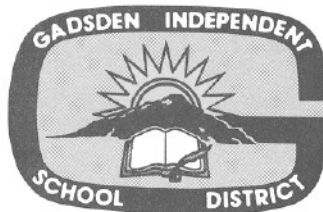


SUPERINTENDENT
RON HAUGEN



1325 W. WASHINGTON ST.
P.O. DRAWER 70
ANTHONY, N.M. 88021
PHONE (505) 882-6200

May 13, 2004

Mr. Ralph Tapia, CIA, CGFM, Inspector General
Office of Inspector General
State of New Mexico
Public Education Department
300 Don Gaspar
Santa Fe, New Mexico 87501

Re: Written response on the status and/or resolution of Auditor's Report 2003

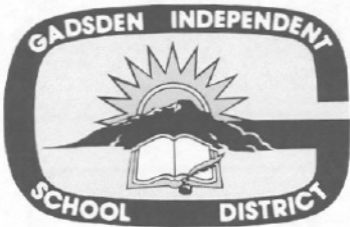
Dear Mr. Tapia:

Attached you will find the written response on the status and corrective action taken regarding the conditions outlined in the Lauterbach, Borschow & Company Auditor's Report for the year ending June 30, 2003. The findings and corrective action were approved by the Gadsden Independent School District Board of Education at its regularly scheduled meeting on Thursday, May 13, 2004.

Sincerely,

Luz Vargas
Board President

Ron Haugen
Superintendent



B. Compliance Findings

CF 03-01 Prohibited Investments

Management Update

The District proposes to hire a new Treasury Manager who will periodically review investments to insure that they comply with all State requirements. The district discontinued the use of repurchase agreements as of June 2003. **Additional cost: \$67,000 (Level 5 staff plus benefits) See attached job descriptions from City of El Paso and El Paso Independent School District.**

CF 03-02 – Undercollateralized Demand Deposits

Management Update

The proposed Treasury Manager will notify financial institutions in advance when large deposits will be occurring so the financial institution can provide adequate collateral. This should ensure that the above finding is not repeated in the future. **Additional cost: See prior finding.**

CF 03-03 – Late Deposits

Management Update

The District currently provides a “Fund Raising Manual” to all school sites and those departments taking in funds. This manual outlines the requirements of the New Mexico Public Education Department that all deposits must be made within 24 hours or one banking day. Additional training was provided to administrators at the administrators meeting in December 2003. In addition, staff is visiting the campuses on an individual basis and providing assistance as needed. **Additional cost: \$0 (Time requirements)**

CF 03-04 – State Approval for Construction Projects

Management Update

The Construction Director was informed of the finding and is aware of it. He will make every effort to ensure that all projects using capital outlay funding is submitted to the Public Education Department Capital Outlay Office for approval 30 days prior to releasing the project to bid. The District recognizes that this may delay the start of construction projects. The Purchasing Agent will also require that the letter from the PED approving the project be submitted prior to letting the project out to bid. **Additional cost: \$0 (Time requirements)**

CF 03-05 – Disposal of Fixed Assts

Management Update

A listing will be generated directly from the Fixed Assets Module to reflect disposals for the specific period. This will ensure that all items that are recommended for disposal are being properly identified and recorded. This listing will be placed on the board agenda and, once approved, submitted to the State Auditor's Office for proper approval. Once the listing is approved, the items will be properly disposed of. **Additional cost: \$0**

A. Reportable Conditions in Internal Control – All Programs

IC 03-01 – Lack of Controls over Manual Checks

Management Update

Effective March 1, 2004, the District will be able to use the on-line wire system with Community First Bank. (This service was approved by the Board on January 22, 2004). This should eliminate the need to type any checks as well as signature stamps. All checks issued will be entered into the accounting system. Physical access to check stock will be limited to the Assistant Comptroller and Payroll Supervisor. The Assistant Comptroller will not be able to record general ledger transactions nor perform bank reconciliations. The Payroll Supervisor oversees the batches run by the bookkeepers. **Additional cost: \$0 (restructuring of staff and assignments.)**

IC 03-02 – Lack of Controls over Access to Software

Management Response

The District is making a thorough review of all authorized access of all employees to ensure that general ledger software is limited to only those individuals authorized. This process has already begun and is continuing. The Associate Superintendent for Finance will meet with the Technology Coordinator in February to discuss final recommendations for remainder of staff due to restructuring of assigned duties. In addition, journal entries will be moved to one individual for entry. Budget journal entries will remain decentralized. The District believes that adequate supervisory review exists in order to compensate for any lack of controls with respect to software. **Additional cost: \$0**

IC 03-03 Lack of Controls over Inventory

Management Update

See the attached responses from Food Services and Physical Plant Department. **Additional cost: \$25,000 (\$21,000 plus \$4,000 benefits.)**

IC 03-04 Authorized Vendor List

Management Update

One individual in the Purchasing Office will review all requests for new vendors. This individual will enter the vendor after verification of approval from school site or department requestor. Prior to entry, the Purchasing Agent will review and give approval for entry. After entry, the form will be returned to the Purchasing Agent. A consecutive number should be assigned and that number will be logged in a ledger for tracking. In addition, The District is in the process of reviewing the vendor lists in order to ensure that only authorized vendors are on the list. Vendors no longer in use will be removed the list and unknown vendors will be investigated. This annual review will be documented by the Purchasing Agent. **Additional cost: \$0**

IC 03-05 – Cash Management

Management Update

The District recognizes the importance of maintaining adequate cash flows and timely requests for reimbursements. The District is proposing the hiring of a Treasury Manager in order to handle the additional duties as outlined below. This employee should be assigned the responsibility of managing cash flows for the District to include:

- Frequent preparation of cash flow projections (at least weekly).
- Thorough investigation of safe interest-earning options available to the District.
- Review of reimbursements requests to insure timeliness.

Approximate cost: See prior finding.

IC 03-06 – Safeguarding of Documents

Management Update

The District notified employees to not take original or source documents home. **Additional cost: \$0.**

IC 03-07 – Accounts Payable Controls

Management Update

The District currently has one independent reviewer of accounts payable checks after the checks have been run, performed by either the Comptroller or Assistant Comptroller. It does not currently review vendor statements since the District does not pay any item on a vendor statement basis. All payments are made off an original invoice. If a vendor has a concern with respect to payment, the Purchasing Agent is contacted and an investigation is conducted.

In order to strengthen this particular area, the Assistant Comptroller is now assigned the responsibility of running the Accounts Payable checks and ensuring that proper payment is being made prior to the distribution of checks. She will also be responsible for following up on all vendor statements to ensure that payments are up to date and unauthorized purchases are not being made. Approximate cost: \$0 (distribution of duties) Given the extent of the job, this may have to be reevaluated at a later date in order to ensure that all duties can be performed within a reasonable time period.

B. Findings

FA 03-01 – Title I – IASA CFDA #84.010

Management Update

After reviewing records from 1996 forward with PED staff, it has been determined that this error has been carried forward since prior to this time. All other years have been reconciled. Therefore, it is assumed that the District underreported expenses in a year prior to 1996. This audit adjustment will be reflected in the next quarterly report as expenditures in order to update the PED's records and reconcile the District's books.

The Assistant Comptroller has been working with PED staff in order to reconcile all cash balances to PED records. This process is 90% complete and should be completed prior to year end.

Additional cost: \$0

FA 03-02 Title I Grants to Local Educational Agencies – CFDA #84.010; Special Education Grants to States/Special Education Preschool Grants – CFDA #84.027/84.173: Improving Teacher Quality State Grants – CFDA #84.367

Management Update

All federal cash balances are being monitored on a regular basis to insure that the District is adhering to Federal guidelines. Quarterly requests for cash advances will also be reviewed by the Treasury Manager to ensure that proper requests are being made.

Additional cost: See prior finding.