forth at the November 17, 2017 PEC meeting by submitting all past due reports no later than February 15, 2018, which are required to include:
  - a. monthly reports on student enrollment, including updates on the number of withdrawals and enrollments, and
  - b. action taken to improving financial management, budget adjustments required to adjust for growth that has not materialized, or repayments for prior year repayments, and updated year-end position forecasts.
2. Meet with the CSD staff at the PED Office in Santa Fe on February 20, 2018 to discuss all outstanding non-compliance such that the school is able to clear all findings and come into compliance on or before a second site visit to be conducted on April 9, 2018, which includes ensuring that all employee files contain all required and valid licensure and experience verification documentation found lacking during the PED's Audit and Accounting Bureau Training and Experience Audit.
3. No later than February 28, 2018, the school must submit to PED a budget that reflects all outstanding budget maintenance through January 2018 and/or pending board approval and all monthly reports completed,

- submitted, and verified, including the cash report, which will enable the school to end the year with a positive balance.
4. No later than February 28, 2018, the school must submit, as part of its monthly financial reports, bank reconciliations for all outstanding months since July 1, 2017.
  5. Ensure that all governing board members complete the training for which they are currently registered.
  6. By February 19, 201, submit to the PEC revised governance screening and selection process for board members that removes the school leader entirely from the selection and recruitment process.
  7. If the school fails to meet any of deadlines established, the CSD will notify the PEC recommend that the PEC immediately issue a Notice of Intent to Revoke the Charter.

Thank you,



Patricia Gipson, Chair  
Public Education Commission

PEG/kmp

cc: School Governing Board Members