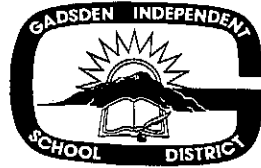


SUPERINTENDENT  
Cynthia Nava

CHIEF FINANCIAL OFFICER  
Steven W. Suggs



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March 17, 2011

Sheridan Bamman  
Inspector General  
State of NM – Public Education Department  
300 Don Gaspar  
Santa Fe, NM 87501-2786

Re: Desk Review of IPA's Report – Gadsden ISD Fiscal Year Ended June 30, 2010

Dear Ms. Bamman,

I am providing the attached documentation in response to your letter of February 23, 2011 addressed to Cynthia Nava, Superintendent, regarding your desk review of the Gadsden ISD IPA report for the period ended June 30, 2010. The attached document includes a recap of the findings noted in the June 30, 2010 financial audit report for Gadsden ISD (GISD). I have indicated the corrective action taken and the resolution status as requested.

Please note that the June 30, 2008 and June 30, 2009 financial audits were completed on December 4, 2009 and April 2, 2010, respectively. For the fiscal year ended June 30, 2010 GISD was unable to correct all items noted in the previous reports, thus the District was required to have repeat findings due to the limited amount of time available to address the prior year findings.

The GISD Finance Department is aware of the financial accounting system requirements that the District must have in order to provide timely, accurate financial reports. The District continues to review the internal control procedures to insure the safeguarding of its financial resources and assets.

The attached document will be presented to the GISD Board of Education at the regularly scheduled meeting on April 14, 2011. I will provide additional documentation regarding the requirement for board approval of the responses after the meeting on April 14, 2011.

If additional information is required, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'SWS', written over a horizontal line.

Steven W. Suggs, CPA  
Chief Financial Officer

Enclosure

Cc: Cynthia Nava, Superintendent  
Efren Yturralde, Deputy Superintendent

Finding #	Finding Title	Finding Description per Schedule of Findings and Questioned Costs	Management Response in Audit Report	Corrective Action	Resolution Status	Subsequent Year Status
FS 06-01	Bank Reconciliations - Revised and Repeated	During Testwork GPS noted the following: 9 out of 27 reconciliations tested had items that had not been cleared from the previous months; 7 out of 27 reconciliations were not performed in a timely manner	The GISD Finance Department is aware of the requirements for proper cash controls. The Finance Department has implemented a review process and the requirement that all reconciliations be completed the following month. In addition, the Finance Department has implemented requirements that all reconciling items be addressed in a timely manner. The procedures were implemented in the 2009-10 fiscal year however, due to the delay in the completion of the 6-30-08 and 6-30-09 audits the procedures had not been fully implemented at the beginning of the 6-30-10 fiscal year.	The GISD Director of Finance completes the bank reconciliations each month. The reconciliations are then reviewed by the CFO. Any reconciling items are corrected within the following month or reasons noted for any delay in correcting any reconciling items.	Resolved	Not expected to be repeated.
FS 06-02	Capital Assets - Repeated	The capital asset inventory listing has been updated as of mid 2010 with the exception of buildings. Information found on the physical assets in regards to tag numbers, location of category, etc. must be included.	The GISD Finance Department is aware of the requirements of maintaining a capital asset inventory system. The Finance Department has assigned a staff member to this function and has developed a formal inventory process. The updated procedures include an annual inventory, reconciliation to the General Ledger transactions and updating the values assigned to the buildings and other structures. It is anticipated that the values of all assets required to be inventoried will be updated during the 2010-11 fiscal year.	The GISD Finance office has a position assigned to the fixed asset inventory and reconciliation process. The Department continues to address the valuation issue. Currently, the position is vacant however the Director and CFO continue to work on the reconciliation and are continuing with the inventory process. GISD expects to have this issue resolved before the end of the 2011-12 fiscal year.	Not Resolved	Expect a repeat finding with evidence of improvement in the status of the inventory.
FS 06-06	Bank Deposits - Revised and Repeated	During our testwork of internal controls for receipts we noted that two out of twenty-five deposits were not deposited within 24 hours. The total amount of the deposits in question were \$16.00.	The District has procedures for the cash receipting and depositing processes. The GISD Finance Department has discussed the procedure with the staff involved in the tested transactions. The GISD Finance Department will continue to monitor compliance for any deposits not made within the expected time frame under the current deposit processing procedure. In addition, the GISD Finance Department will implement additional monitoring to include a review of randomly selected deposit transactions during the year and issue an internal management letter to the responsible site administrator regarding the results of the internal review.	The GISD Finance department continues to monitor the depositing activity at all locations. School sites have been reminded of the requirement related to depositing within the 24 hour period. The GISD Finance will continue to work on improvements in the procedures and logistics related to delivering the deposits from the school sites to the bank.	Resolved	Not expected to be repeated.
FS 07-03	Grants Receivable - Revised and Repeated	In certain instances, grant receivables for fiscal year 2009-10 have been outstanding since the prior fiscal year. Requests for reimbursement for the current year have been made timely, however, the District is still attempting to process grant receivable from prior years. Due to this situation the District maintained reimbursements from previous years which may not be granted.	The GISD Finance Department established procedures in the 2009-10 fiscal year, which includes monitoring the status of outstanding reimbursement claims as well as the timeliness of submitting reimbursement claims. The District submitted the required requests for permanent cash transfers to the NM Public Education Department (NMPED) to settle the prior year claims that have been determined to be ineligible for reimbursement. The NMPED has not provided a response regarding all of the cash transfer requests submitted, however, for the requests approved by NMPED in the 2010-11 fiscal year, the District has recorded the permanent cash transfer. The GISD Finance Department will continue to monitor the status of the outstanding cash transfer requests until approved or settled by NMPED.	The GISD Finance has submitted all required documentation to PED, however, not all transfer requests have been addressed by the Fiscal Flowthrough Bureau. Numerous requests have been made to have these items addressed. The District has improved its Operational cash balance and should have adequate cash to cover the grant fund balances as the District waits for the reimbursement claims and permanent cash transfers to be processed by PED.	Resolved	Not expected to be repeated.

Finding #	Finding Title	Finding Description per Schedule of Findings and Questioned Costs	Management Response in Audit Report	Corrective Action	Resolution Status	Subsequent Year Status
FS 09-01	Payroll Documentation - Revised and Repeated	During our test work of personnel files, GPS note the following: Three out of twenty-five employees did not have an I-9 on file, and one employee had an I-9 that was not completed.	The GISD Human Resources Department has established procedures to monitor the status of all required documents including the Form I-9. The procedures include a checklist to be used during the hiring process. In addition, the appropriate staff have been made aware of the requirements related to documentation required for all employees and will continue to review existing files for compliance.	The GISD Human Resources Department continues to review all required documentation to verify that all applicable documents are on file.	Resolved	Not expected to be repeated.
FS 09-02	Warehouse/Supply Inventory - Revised and Repeated	During our test work of supply inventory, GPS noted that one out of eight inventories was not properly stated in the inventory spreadsheets provided to the auditor by the District. Due to the errors, the District's inventory was understated by \$1,049 and required adjustments to the general ledger.	The GISD Finance Department will address the issue of providing accurate documentation of supply inventory values for financial reporting purposes with the District Departments responsible for the supply inventories. The GISD Finance Department has established additional procedures for verifying the accuracy of the inventory records and requiring the responsible departments to submit accurate records prior to the submission of the inventory values for audit and financial purposes.	The GISD Finance Department has established additional procedures to make sure all reports and inventory records are accurate.	Resolved	Not expected to be repeated.
FS 09-03	Depreciation - Repeated	During our testwork of the District's depreciation system, we found assets that were not being depreciated correctly. Also the system every year requires an adjustment to current year depreciation because the system generates an incorrect beginning balance of accumulated depreciation.	The GISD Finance Department will continue to review the depreciation process to determine the corrective actions needed to properly calculate depreciation. See the management response to FS 06-02 for the additional for the steps the District has taken to address the capital asset and depreciation process.	The GISD Finance Department continues to address this issue. The software system has limited capabilities for calculating depreciation. The Finance Dept. continues to work on identifying the underlying cause of the changes in the calculation from year to year. GISD expects to have this issue resolved before the end of the 2011-12 fiscal year.	Not Resolved	Expect a repeat finding with evidence of improvement in the status of the calculation.
FS 09-05	Cash Disbursements - Repeated	It is the District's policy and procedure to obtain approved purchase orders before the purchase of goods or services are made and all invoices received from vendors need to be reviewed and recalculated to ensure accuracy before cutting a check for the amount. During our cash disbursements test work, GPS noted one out of twenty-five instances in which the District overpaid a vendor in the amount \$4.50.	The GISD Finance Department is aware of the requirements related to cash disbursements. The Finance Department will continue to review the internal procedures related to the cash disbursement process and provide additional training, as needed, to responsible staff to address the accuracy of payments to vendors.	The GISD Finance Dept. staff have been informed of the requirements for verifying invoices, etc. prior to payment for goods or services received.	Resolved	Not expected to be repeated.

Finding #	Finding Title	Finding Description per Schedule of Findings and Questioned Costs	Management Response in Audit Report	Corrective Action	Resolution Status	Subsequent Year Status
FS 09-06	Cash Management - Revised and Repeated	The District did not maintain sufficient cash amounts within the general fund to cover operational and program expenditures.	The GISD Finance Department, the GISD Central Management Team, the GISD Finance Committee and the GISD Board of Education are fully aware of the need for a cash management program. When the status of the Operational Fund cash balance was determined in 2009, the District implemented additional procedures for budget and cash balance monitoring. The District initiated budget reduction measures and aggressively pursued all outstanding reimbursements owed to the District. In addition, the District applied to the NM PED for Emergency Supplemental Funds that are authorized by the NM Legislature as part of the budget for the 2009-10 fiscal year. The District through prudent budget management was able to repay the temporary borrowing of funds from the Public Schools Capital Outlay Fund in full before the end of the 2009-10 fiscal year and end the year with a positive cash balance in the Operational Fund as required. The District Finance Department, Superintendent and Board of Education continue to monitor the status of the district financial condition.	This issue was resolved with the repayment of the temporary transfer of funds and the budget management changes. The Operational Fund is reflecting a positive cash balance and the District did not have to request an advance of the SEG funds at the beginning of the current fiscal year. In addition, the District no longer qualifies for Emergency Supplemental funding as indicated by the School Budget and Financial Analysis Bureau.	Resolved	Not expected to be repeated.
FS 09-07	Segregation of Duties - Repeated	The Manager of Accounting has the ability to alter deposits in the general ledger, bank reconciliations, and is one fo the check signers. The manager can use online banking as a means to make changes.	The GISD Finance Department has implemented a review process related to journal entries and bank reconciliations. The security settings in the accounting software system were reviewed and modified to address the internal control issue related to segregation of duties. The review process was implemented in the 2009-10 fiscal year and the security settings changed in April 2010. The Finance Department administrative staff will continue to monitor the internal controls and system access settings to address internal control issues on an ongoing basis.	Due to the timing of the completion of the June 30, 2008 and June 30, 2009 this issue was still present during the period of July 1, 2009 to June 30, 2010. The issue was corrected in May 2010 however the finding was still applicable due to the presence of the issue during a portion of the audited period.	Resolved	Not expected to be repeated.
FS 10-01	State Auditor Compliance	Computers purchased with Federal Programs money was disposed of seven months prior to certifying in writing the proper erasure or destruction of the hard drive and submission of the certification along with the notification of the proposed disposition of property to the State Auditor.	The GISD Finance Department is aware of the requirement to report disposals of fixed assets and computer equipment to the NM State Auditor as outlined in the NM State Audit Rule. The staff responsible for the disposal of the computer equipment have been made aware of the requirements. The GISD Finance Department will continue to monitor compliance with this requirement through the District's procedures for asset disposal.	The appropriate staff have been informed of the requirement and is now aware of the necessary action needed when disposing of fixed assets.	Resolved	Not expected to be repeated.
FS 10-02	Deficiencies in Internal Control Structure Design	The District does not have a current comprehensive documented internal control structure. We noted the District has not updated procedural manuals on a timely basis, including key internal control procedures entity wide or for daily operating activities.	The GISD Finance Department administrative staff is aware of the need for an updated procedures manual which addresses the internal control structure of the accounting system. The District has documentation of most of its accounting procedures. The District Finance Department also utilizes the Supplemental Procedures document issued by the NM PED. The GISD Finance Department has initiated a process to update the procedures and to compile the documentation into a comprehensive manual. It is anticipated that this process will be completed during the 2010-11 fiscal year.	The GISD Finance Department is updating the internal procedures manual. The District will continue to monitor the status of its procedures and will update as the new state procedure manual is completed and provided to the District.	Resolved	Not expected to be repeated.

Finding #	Finding Title	Finding Description per Schedule of Findings and Questioned Costs	Management Response in Audit Report	Corrective Action	Resolution Status	Subsequent Year Status
FS 10-03	Budgeted Expenditures	The District budgeted cash in the amount of \$728,706 in Fund 11000, but actually had negative cash of \$1,223,200 as of June 30, 2009, therefore budgeted fund balance did not exist at the beginning of the year by \$1,951,906.	The District has continued to make strides in becoming in compliance with this rule. This finding is a result of the District remaining negative cash balances due to previous year situations that are now being addressed. The District will make all attempts to ensure budgets are balanced and / or cash fund balances are sufficient to meet budget deficits.	Refer to the response to Finding FS 09-06.	Resolved	Not expected to be repeated.
FS 10-08	Audit Report	The District's audit report for the year ended June 30, 2010 was submitted to the State Auditor by the required due date, November 15, 2010, however, the report was rejected and had to be resubmitted at a date subsequent to the deadline.	Gadsden Independent Schools initially submitted the report on November 15, 2010 which is considered on time. The District will take steps to submit the report even earlier in subsequent years.	The District and the IPA who performs the June 30, 2011 financial audit will take all necessary steps to insure that the audit report is submitted by the required deadlines.	Resolved	Not expected to be repeated.
FA 08-06	Capital Assets - Repeated	The capital asset inventory listing has not been updated to reflect information found on the physical assets in regards to tag numbers, location or category.	In January 2010, the GISD Finance Department implemented a process to inventory all fixed assets with a value of \$5,000 or greater. This inventory will be reconciled to the fixed asset record system and an annual inventory system is scheduled to be in place during the 2010-11 fiscal year.	The GISD Finance office has a position assigned to the fixed asset inventory and reconciliation process. The Department continues to address the valuation issue. Currently, the position is vacant however the Director and CFO continue to work on the reconciliation and are continuing with the inventory process. As for the valuation of fixed assets from Federal Grant programs, this issue should be resolved in current fiscal year.	Resolved	Not expected to be repeated.
FA 10-01	Over Estimated Summer Payroll	The NM PED allows district to draw down the summer payroll in a prior month reimbursement request. The district over requested the amount of payroll expenses that were actually paid out. This resulted in the district having to revert \$68,053.06 back to the State of NM. This only occurred in the Title I program 24201.	The GISD Finance Department disagrees with this finding. The GISD Finance Department followed the instructions and procedures defined by the NM PED. The NM PED procedure does not allow the District to modify the summer payroll claim for differences in the amount of payroll expenditures due in June to the various classifications of employees. The District reported to the NM PED the overage and the District has not received any guidance or response as to how to adjust for the difference between the amount claimed and the actual payment. The June 30, 2010 report to the NM PED for the applicable fund properly reflected the overage.	Again, GISD followed the mandated PED requirements as established by the Fiscal Flowthrough Bureau. GISD provided the requested calculations and reported the cash situation to PED. No response was received from PED and therefore the District was unable to correct the status for the cash until the final claim was submitted in July 2010 after the fiscal year had ended.	Resolved	Not expected to be repeated.

Finding #	Finding Title	Finding Description per Schedule of Findings and Questioned Costs	Management Response in Audit Report	Corrective Action	Resolution Status	Subsequent Year Status
FS 09-12	Budgetary Conditions - Revised and Repeated	The Charter Schools has expenditure functions in which actual expenditures exceeded budgetary authority in the Public Charter Program-Implementation Fund. Actual expenditures exceeded budgetary authority by a total of \$31,300. See footnote 9 for more detailed information.	The previous business manager did not follow the proper authorization for budgetary controls. The Charter School has implemented a policy where all budget adjustment requests are now approved at the monthly Governance Council Meeting.	ACS has monitoring procedures in place, and also sends their quarterly cash and actuals report to their authorizer (GISD) for review. ACS has reason to believe this will NOT be a repeat finding.	Resolved	Not expected to be repeated.
FS 10-04	Fixed Asset Purchase - Lack of Authorization	It was noted that two fixed asset purchases, a copier and server, did not have board approval in the Charter School Board Minutes.	The previous business manager did not follow the proper authorization for the purchase of fixed assets. The Charter School has implemented a policy where all payment vouchers are now approved at the monthly Governance Council Meeting.	The new ACS Business Manager is now providing a cash disbursements register to the Governance Council for approval.	Resolved	Not expected to be repeated.
FS 10-05	Procurement of Tangible Items	The Charter School is required by statute to follow NMAC 1.4.1.15 for all procurement of tangible property over \$20,000. The School did not properly procure the purchase of three items in excess of \$20,000. The three items were, Lighting Computer Systems \$173,31.00, Government & Educational Furnishings \$78,203.60 and Document Solutions \$29,824.10.	The previous Business Manager did not follow the procurement process for professional services. The current staff at Anthony Charter School is following the procurement code for all purchases.	All ACS staff who are involved with purchases are now aware of the procurement procedures. The ACS Director and Business Manager will not approve purchases without all the proper documentation.	Resolved	Not expected to be repeated.
FS 10-06	Procurement Code - Sole Source Provider	The School did not utilize the proper procurement rules, for "sole" source procurement on one instance that we noted. The School did not properly document and therefore follow the correct documentation process.	The previous Business Manager for the Charter School did not follow the proper procurement documentation requirements. The Charter School now has procedures in place to document all "Sole Source" procurements.	ACS Management will follow the proper requirements for "Sole Source" procurements. Any purchases followed under this category will be fully documented.	Resolved	Not expected to be repeated.
FS 10-07	Professional Services	The Charter School did not examine its contracts for professional services to ensure compliance with State Statute relating to small purchases of professional services. Audit test work discovered a \$38,550 professional service contract which was not properly processed through State Statute.	The previous Business Manager did not follow the procurement process for professional services. The current staff at Anthony Charter School is following the procurement code for all purchases.	ACS Management will follow the proper requirement for Professional Services.	Resolved	Not expected to be repeated.