

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC EDUCATION DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

NEW AMERICA SCHOOL

2019-001 (Previously #2018-001) Internal Control over Cash Disbursements (Other Noncompliance)

Condition/Context: During our testing over cash disbursements, the following was identified:

- In testing credit card payments, we identified finance charges of \$10.27 along with late fees charged in the amount of \$250.
- 1 out of 41 disbursements that included sales tax payments of \$62.62 for tangible goods purchased by the School.
- 1 out of 41 disbursements that included a late payment of \$17.49.

Management's Progress for Repeat Findings: Management failed to implement adequate controls to resolve the finding and will work toward corrective action during FY2020.

Criteria: Per PSAB Supplement 13- Purchasing, the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services, or construction. Per NMAC 6.20.2.11, 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, and 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.

Cause: Management oversight.

Effect: Noncompliance with applicable rules and regulations.

Auditor's Recommendation: We recommend that management implement effective controls to ensure payments are made timely. In addition, we recommend that controls are in place to ensure the school is being mindful of purchases to ensure unnecessary costs are not being incurred and paid.

Management's Response: Management is aware of issues concerning sales tax being paid on tangible goods. During the course of FY18-19, internal controls on financial processes were updated inclusive of the school's P-Card policy. Management is also aware of late payments that occurred during a time when the Assistant Business Manager, responsible for verifying and processing invoices, became unavailable. The school will work on a backup for the Assistant Business Manager in the instance that the individual in that position becomes unavailable again to ensure that late payments do not occur again.

Implementation: Internal controls/financial policy already updated during FY18-19. Discussion of backup for Assistant Business Manager to occur at next finance committee meeting in November 2019.

Person Responsible: All members of finance committee.

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NEW AMERICA SCHOOL (CONTINUED)

2019-002 Untimely Federal Payroll Withholdings (Other Noncompliance)

Condition/Context: During testing over 941 reporting, it was identified the school received a penalty of \$226.69 over their quarter three IRS payment. As the school was transitioning between bank accounts with a new financial institution, an error occurred in setting up the bank account that was linked to draw IRS payments. Unfortunately, the payment was draw out of the activity account as opposed to the operating account, which did not have sufficient funds to cover the payment and as a result the School received a penalty notice by the IRS.

Criteria: Per NMAC 6.20.2.18, the local board shall establish written 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.

Cause: Management oversight, as the school transitioned funds over a few months to a new financial institution.

Effect: Noncompliance with applicable rules and regulations.

Auditor's Recommendation: We recommend that management implement effective controls over opening/closing procedures of the school's bank accounts and ensure all payroll portals are updated timely.

Management's Response: Management is aware of this issue and the Business Manager in specific has taken responsibility for this oversight due to typographical error. Although transition in banking institutions is a relatively rare occurrence, the Business Manager has established a set of review logs to ensure that review occurs to prevent the issue in the future. Additionally, the Business Manager is in the process of creating Quality Control Checklists so that review is standardized. The Business Manager, being a 3rd party contractor, reduced the invoice to the school in a subsequent month to acknowledge the error causing a penalty so that the school did not actually realize any loss. A final measure to be taken is that all payroll liability payments from the prior month will be presented to the principal prior to each finance committee meeting for review and approval. Those approvals will be made available to the finance committee each month.

Implementation: Business Manager and 3rd party team system of review with logs – already in place. Business Manager and 3rd party team Quality Control Checklists – in progress with estimated completion by December 2019 or earlier. Payroll liability payment documentation review and approval by principal to begin in November 2019.

Person Responsible: Manager, Principal, Finance Committee