



State of New Mexico
OFFICE OF THE STATE AUDITOR

Hector H. Balderas, State Auditor

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**State Auditor Issues Directives to Public Education Department After Audit Finds
Numerous Financial Oversight Failures**

*Auditor Troubled by Mismanagement of Funds for New Mexico's Most Vulnerable Kids,
Requires Special Examination of PED's Actions Related to Potential Loss of Over \$34
Million for Students with Disabilities; Directives Also Include Measures to Protect Funds
for School Lunches and Students in Poverty*

(Santa Fe, NM)—Today, State Auditor Hector Balderas issued a series of directives to the Public Education Department (PED) following his review and public release of an audit report documenting numerous violations of laws, regulations and financial reporting requirements by PED and certain state-chartered charter schools. The Department's fiscal year 2012 audit, performed by PED's independent auditor, Moss Adams LLP, contains a total of 207 findings, 185 of which pertain to PED's charter schools. The findings include violations of federal special education grant requirements, procurement violations, and a lack of fiscal oversight of charter schools by PED.

Balderas expressed serious concern over the Department's failures to adequately protect public funds for New Mexico's most vulnerable kids, including students with disabilities. "The full protection of our students and public education funds can only be achieved by identifying and resolving these fiscal oversight failures," Balderas said.

Balderas mandated a special examination be performed to fully investigate the facts and circumstances surrounding the potential loss of over \$34 million in federal funding for special education in New Mexico. In a lengthy finding leveled at the Department, the independent auditor faulted PED's oversight weaknesses and noncompliance with federal "maintenance of effort" special education grant requirements, and cited PED's failure to inform the U.S. Department of Education and New Mexico Legislature on a timely basis of the impact of the funding shortfall. In a letter sent today, Balderas notified Secretary-Designate Hanna Skandera of the special examination and stated that he is "troubled by the substantial risks created by the State's maintenance of effort failures, the Department's untimely waiver requests, and the apparent lack of transparency regarding the potential funding loss."

Balderas' letter also outlined other directives which are necessary "in order to reduce risks to New Mexico's education funds and restore financial accountability to the Department." The directives include:

- 1) The Department must submit detailed corrective action plans for numerous audit findings to the Office of the State Auditor and Moss Adams by August 5, 2013. The timely submission of corrective action plans will assist Balderas' office and the independent auditor in assessing the Department's progress in remedying and reducing risks to public education funds. Balderas also stressed that PED should take immediate action to request and actively monitor corrective action plans for the 185 findings noted for certain state-chartered charter schools. Among the findings requiring corrective action are:
 - Eight procurement violations at the Department that occurred during fiscal year 2012 for a total of \$184,920. The violations included continued service after the expiration of a contract, making purchases without a valid contract, and other violations of Department of Finance and Administration rules.
 - In a finding that PED has failed to correct since 2010, the independent auditor noted that PED has not implemented a fiscal monitoring plan or conducted financial compliance visits with charter schools, as required by the Public Education Commission in 2009. The purpose of the monitoring plan and financial compliance visits are to test areas of financial deficiencies and assess what actions charter schools have taken to address prior year audit findings. Moss Adams noted that charter schools have been approved at the state level for charter status despite the lack of fiscal responsibility and oversight.
 - In another finding that PED has failed to correct since 2010, the independent auditor found instances of inadequate communication by PED with its charter schools in regards to fiscal management, financial internal controls, and financial structure. As stated by the audit, "this includes lack of site visits to the schools, incorrect information as to what qualifies as capital assets, incorrect budget requirements, and the required procurement thresholds."
- 2) Balderas ordered expanded audit work regarding PED's recent error in distributing funding to approximately 50 school districts for at-risk students, including students in poverty. The error resulted in some school districts receiving overpayments, while others were shorted funds and may have to cut back on services they provide.
- 3) Balderas directed audit work to review risks related to PED's administration of National School Lunch Program (NSLP) funding. A recent federal audit found inadequate monitoring by school districts over the receipt of discounts and rebates for school lunches, and auditors found PED failed to formally communicate required NSLP information to districts that receive NSLP money from PED.

Balderas stated he intends to work with the Department, the Governor and the New Mexico Legislature to strengthen financial oversight of education funds for the benefit of New Mexico's kids.

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