

Dr. Arsenio Romero
Superintendent



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April 28, 2021

State of New Mexico
Office of the State Auditor
Attention: Brian S. Colón, State Auditor
2540 Camino Edward Ortiz, Suite A
Santa Fe, New Mexico 87507

SENT VIA US Regular Mail, Email: www.osanm.org and Fax: (505) 827-3512

Dear Mr. Colón:

SUBJECT: Los Lunas Schools Fiscal Year 2020 Audit

The following is the management's update regarding the Los Lunas Schools FY 2020 Audit. The management and staff of Los Lunas Schools take great pride in their work, and continually strives to live up their commitment to be the premier district of New Mexico. To that end, we have listed the steps that have been implemented to resolve the findings.

2020-003 ALLOWABLE COSTS, RECONCILIATIONS, AND APPROVAL (PREVIOUSLY REPORTED AS 2019-001 PROGRAM INCOME CONTROLS) (REPEATED AND MODIFIED)

Federal Program Information:

Funding Agency: U.S. Department of Agriculture Pass through the New Mexico Department of Public Education
Title: National School Lunch Program

CFDA Number: 10.553 and 10.555

Award Year: 2020 Question Costs: None

Type of Finding: Significant Deficiency

CONDITION

We tested two school sites and two dates to review for compliance with allowable costs. Of the two dates, one date had daily meal counts not reconciled to Federal Edit Check reports for reimbursement purposes. In addition, one of the two tested cash reports did not have sufficient evidence of review in accordance with federal guidelines.



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SECTION III – FEDERAL AWARDS FINDINGS (CONTINUED)

2020-003 ALLOWABLE COSTS, RECONCILIATIONS AND APPROVAL (PREVIOUSLY REPORTED AS 2019-001 PROGRAM INCOME CONTROLS) (REPEATED AND MODIFIED) (CONTINUED)

Management's Progress in 2020: The Schools made significant progress toward clearing this finding in 2020. The Schools completed training of food service staff on the new procedures, and the process changed in December 2019.

CRITERIA

The OMB Compliance Supplement 2 CFR 200 section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards. Further guidance over food service counts, reconciliations, and approvals are found in the PSAB Supplement 17 of the Manual of Procedures outlined by the New Mexico Department of Public Education.

EFFECT

Without strong internal controls, the Schools' reimbursements for meals served may not be accurate. The Schools was also not in compliance with its policies of reviewing the cashier's reconciliation of cash.

CAUSE

New procedures were not implemented to resolve this finding until December 2019. Therefore, the first five months of the award year remained non-compliant. Food Service Staff was unaware of the requirement to reconcile to the Federal Edit Check report and the requirement of two signatures on the daily cash reports used to track payments received on reduced and paid meals. Since training occurred in November 2019 and changes were applied in December 2019, these checks and balances were not in place for the first five months of the fiscal year under audit.

RECOMMENDATION

We recommend the Schools continue to monitor procedures implemented in December 2019 to ensure billings remain accurate and that Cashier's reconciliation reports are reviewed and approved by two different individuals.



SECTION III – FEDERAL AWARDS FINDINGS (CONTINUED)

2020-003 ALLOWABLE COSTS, RECONCILIATIONS AND APPROVAL (PREVIOUSLY REPORTED AS 2019-001 PROGRAM INCOME CONTROLS) (REPEATED AND MODIFIED) (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action: The District outlined the corrective action from the previous year and will continue to review and monitor to make sure we are following the process that was established and our employees were trained on in December 2019.

Due Date of Completion: December 2019

Responsible Party(ies): Director and Cafeteria Supervisor

- Management's Progress Update April 2021

Management

- When Student Nutrition was informed in November 2019 that the auditors had found the two problems for SY 2018-19, they requested that the months of August, September, October and November 2019 be reviewed for the same problems. Those months were reviewed and no differences between the number of meals served and the number claimed were found. There were also no differences found between the amount of money collected and the amount deposited. Many of the reports did not have two signatures since Student Nutrition did not require two signatures until December 2019.
- All counts and paperwork were reviewed by the Supervisor of Student Nutrition for the months of December 2019, January 2020, February 2020 and March 2020. No problems were found in these reviews. Because of Covid 19 and the USDA waiver to serve meals to all students at no cost, Student Nutrition did not collect any cash after the beginning of April 2020.
- Meal counts continue to be monitored to ensure the numbers on the daily tick sheets match the numbers claimed for reimbursement.



2020-004 SPECIAL EDUCATION CLUSTER PROCUREMENT, SUSPENSION, AND DEBARMENT

Federal Program Information:

Title: Special Education Cluster

Funding Department: U.S. Department of Education Pass Through New Mexico Public Education
Department CFDA Numbers: 84.027 and 84.173

Award Year: 2020 Questioned Costs: None

Type of Finding: Significant Deficiency and Non-Compliance

CONDITION

The Schools did not check to see if potential award recipients have been suspended or debarred prior to making awards of federal monies equal to or in excess of \$25,000. Policies and procedures have not been updated recently and policies should match the federal requirements for procurement.

CRITERIA

Per the OMB Compliance Supplement, 2 CFR 200, the Schools is prohibited from contracting with or making sub-awards under covered transaction to parties that are suspended or debarred. Covered transactions include contracts for goods and services under a non-procurement transaction that are expected to exceed \$25,000 or met certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a pass-through entity, irrespective of award amount, are considered covered transactions, unless exempt as provided in 2 CFR section 180.215.

When the Schools enters into a covered transaction with an entity at a lower tier, the Schools must verify that the entity, as defined in 2 CFR 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by checking the System for Award Management (SAM). This is available at <https://www.sam.gov/SAM>. Purchasing policies should match the federal thresholds for quotations and bids for covered transactions.

EFFECT

The Schools could allow the expenditure of federal funds to a vendor that is not eligible due to their suspension or debarment. Procurements of goods could be completed by the purchasing staff using incorrect procurement methods based on the value of the purchase. This non-compliance could result in non-compliance with federal procurement levels and/or questioned costs.

CAUSE

The Procurement Officer was not aware of the federal requirement to look up vendors providing goods or services paid for with Federal funds for suspension and debarment. The policies and procedures of the Schools have not been updated recently.



SECTION III – FEDERAL AWARDS FINDINGS (CONTINUED)
2020-004 SPECIAL EDUCATION CLUSTER PROCUREMENT, SUSPENSION, AND DEBARMENT (CONTINUED) RECOMMENDATION

Management should update the Schools’ procurement policies and procedures to ensure the requirements for levels of purchasing of goods or services under Federal programs match the current federal requirements. The vendor chosen for purchases must be checked for suspension or debarment on the sam.gov website. Purchasing staff could have a reference tool for requirements for federal procurements. When properly implemented, these recommendations should prevent non-compliance with federal and Uniform Grant Guidance requirements.

MANAGEMENT RESPONSE

Corrective Action: We immediately implemented checking the Sam.gov website for vendors once it was brought to our attention that this was not just for large scale purchases as once believed. It has now become part of the Purchase Order approval process for the Purchasing Department. This step will be noted in our next revision of our Business Office Procedure Manual.

Due date for Completion: Checking the Sam.gov website on vendors – July 2020
Addition to Procedures Manual – Estimated January 2021

Responsible Party(ies): Purchasing Department

- Managements Progress Update April 2021

Corrective Action: Immediately after becoming aware, the federal requirement was implemented and we began checking the Sam.gov website for the debarment status of all vendors using federal funds. Up to that time, only formal procurement were being checked for compliance. It is now required, that all purchase requisitions using federal funds are checked for compliance to ensure the vendors are not debarred. A copy of the vendors profile status from sam.gov is required and added to supporting documents for the record. The Business Office Procedure manual has been update to include instructions for this requirement.



2020-005 INTERNAL CONTROLS OVER FEDERAL PAYROLL DISBURSEMENTS

Federal Program Information:

Title: Title I Grants to Local Educational Agencies

Funding Department: U.S Department of Education Pass Through New Mexico Department of Public Education CFDA Number: 84.010

Award Year:2020

Questioned Costs: None

Type of Finding: Significant Deficiency

CONDITION

During the course of the audit, our payroll testing indicated a stipend for a National Board Certification was charged to the federal award for a Title I employee over several pay periods. Subsequent discussions with the Schools staff determined the charge was not eligible for reimbursement with Federal funds. Our further review determined that four additional staff had stipends related to National Board Certifications charged to the grant. The Schools prepared and recorded journal entries to correct all five Title I staff charges to the grant, totaling \$42,204.

CRITERIA

Per the OMB Compliance Supplement 2 CFR 200 section 200.303, non-federal entities receiving federal awards are required to establish and maintain internal control over the federal awards. This provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

2020-005 INTERNAL CONTROLS OVER FEDERAL PAYROLL DISBURSEMENTS

(Continued)

EFFECT

As a result of an insufficient review process, \$42,204 would have been charged erroneously to the federal program. Improper charges result in non-compliance with federal requirements and could jeopardize future federal funding.

CAUSE

The Schools' internal review process was not strong enough to catch the improper charges made to the grant.



**2020-005 INTERNAL CONTROLS OVER FEDERAL PAYROLL DISBURSEMENTS
(Continued)**

RECOMMENDATION

The program manager should continue to review the payroll disbursements, with the appropriate approval, prior to payment. The Schools should complete a review during the year to ensure all federal disbursements are appropriate. Journal entries should be completed prior to the audit to prevent discovery during the audit process and to ensure charges to the grant are correct.

MANAGEMENT RESPONSE

Corrective Action: Management prepared journal entries to move the expenditures to the proper account.

Due date for Completion: July 15, 2020

Responsible Party(ies): Director of Finance

Managements Progress Update April 2021

- Program Managers will review and verify proper payroll Disbursements.
- Payroll staff will confirm with Program Managers when changes are made.
- National Board Certification Stipends will no longer be paid out Federal Funds.
- Stipends specific to National Board Certification will always be paid out of Operational Funds, since we receive funding in SEG formula.

2020-006 WRITTEN ACCOUNTING INTERNAL CONTROL PROCESSES AND PROCEDURES

TYPE OF FINDING: Other Matters

CONDITION

Our documentation and testing over the Schools' internal control structure included a review of internal accounting processes and procedures manual. We noted that internal accounting processes and procedures have not been updated since approximately 2004.



2020-006 WRITTEN ACCOUNTING INTERNAL CONTROL PROCESSES AND PROCEDURES (Continued)

CRITERIA

The New Mexico Manual of Procedures for Public School Accounting and Budgeting (PSAB) “Supplement 2 – Internal Control,” states that:

“Each school district is responsible for establishing and maintaining an internal control structure including policies and procedures and is also responsible for ensuring that the school district complies with laws and regulations applicable to state and federal programs (Section 22-1-1, NMSA 1978; 6.20.2.11, NMAC).

These internal control policies should be based on the 1994 report issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and standards adopted by the American Institute of Certified Public Accountants and the Federal Office of Management and Budget. Much of the material in this supplement is from the General Accounting Office (GAO) publication, Standards for Internal Control in the Federal Government. The terms defining internal control in this document are synonymous with management control in the Office of Management and Budget publication OMB Circular A-123.

The COSO report defines internal control as a process established to provide reasonable assurance specific school district objectives such as effectiveness and efficiency of operation, reliability of financial reporting, and compliance with applicable laws and regulations will be achieved. Internal controls include the plans, methods and procedures used to meet goals and objectives. Effective Internal Control serves as the major defense in safeguarding assets and preventing and detecting errors, fraud, waste and abuse.

Management is responsible for developing detailed policies, procedures and practices and ensuring that they are an integral part of the district’s operations.

Because risks and threats change over time, it is important to periodically evaluate current policies and procedures for appropriateness in the current environment... Risk assessment is a continuing cycle of activity ... (GAO/AIMD-00-33, Information Security Risk Assessment).”



2020-006 WRITTEN ACCOUNTING INTERNAL CONTROL PROCESSES AND PROCEDURES

EFFECT

Without a periodic review, the Schools cannot ensure the implementation of continuous process improvement over the internal control framework and ensure that controls are properly designed and functioning, and in compliance with current laws. Additionally, should change in accounting personnel occur, the new accounting personnel's reliance on outdated accounting processes and procedures manual could make it more difficult to ensure that internal control processes and procedures are followed as designed.

CAUSE

The Schools has not updated the written internal accounting processes and procedures as changes occur.

RECOMMENDATION

We recommend that the Schools perform a review of the accounting processes and procedures manual and update to account for the current accounting processes and procedures and current laws.

MANAGEMENT RESPONSE

Corrective Action: We are currently in the process of reviewing and updating each department's individual's written job procedures, to combine each department's processes into one District Business Office Procedures Manual. This Manual will show how our internal control structure works as a unit and we will review the Manual annually for updates.

Due Date of Completion: Our goal is to complete by the beginning of January 2021.

Responsible Party(ies): Director of Finance

Management Progress Update April 2021

The Manual of Procedures has been reviewed and updated in each sections. The updated manual has been made accessible to all Business Office Staff. A copy will be available upon written request to any other interested party.



2020-007 INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS – SALARY AND WAGE RATES

TYPE OF FINDING: Other Matters

CONDITION

Our documentation and testing over the Schools' internal control related to payroll disbursements included testing over approval for salary and wage rates. We conducted a random sample of 80 payroll disbursements (40 manual checks and 40 direct deposits), and noted the following exceptions:

- 3 of 40 manual checks tested were related to COVID-19 differential pay paid out to food service staff. The Interim Superintendent approved this additional pay verbally, however there was no formal documentation of approval.
- 6 of 80 payroll disbursements tested were related to substitute teachers. The Substitute Salary Schedule for School Year 2019-2020 did not have documentation of approvals. Rates on this schedule were unchanged from the prior year approved schedule.

CRITERIA

NMSA 22-5-14(B)(3) states that "The local superintendent shall: ... employ, fix the salaries of, assign, terminate or discharge all employees of the school district."

6.20.2.18 NMAC states "PAYROLL: The local board shall establish written payroll policies and procedures which comply with state and federal regulations on payroll as well as maintaining strict internal controls, close supervision and financial accounting in accordance with GAAP. School districts shall maintain and have available for inspection the following employee record documentation: personnel/payroll action forms, pay or position change notices ..."

The New Mexico Manual of Procedures for Public School Accounting and Budgeting (PSAB) "Supplement 14 – Payroll," states that "governing boards shall establish the daily rate of pay and procedures to make payment to substitute teachers. The policies shall address both short and long-term substitute services."

EFFECT

Salaries, wages, and related expenses constitute the major portion of the expenditures for school districts and charter schools. Accounting for payroll activities is among the most important business functions performed by a school district or charter school. It is imperative that payroll processing comply with state and federal payroll regulations as well as maintain strict internal controls and close supervision. The absence of adequate controls will often lead to a high frequency of errors and, on occasion, fraud.



2020-007 INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS – SALARY AND WAGE RATES (Continued)

CAUSE

Differential pay approval occurred during the initial transition period for the Interim Superintendent, and during a national emergency situation, which caused the lack of formal documentation. The lack of Substitute Salary Schedule approval appears to be an oversight. Other salary schedules are required as part of the budgeting process, but substitutes are not considered full-time equivalents and are therefore not budgeted.

A well-defined pay structure that is critical for all employees and substitutes. The structure should be easy to maintain and be able to attract highly qualified employees and substitutes. Salary schedules are extremely important as a recruiting tool and often are the reason there is a low turnover in personnel for school district. Salary schedules can contribute to high morale if progressive approaches are taken to address pay for staff. When economies take a downturn it becomes a challenge to not only maintain pay levels, but to increase salaries for employees and substitutes.

RECOMMENDATION

We recommend that the Schools review policies and procedures related to payroll internal control to ensure that all pay is based on rates that have proper approval, and that those approvals are formally documented.

MANAGEMENT RESPONSE

Corrective Action: The District will review policies and procedures related to payroll internal controls and train payroll and human resource staff to ensure all changes have proper and formal approvals documented prior to any pay being adjusted.

Due Date of Completion: July 2020

Responsible Party(ies): Chief Financial Officer

Management Progress Update April 2021

- Substitute Salary Schedules will be signed annually regardless if changes are made or not.
- Substitute Salary Schedule is posted with other Salary Schedules on Los Lunas Schools website.
- Covid-19 Differential Pay in 2020 was only available to Student Nutrition staff as a onetime allowance.
- Contract Pay is assigned and established by the Superintendent of Schools and any changes to the contract will be approved through the financial software system.



Should further information be needed, please do not hesitate to contact our office.

Respectfully Submitted,



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Superintendent
Los Lunas Schools



Claire Cieremans
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Los Lunas Schools

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