



## REPORT OF INDEPENDENT ACCOUNTANTS

### FORENSIC AUDIT

### CONSULTING PROCEDURES

September 30, 2016

**TABLE OF CONTENTS**

**BERNALILLO PUBLIC SCHOOLS  
FORENSIC AUDIT CONSULTING PROCEDURES**

REPORT OF INDEPENDENT ACCOUNTANT’S CONSULTING PROCEDURES.....	1
EXECUTIVE SUMMARY.....	2
CONSULTING PROCEDURES.....	6
DETAILED PROCEDURES PERFORMED.....	7
CORRECTIVE ACTIONS TO DATE.....	9
EXIT CONFERENCE & DISCLAIMER.....	12
EXHIBIT 1 – DISTRICT ORGANIZATION CHART (RELEVANT POSITIONS)	
EXHIBIT 2 – LISTING OF CASH RECEIPTS BY SOURCE OR EVENT DEPOSITED IN THE BANK	
EXHIBIT 3 – LISTING OF MISSING CASH RECEIPTS AND ACTUAL CASH DISBURSEMENTS BY ACTIVITY OR EVENT	
EXHIBIT 4 – LISTING OF ACTIVITY FUND CASH DISBURSEMENTS BY VENDOR	
EXHIBIT 5 – SCHEDULE OF FINDINGS AND RESPONSES	

**REPORT OF INDEPENDENT ACCOUNTANT'S  
CONSULTING PROCEDURES**

To the Board of Education and  
Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor

**Subject: Bernalillo Public Schools Forensic Audit of the Activity Funds of W.D. Carroll  
Elementary and La Escuelita Pre-School**

Dear Board of Education and Auditor Keller:

Thank you for the opportunity to work with you through a difficult situation and complete this forensic audit consulting engagement for Bernalillo Public Schools (the District or BPS). This report summarizes our procedures, findings, and recommendations as it relates to our assistance with your evaluation of accounting and bookkeeping irregularities at W.D. Carroll Elementary (WD) and La Escuelita Pre-School (LE) (the Schools).

We have performed the consulting procedures enumerated below, which were agreed to by the Bernalillo Public Schools and the New Mexico Office of the State Auditor, solely to assist you in determining the fraud risk and dollar value of funds that are unaccounted for, the causes for unaccounted funds, the value of diverted funds, and the causes of fund diversion. The period subject to review was June 1, 2013 through January 31, 2016 (the Period).

This consulting engagement was conducted in accordance with the Audit Act 12-6-6 NMSA 1978, 2.2.2 NMAC Requirements for Contracting and Conducting audits of State Agencies and Standards for Consulting Services established by the American Institute of Certified Public Accountants. The scope of this engagement is outlined in the body of our report. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the consulting

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 2 of 12

procedures described below either for the purpose for which this report has been requested or for any other purpose. The District remains responsible for their accounting records, activity funds, fraud prevention and detection, and for maintaining effective internal controls over the financial statements and compliance.

## **EXECUTIVE SUMMARY**

Bernalillo Public Schools (BPS or District) and the Board of Education (Board) are responsible for providing the public with reasonable assurance that the District has adequate controls to safeguard assets. An adequate system of internal accounting and operational controls is necessary to meet these responsibilities.

The purpose of this consulting engagement was to conduct a limited scope forensic examination of the Schools' activity funds to determine whether the Schools had suffered from theft, fraud, or embezzlement by their former Bookkeeper and to what extent, for the period covering approximately two and a half years (June 1, 2013 through January 31, 2016). The engagement was designed to assist BPS in determining the fraud risk and dollar value of funds that are unaccounted for, the causes for unaccounted funds, the value of diverted funds, and the causes of fund diversion.

In summary, in February of 2016, the Principals of the Schools and the Finance Director (CFO) at Central Office's Finance Department (CO) became aware of several abnormalities in the accounting of the Schools' activity funds. These red flags included certain vendors calling to complain that they had not been paid, the Bookkeeper failing to submit her required reports to CO since October of 2015, and a very low balance in the associated bank account, which resulted in a call from the bank to the District's CFO that there were insufficient funds to cover a check.

After the CFO called the WD Principal, the Bookkeeper's Supervisor, the Principal notified the Bookkeeper in charge of the funds that an audit would be performed on February 18, 2016. The Bookkeeper left and did not return to her duties. She kept \$1,500 of the Schools' cash receipts in her possession for approximately 14 days and then deposited \$1,250 on March 1, 2016, which was \$250 less than she had committed to the WD Principal, who repeatedly requested the return of the funds. The District froze the related bank account, performed an internal investigation,

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 3 of 12

interviewed the Bookkeeper, and subsequently, terminated the Bookkeeper on March 8, 2016. It has been reported to us by employees that the public believes she is on FMLA with her husband, a District employee in the IT Department. The District then notified the Town of Bernalillo Police Department of the alleged embezzlement. Subsequently, the Town of Bernalillo Police Department asked the State Auditor's Office for assistance in the investigation because of the financial nature of the alleged crime. In April of 2016, the New Mexico Office of the State Auditor announced that it had designated BPS for a Special Audit.

Based on the information available, our procedures determined that during the Period \$142,414 in cash receipts (checks and cash) should have been deposited; however, the Bookkeeper only deposited \$95,296 into the bank during the Period, a difference of \$47,118. This difference is the amount that is under suspicion of being embezzled for personal use. Our procedures also uncovered evidence that the Bookkeeper likely paid for personal expenses, personal bills, and obtained prepaid debit cards with the cash (such as one and five dollar bills) she collected at the Schools.

The Schools' Parent Teacher Organization's (PTO) expected cash balance was calculated by the PTO to be \$19,412; however, there were no funds in the bank account for the PTO. The last report the Bookkeeper provided to the PTO Vice-President from her "second set of books" was on September 24, 2015 showing a "correct" balance of \$11,082.64, but she had just reported on August 30, 2015 to the Business Manager at CO that PTO's balance was only \$105.17. After the PTO's Believe Kids Spirit Drive fundraiser, the PTO balance should have been \$18,531.64; however, as of September 30, 2015 the Bookkeeper reported to CO that the PTO's balance was only \$709.34. The Business Manager e-mailed the Bookkeeper on February 17, 2016 (the day the CFO discovered the activity account issues), and asked her for the November and December 2015 required Activity Fund reconciliations and reports which had been returned to her for corrections. At this time, the January report was also already past-due as of February 10, 2016.

Additionally, upon discovery of the missing funds, the District began to call vendors and determined that many had not been paid for extended periods of time, despite their complaints and attempts to collect on invoices. The District made a concerted effort to pay all balances owed to vendors and paid \$25,276 on past due accounts during March of 2016.

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 4 of 12

The Fraud Triangle, showing that there are three factors that must be present at the same time in order for an ordinary person to commit fraud, originated from Donald Cressey's hypothesis: *"Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property."* – Donald R. Cressey, *Other People's Money* (Montclair: Patterson Smith, 1973) p. 30. The three factors of the Fraud Triangle are: Pressure, Opportunity, and Rationalization. We discuss below possible factors contributing to the Fraud Triangle from the information available to us.

**Pressure** – In February 2016, the District learned that the Bookkeeper had a prior Grand Jury Indictment on one count of embezzlement and one count of forgery, charged on June 15, 2007, and one count of forgery, charged on October 15, 2007. The District did an FBI background check on February 11, 2008 and an employment verification on March 13, 2008 – these charges were not on her record at the time of her hire into the District on January 30, 2008, eight years before her termination. On her application for hire, dated December 12, 2007, the Bookkeeper checked "No" to all questions relating to felonies, misdemeanors, and pending charges and also signed a certification that all information in the application is true, accurate, and complete.

The acts she committed at New Mexico Educators Federal Credit Union, which she confessed to and pled guilty to Embezzlement of over \$5,000, a third degree felony occurring on or about June 15, 2007, resulted in the Bookkeeper being required to pay restitution of \$17,850 or \$1,035 monthly, beginning around November of 2010. The District also received a Judgment on Writ of Garnishment, Claim of Exemptions and Order to Pay on the Bookkeeper and her husband dated March 11, 2016. The garnishment totaled \$36,674.80 for a mortgage. Online searches reveal two home foreclosures and a potential repossession was also reported to us.

Moreover, within the contents of the Bookkeeper's office, which is being held in safekeeping at the Town of Bernalillo's Police Department, we noted there were many utility bills, insurance applications, IRS notices, medical bills, collection notices, mortgage statements and past-due notices. We also discovered approximately 100 documents that were tampered with (including Western Union documents), with numbers cut out of documents and pasted and/or copied onto

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 5 of 12

others. It appears these were used to try to “prove” that certain bills had been paid. There were also Powerball and lottery tickets within her office contents. All these factors indicate that the Bookkeeper had financial pressure. An inability to pay ones’ bills can become a motivation to solve this problem through illegitimate ways.

**Opportunity** – The Bookkeeper had the opportunity to skim activity funds from the Schools as described in **EXHIBIT 5 – SCHEDULE OF FINDINGS AND RESPONSES** of this report. Inadequacy of controls can lead to the method by which one can abuse their position of trust to solve his or her financial problem with a low perceived risk of getting caught.

**Rationalization** – The Bookkeeper texted several people on Friday, April 8, 2016 after the news reported that a Bookkeeper in the District was suspected of embezzlement. *“It’s in the news that am [sic] employee embezzled money. It is not me. I worked so hard for the schools, doing multiple jobs. Please believe me.”* and *“I’m freaking out because they think I took all this money. I worked so hard doing multiple things ... taking care of my family ... Please believe me ... I don’t know what to do ... Now the people I love and go to aren’t going to be there.”* This clearly specifies some of her possible rationalizations: that she had worked so hard doing multiple jobs that she had taken care of her husband and sister, and she was certain her situation was non-sharable because she believed the people she loved would no longer be there for her. Other employees in the WD office did state that the Bookkeeper would frequently take on more tasks and responsibilities from other staff than they really wanted or needed her to. Normally, offenders do not see themselves as criminals, they view themselves as ordinary, honest people who are caught in a bad set of circumstances. Consequently, he or she will justify their actions to themselves in a way that makes it an acceptable or justifiable act.

Our procedures included performing inquiries of District employees, obtaining corroborating evidence, and reviewing the related bank statements, receipts, emails, and other supporting documentation. The most significant findings we noted are: the District’s need to strengthen internal controls over its activity funds to prevent and detect fraud and errors and the necessity to increase staff accountability.

This report summarizes our findings discovered during test work to accomplish the goals of the forensic examination. We have provided specific recommendations for the District to strengthen

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 6 of 12

internal controls over the financial statements' and compliance in relation to activity funds, fraud prevention, and fraud detection in **EXHIBIT 5 – SCHEDULE OF FINDINGS AND RESPONSES** of this report. We want to emphasize it is vital for the District to perform frequent risk assessments and monitoring procedures over its corrective actions, along with accountability for non-compliance, to prevent, detect, and report situations promptly in the future. District management is dedicated to implementing these safeguards to further secure receipts and activity funds at the Schools and has already taken some corrective action and implemented some of the recommendations to prevent future theft, fraud or embezzlement.

Our examination was limited to the areas and periods described and limited to the documents available and the interviews of employees performed. Had we reviewed other periods or areas or documents, other matters may have been identifying warranting the District's attention.

## **CONSULTING PROCEDURES**

Our procedures were as follows:

1. Establish an understanding of the processes and procedures (official and unofficial) utilized by the Schools for handling cash during the Period.
2. Identify all of the School's revenue sources during the Period.
3. Identify and scrutinize all activity fund transactions handled by the School's bookkeeper during the Period.
4. Document all records supporting revenues during the Period including:
  - a. Receipts and receipt books.
  - b. Documents used for tracking changes in the custody of cash.
  - c. Bank records and reconciliations.
  - d. Fundraising documents.
5. Identify fraud risks at the Schools for the Period.
6. Issue a report that contains schedules of:
  - a. Revenues identified by source or event for the Schools for the Period.
  - b. Revenues which are unaccounted for or may have been diverted.
  - c. Expenditures identified by event which were paid from activity funds.



To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 7 of 12

Findings including the elements as required by 2.2.2.15 B and 2.2.2.10 I (3) (c) NMAC.

## **DETAILED PROCEDURES PERFORMED**

We were hired to perform these procedures in accordance with District Policy B-1300 Board Consultants: The District may employ consultants when appropriate to carry out tasks or projects that enhance the effectiveness of District operations (1) when the District does not have the specialized competency on its staff or (2) when such assignments would be burdensome to the school staff when added to their full-time assignments. The kinds of assistance sought from consultants may include, but will not necessarily be limited to (1) conducting fact-finding studies, surveys, and research; (2) providing counsel or services requiring special expertise; and (3) assisting the Board in developing policy and program recommendations. The employment of specific consultants, within the budgeted funds of the District, will be the responsibility of the Superintendent.

This section expands upon our testing and results of the consulting procedures listed above. JAG has performed procedures for the time period requested, June 1, 2013 through January 31, 2016:

### **1. Processes and Procedures**

- ✓ We interviewed those who were involved in the process for the WD/LE activity fund, including: the Schools' Principals, the Finance Director or CFO (past and current), Business Manager, School Administrative Assistant, Pre K Teacher, Educational Assistant, Attendance Monitor, IT Director, and PTO Vice President. See also **EXHIBIT 1 – DISTRICT ORGANIZATION CHART (RELEVANT POSITIONS)**.
- ✓ We reviewed the BPS Board of Education's policies and the District's internal procedures. We identified differences between the written policies and procedures (official) and the actual practices occurring daily (unofficial) and have reported results in **EXHIBIT 5 – SCHEDULE OF FINDINGS AND RESPONSES** of this report.
- ✓ We became familiar with the processes and procedures as we tested the records and reviewed what the BPS Finance Department, Town of Bernalillo law enforcement, and the State Auditor had already collected on this matter.

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 8 of 12

- ✓ Since the former bookkeeper was no longer an employee at the time of our procedures, the District did not believe it to be appropriate for us to interview her. Therefore, our procedures did not include an interview the bookkeeper.

## 2. Identify Revenue Sources

- ✓ We identified revenue sources in the District's annual audit and activity fund disclosures.
- ✓ Interviews assisted us in determining what the revenue sources should be.
- ✓ To the extent that information was available, we identified the fundraisers and other types of activities that should have gone through this activity fund during the time period requested.
- ✓ We reviewed District provided PTO activities, emails, cash receipt tickets, and the school event/fundraiser listing to ensure we had a complete listing of revenue sources (activities) during the period.
- ✓ See **EXHIBIT 2 – LISTING OF CASH RECEIPTS BY SOURCE OR EVENT DEPOSITED IN THE BANK** included in this report.

## 3. Identify and Scrutinize Transactions

- ✓ We applied forensic auditing procedures to the transactions handled by the Schools' Bookkeeper during the period requested. In general, the information provided to us, the Bookkeeper's records, were incomplete and inaccurate. We relied substantially on records from the bank to complete our engagement.
- ✓ See **EXHIBIT 3 – LISTING OF CASH RECEIPTS UNACCOUNTED FOR AND CASH DISBURSEMENTS BY ACTIVITY OR EVENT** included in this report.

## 4. Document Records that Support Revenues

- ✓ We examined, *to the extent available*, receipts, receipt books, documents used for tracking changes in the custody of cash, bank records (a premium business checking with interest at US Bank named "Roosevelt Elem Activity Fund") and reconciliations, fundraising documents, emails, contents of the Bookkeeper's office, information provided to us in interviews, reports from CO, audited financial statements, Board minutes, check stubs and images, invoices, various deposit and expenditure listings, monthly packets from the Bookkeeper to CO, electronic records, Visions report of vendors paid out of general fund, various text messages, the Bookkeeper's personnel file, the

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 9 of 12

- ✓ Bookkeeper's prior Grand Jury Indictment, State of New Mexico vs. Antoinette Garcia D-1329-CR-200800293 and New Mexico Educators Federal Credit Union v. Antoinette L Garcia D-1329-CV-201101508 case details.
- ✓ The items listed above help us pull information into useable formats (such as graphs and pivot tables) to analyze trends, risks, and causes of the alleged fraud, deficiencies in internal controls, and non-compliance.
- ✓ We compared the records to applicable policies, procedures, regulations, and state laws and have reported results in **EXHIBIT 5 – SCHEDULE OF FINDINGS AND RESPONSES** of this report.

#### **5. Identify Fraud Risks**

- ✓ To help identify not only what went wrong in the past, but also what could be improved in the future, our team consisted of highly trained individuals in governmental and forensic auditing; including two Certified Public Accountants (CPAs), one Certified Fraud Examiner (CFE), one Certified Governmental Finance Manager (CGFM), and various staff with three years or greater experience in governmental and auditing and consulting.
- ✓ Regarding potential collusion and conflicts of interest, we believe the Bookkeeper's handling of activity fund cash along with her cousin in the WD's office and interactions with her husband in the IT department significantly increased the District's risk of conflicts of interest and collusion.
- ✓ We identified risks and our recommendations for strengthening controls to help you prevent and detect fraud in the future are within **EXHIBIT 5 – SCHEDULE OF FINDINGS AND RESPONSES** of this report.

#### **CORRECTIVE ACTIONS TO DATE**

- ✓ The CFO immediately froze the activity fund's bank account for any disbursements upon discovery of the irregularities on February 18, 2016.
- ✓ The District terminated the WD/LE Bookkeeper on March 8, 2016.
- ✓ The Finance Department conducted an internal audit during February and March of 2016.
- ✓ The WD Carroll Elementary School Principal changed the locks/keys to offices.

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and

Mr. Tim Keller, New Mexico State Auditor

September 30, 2016

Page 10 of 12

- ✓ Employees have disclosed the alleged embezzlement to the New Mexico Office of the State Auditor (March 3, 2016), Town of Bernalillo Police Department (March 6, 2016), and the United States FBI (July, August 2016).
- ✓ The District turned over all records and personal items in the former Bookkeeper's office to the Town of Bernalillo Police Department for safe-keeping in March 2016.
- ✓ The District secured the former Bookkeeper's computer and backed up her files, archived her emails, and took the hard drive offline.
- ✓ In order to ensure the integrity of data secured, the District also disabled the former Bookkeeper's husband's account as of April 8, 2016, as he was an IT employee with access to District information. He was, and is currently (as of the date of this report), on medical leave.
- ✓ As a result of the former Bookkeeper's threats of harm to employees, the District performed lockdown drills at WD/LE during May 2016.
- ✓ The District engaged an external independent auditor, Jaramillo Accounting Group LLC (JAG), to perform these forensic procedures.
- ✓ The District hired a new Bookkeeper for WD/LE in June 2016.
- ✓ The District required mandatory four-hour Finance trainings occurred on Friday, August 5th and again on Thursday, August 18th for those who couldn't make the first meeting. These two trainings reviewed best practices and overview of procurement, payroll, district travel, activity fund deadlines and best practices. Recently, the District held another training on Tuesday, September 20th covering purchase requisitions. The Finance Department has represented that it will continue trainings throughout the school year.
- ✓ A new principal was hired at WD Carroll as of August 31, 2016.
- ✓ The District created a new form, BPS Request for Fundraiser Approval, for the Principals and Bookkeepers to comply with District policy on prior approval of fundraisers.
- ✓ The District represented to us that it plans to run all future activity (cash receipts, purchase orders, disbursements, reconciliations, etc.) through their general ledger package (Visions). They have been working with Visions (Tyler Technologies) to implement the Activity Fund accounting module in Visions. At this time, the Visions

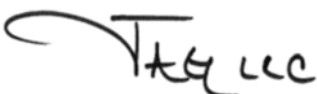
To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 11 of 12

program does not have the capability for the school sites to print their own activity checks and the A/P clerk at the Finance Department would not be able to write A/P Activity Funds on a daily basis. Tyler Technology will get more information on how the Visions Activity Module functions and let the District know if there are any projected changes. The District is also looking at other options with other programs for activity funds.

We were not engaged to, and did not conduct an audit examination, the objective of which would be the expression of an opinion on the accounting records of the District under attestation standards. Accordingly, we provide no opinion, attestation or other form of assurance with respect to our work or the information upon which our work is based. The procedures performed do not constitute an examination in accordance with generally accepted auditing or attestation standards. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the parties specified above, District management, and parties identified by the District's management and their designated legal counsel, and law enforcement agencies. This report should not be relied upon by any other party. Jaramillo Accounting Group LLC (JAG) accepts no responsibility to any other party to whom this report may be shown or who may otherwise gain access to this report.

We appreciate the opportunity to assist you in your assessment of these activities and achieve stronger internal controls. Please do not hesitate to call if you have any questions or need further assistance regarding this important matter. JAG would like to sincerely thank the District's administrators and staff for their support in assisting us with our procedures.

A handwritten signature in black ink that reads "JAG LLC". The signature is stylized, with a large, sweeping initial "J" and "A" that connect to the "G".

Jaramillo Accounting Group LLC (JAG)  
Albuquerque, New Mexico  
September 30, 2016

To the Board of Education and Mr. Allan Tapia, Superintendent  
Bernalillo Public Schools  
and  
Mr. Tim Keller, New Mexico State Auditor  
September 30, 2016  
Page 12 of 12

## **EXIT CONFERENCE**

The contents of this report were discussed on October 12, 2016. The following individuals were in attendance:

### Bernalillo Public Schools – Board

Gilbert Lucero, President  
Ramona Salazar, Vice President  
Isaac Herrera, Secretary  
Olivia Calabaza, Member  
Vincent Montoya, Member

### Bernalillo Public Schools – Management

Allan Tapia – Superintendent  
Elaine Dryer – CFO  
John Baber – Former CFO

### Jaramillo Accounting Group (JAG)

Audrey Jaramillo, CPA, CFE  
Scott Eliason, CPA  
Curtis Chavez

### New Mexico Office of the State Auditor

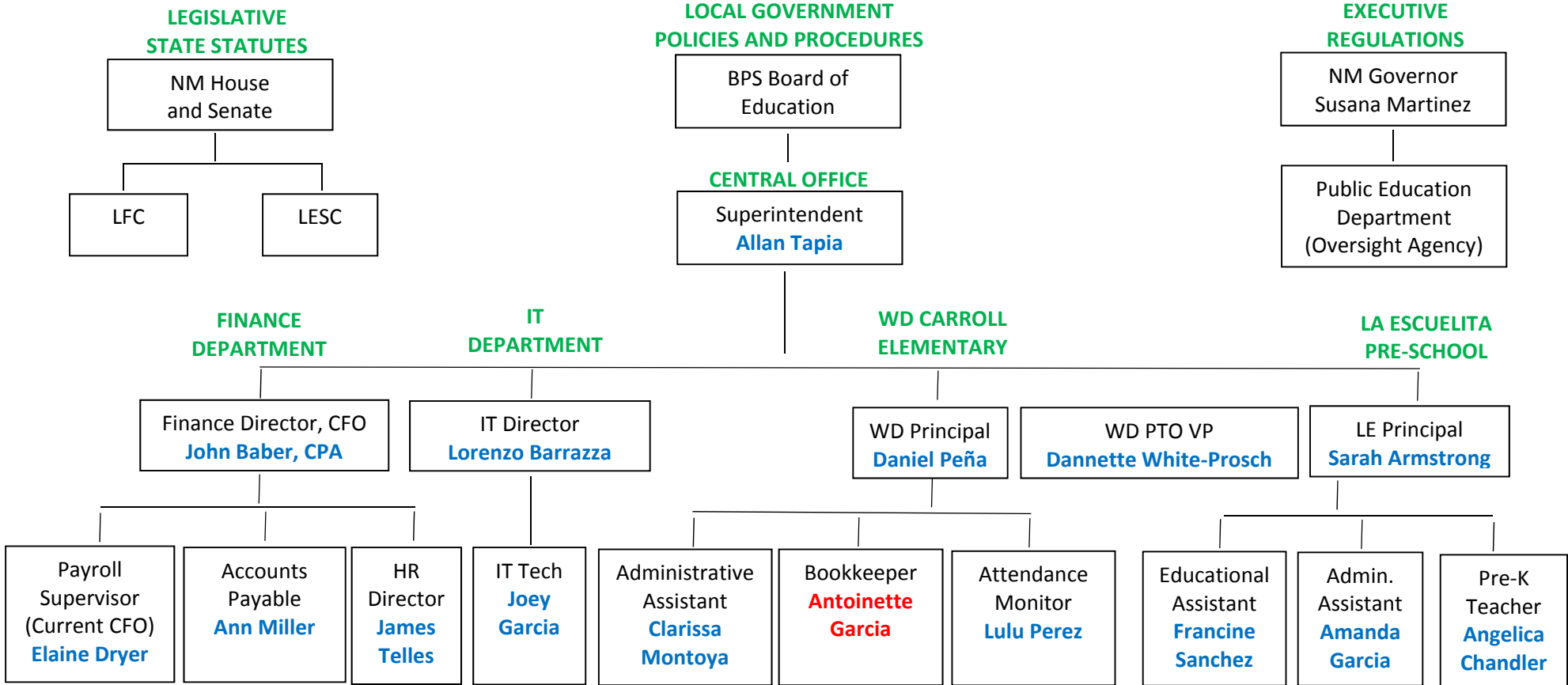
Kevin Sourisseau, CPA, Special Investigations Director  
Kelly, Mercer, CFE, Special Investigations Supervisor

## **DISCLAIMER**

We are not lawyers, and are not a law enforcement agency or prosecuting officer. We do not have power to subpoena records or power to subpoena witnesses to testify under oath. We are private accounting firm conducting a specified forensic consulting services based on information voluntarily provided by the subject of the engagement. Here, the subject of the consulting procedures had incomplete information due to inadequate controls and documentation at the Schools. Because we have incomplete information, this letter is intended only to raise potential fraud and abuse, as well as potential non-compliance with laws, regulations, and contracts, as well as potential criminal violations in connection with the financial affairs of the District.

We cannot conclude on the guilt or innocence of any party. We cannot and do not purport to be in a position to establish beyond reasonable doubt whether such violations occurred. Importantly, these allegations of potential fraud, waste, or abuse and/or potential violations of criminal statute in connection with financial affairs cover many years and will require further investigation by the relevant offices and authorities, which may include referral to the “proper prosecuting officer.” We do not draw legal conclusions here, and instead raise the matters below for consideration and investigation by appropriate authorities. Exercising our auditor judgment, and erring on the side of transparency and disclosure, we are identifying these risks to the District and the New Mexico Office of the State Auditor so that they can determine appropriate next steps.

**EXHIBIT 1**  
**Bernalillo Public Schools**  
**Organization Chart (Relevant Positions)**  
**February 2016**



**EXHIBIT 2**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Listing of Cash Receipts by Source or Event Deposited in the Bank**  
**Period of June 1, 2013 to January 31, 2016**

Activity/Event	Amount from Activity Log to Bank Account	Reclassifications*	Activity Log to Bank Account (as reclassified)
Book Fair	\$ 7,139	\$ -	\$ 7,139
Beerfest	-	1,169	1,169
Black Lagoon - UNM Popejoy	-	1,092	1,092
Boxtops	1,712	-	1,712
Carroll Fundraiser - Unknown (Unallocated)	8,045	(8,045)	-
City of Albuquerque (Aquarium, Bot Gdns, Zoo)	-	1,202	1,202
Cultural Day	1,374	-	1,374
Entertainment Book Fundraiser	4,458	-	4,458
Graduation Goodie	-	600	600
Great American Savings	-	2,635	2,635
Interest Income	6	-	6
Jack and the Giant - New Mexico Young Actors	-	1,056	1,056
Ken Brown Photography	3,642	-	3,642
Leap Frog Donation	1,450	-	1,450
Movie Night	-	528	528
New Mexico Young Actors Inc. (Cinderella)	-	1,056	1,056
NM Museum of Natural History	-	4,596	4,596
Other Revenue (Unallocated, non-PTA receipts)	15,324	(15,324)	-
PTO - Believe/Spirit Gear	41,462	8,045	49,507
PTO - For Isotopes Game	4,429	-	4,429
PTO - Other Receipts (Unallocated)	1,564	(1,564)	-
PTO - Popcorn and Pickles	490	-	490
PTO - Valentines	945	-	945
United Way	78	-	78
Winefest	3,178	-	3,178
Yearbooks - Tree Ring Corporation	-	1,741	1,741
Yoyo	-	1,213	1,213
<b>Total Amount Deposited by Activity</b>	<b>\$ 95,296</b>	<b>\$ -</b>	<b>\$ 95,296</b>

\* Certain reclassifications were made to allocate the unallocated amounts (per the activity logs) to the best categories based on review of certain detail. The reallocation does not affect totals.



**EXHIBIT 3**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Listing of Missing Cash Receipts**  
**and Actual Cash Disbursements by Activity or Event**  
**Period of June 1, 2013 to January 31, 2016\***

Event	Calculated Cash Receipts	Actual Cash Receipts Recorded to Bank (as reclassified**)	Missing Cash Receipts	Actual Adjusted Cash Disbursements	Actual Cash Disbursements Recorded to Bank
<b><u>PTO Fundraisers</u></b>					
Believe / Spirit	\$ 60,668	\$ 49,507	\$ 11,161	\$ 35,665	\$ 30,432
Popcorn and Pickles	746	490	256	-	-
Valentines	945	945	-	-	-
<b><u>PTO - Events</u></b>					
Isotopes Game	6,303	4,429	1,874	6,303	6,303
Jack and the Giant - New Mexico Young Actors Inc.	1,056	1,056	-	1,056	1,056
Yearbooks - Tree Ring Corp	1,193	508	685	1,193	1,193
<b>PTO - Other expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,257</u>	<u>9,257</u>
<b>PTO Totals</b>	<u>70,911</u>	<u>56,935</u>	<u>13,976</u>	<u>53,474</u>	<u>48,240</u>
<b><u>Other Fundraisers</u></b>					
Beerfest Parking	1,814	1,169	645	-	-
Beerfest Parking (January 2016)	700	-	700	-	-
Boxtops	1,712	1,712	-	-	-
Carnival Collections	2,092	-	2,092	-	-
Cultural Day	1,374	1,374	-	-	-
Entertainment Book Fundraiser	6,300	4,458	1,842	3,780	3,780
Great American Savings Fundraiser	8,150	2,635	5,515	4,075	2,635
Ken Brown Photography	3,642	3,642	-	911	-
Movie night	528	528	-	-	-
Winefest	3,178	3,178	-	-	-
YoYo	1,213	1,213	-	-	-
<b><u>Other Events</u></b>					
Black Lagoon - UNM Popejoy	1,092	1,092	-	1,092	1,092
City of Albuquerque (Aquarium, Bot Gdns, Zoo)	3,305	1,202	2,103	3,305	1,202
Graduation Goodie	600	600	-	-	-
McCall's Pumpkin Patch	6,826	-	6,826	6,826	-
New Mexico Young Actors Inc. (Cinderella)	1,056	1,056	-	1,056	1,056
NM Museum of Natural History	6,015	4,596	1,419	6,015	4,596
Scholastic Book Fair	19,139	7,139	12,000	19,139	11,130
Yearbooks - Tree Ring Corporation	1,233	1,233	-	1,233	1,233
Other expenses	-	-	-	23,353	19,579
<b><u>Other</u></b>					
Leapfrog (Donation)	1,450	1,450	-	-	-
United Way	78	78	-	-	-
Interest Income	6	6	-	-	-
<b>All other fundraising, events, and other</b>	<u>71,503</u>	<u>38,361</u>	<u>33,142</u>	<u>70,785</u>	<u>46,303</u>
<b>Totals</b>	<u>\$ 142,414</u>	<u>\$ 95,296</u>	<u>\$ 47,118</u>	<u>\$ 124,259</u>	<u>\$ 94,543</u>

\* Includes invoices paid late with the District's General Funds through March 2016.  
(\$4,440 in February 2016 and \$25,276 in March 2016 for a total of \$29,716)

\*\* See EXHIBIT 2 for an explanation of the reclassification.

**EXHIBIT 4**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Listing of Activity Fund Cash Disbursements by Vendor**  
**Period of June 1, 2013 to January 31, 2016\***

Vendor	Cash Disbursements Per Bank (June 1, 2013 to January 31, 2016)	Late payments on invoices (February and March 2016)	Total Cash Disbursements (includes Late Payments)
4 Imprint	\$ 498	\$ 227	\$ 725
5 Star Fundraising	250	-	250
Accucut	53	-	53
Albertsons	1,330	-	1,330
Anderson's Its Elementary	825	-	825
Barnes and Noble	228	-	228
Believe / Spirit	30,432	5,234	35,665
Black Lagoon - UNM Popejoy	1,092	-	1,092
Blake's Lotaburger	405	-	405
Carroll Elementary	49	-	49
Carson Publishing Company	109	-	109
City of Albuquerque (Aquarium, Bot Gdns, Zoo)	1,202	2,103	3,305
Cookies by Design	-	68	68
Creamland	84	-	84
Creative Teaching	117	-	117
Curriculum Associates	107	-	107
Deluxe Business System	138	-	138
DEMCO	249	-	249
Dion's Pizza	330	-	330
Domino's Pizza	70	-	70
El Rey Printing	90	-	90
EmbroidMe	518	-	518
Entertainment Book Fundraiser	3,780	-	3,780
Family Development Center	50	-	50
Follet Software Company	80	-	80
Food Service	17	-	17
GBC	515	-	515
Great American Savings Fundraiser	2,635	1,440	4,075
Home Depot	359	-	359
Albuquerque Isotopes	6,303	-	6,303
Ken Brown Photography	-	911	911
Kmart	63	-	63

**EXHIBIT 4**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Listing of Activity Fund Cash Disbursements by Vendor**  
**Period of June 1, 2013 to January 31, 2016\***

Vendor	Cash Disbursements Per Bank (June 1, 2013 to January 31, 2016)	Late payments on invoices (February and March 2016)	Total Cash Disbursements (includes Late Payments)
Lakeshore Learning Materials	1,399	-	1,399
McCall's Pumpkin Patch	-	6,826	6,826
McDonald's	45	-	45
Midway Office Supplies	677	332	1,009
National Center for Fathering	-	396	396
National Pen Co	107	-	107
New England Fleece Co	298	-	298
New Mexico Young Actors	2,112	-	2,112
Nicole Lepre	300	-	300
NM Museum of Natural History	4,596	1,419	6,015
NSF	578	-	578
Oriental Trading	3,582	904	4,486
Other	378	-	378
Pizza Nine	567	-	567
Positive Promotions	171	-	171
Really Good Stuff	523	-	523
Sam's Club	4,532	-	4,532
Scholastic Book Fair	11,130	8,009	19,139
Scholastic Book Fair	562	-	562
School Specialty	-	290	290
Shamrock Foods	517	-	517
Simply One Stop	4,184	1,509	5,692
Smilemakers	84	-	84
Smith's	62	48	110
Teacher Heaven	1,508	-	1,508
The Ned Show	1,629	-	1,629
Tree Ring Corporation	2,426	-	2,426
Twisters	599	-	599
	<u>\$ 94,543</u>	<u>\$ 29,716</u>	<u>\$ 124,259</u>

\* Includes invoices paid late with the District's General Funds through March 2016.  
(\$4,440 in February 2016 and \$25,276 in March 2016 for a total of \$29,716)

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

<b>Summary of Audit Findings</b>			
<b>Finding #</b>	<b>Page #</b>	<b>Finding Description</b>	<b>Finding Type</b>
2016-001	2	Potential Finding, Fraud, Forgery, Embezzlement and Non-Compliance	Material Weakness
2016-002	7	Lack of Segregation of Duties over Activity Funds	Material Weakness
2016-003	11	Inadequate Controls over Activity Fund's Cash Receipts and Fundraisers	Material Weakness
2016-004	16	Irregular Cash Receipts for Money Collected, Form of Receipts, Lack of Controls over Receipt Books	Material Weakness
2016-005	19	Inadequate Controls over Activity Fund's Cash Disbursements, Purchases, and Accounts Payable	Material Weakness
2016-006	25	Override of Controls over Information Technology	Material Weakness
2016-007	27	Untimely Activity Fund Bank Reconciliations	Material Weakness
2016-008	40	District's Finance and Audit Committees of the Board of Education - Monitoring and Corrective Actions	Material Weakness
2016-009	44	District's Central Office Superintendent and Finance Department - Monitoring, Risk Assessment and Corrective Actions	Material Weakness
2016-010	49	District's School Principals - Monitoring and Corrective Actions, Principal Turnover, and Staff Evaluations	Material Weakness
2016-011	53	Insufficient Accounting Records, Document Retention, Inspection of Public Records Act	Material Weakness
2016-012	56	Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks	Material Weakness
2016-013	58	Other Risks Identified during the Forensic Procedures	Material Weakness

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-001 Potential Fraud, Forgery, Embezzlement and Non-Compliance**

**Type of Finding:** Material Weakness

**Finding category:** Fraud

**Statement of Condition**

On March 3, 2016, the Superintendent reported to the New Mexico Office of the State Auditor: *“It has come to my attention that the student activity account at W.D. Carroll Elementary has a number of irregularities to include missing cash deposits, forged receipts and checks, and outstanding invoices with no corresponding deposits. I suspect fraud and embezzlement by the School’s bookkeeper.”*

In June 2016, the District contracted with Jaramillo Accounting Group (JAG) for forensic consulting services for the WD Carroll Elementary (WD) and La Escuelita Pre-School (LE) (the Schools) activity fund for the time period June 1, 2013 through January 31, 2016. Within our report here, dated September 30, 2016, we report the results of our testing.

In summary, from the information the District provided and interviews we performed, it appears that the WD/LE Bookkeeper may have committed fraud by misappropriation, forgery of a Purchase Order, cash receipts and mortgage/wire transfers, embezzlement of District activity funds (potentially misappropriating with a skimming scheme approximately \$50,000 just during the two and-a-half year the time period we were engaged to examine), issuance of a worthless check and non-compliance with state statutes, NM Public Education Department regulations, and District policies and procedures.

**Activity Fund FS Chart**

<b>WD Carroll Elementary</b>					
<u>School Year</u>	<u>Beg Balance June 30</u>	<u>Additions</u>	<u>Deletions</u>	<u>End Balance June 30</u>	<u>Audit Year</u>
2007-08	\$10,021	\$42,895	(\$44,302)	\$8,614	2008
2008-09	8,614	41,849	(42,279)	8,184	2009
2009-10	8,184	43,261	(45,890)	5,555	2010
2010-11	<b>\$5,555</b>	<b>\$63,235</b>	<b>(\$60,055)</b>	<b>\$8,735</b>	2011
2011-12	<b>Last time WD Carroll shows up in Financial Statements is 6/30/2011</b>				2012
2012-13	<b>Last time WD Carroll shows up in Financial Statements is 6/30/2011</b>				2013
2013-14	<b>Last time WD Carroll shows up in Financial Statements is 6/30/2011</b>				2014
2014-15	<b>Last time WD Carroll shows up in Financial Statements is 6/30/2011</b>				2015

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

<b>Bernalillo Elementary School</b>							
<u>School Year</u>	<u>Beg Balance June 30</u>	<u>Additions</u>	<u>Deletions</u>	<u>End Balance June 30</u>	<u>Audit Year</u>		
2007-08	Bernalillo Elementary School not presented in Financial Statements					2008	
2008-09	Bernalillo Elementary School not presented in Financial Statements					2009	
2009-10	Bernalillo Elementary School not presented in Financial Statements					2010	
2010-11	Bernalillo Elementary School not presented in Financial Statements					2011	
2011-12	<b>\$8,735</b>	\$42,247	(\$42,545)	<b>\$8,437</b>	2012		
2012-13	<b>8,437</b>	<b>32,727</b>	<b>(34,220)</b>	<b>6,944</b>	<b>2013</b>		
2013-14	<b>6,944</b>	<b>24,464</b>	<b>(19,308)</b>	<b>12,100</b>	<b>2014</b>		
2014-15	<b>\$12,100</b>	<b>\$29,895</b>	<b>(\$32,488)</b>	<b>\$9,507</b>	<b>2015</b>		

<b>Roosevelt Elementary School</b>						
<u>School Year</u>	<u>Beg Balance June 30</u>	<u>Additions</u>	<u>Deletions</u>	<u>End Balance June 30</u>	<u>Audit Year</u>	
2007-08	\$30,480	\$34,428	(\$32,210)	<b>\$32,698</b>	2008	
2008-09	32,698	27,564	(41,275)	18,987	2009	
2009-10	18,987	33,001	(39,914)	12,074	2010	
2010-11	<b>12,074</b>	<b>13,320</b>	<b>(21,487)</b>	<b>3,907</b>	<b>2011</b>	
2011-12	<b>3,907</b>	<b>19,389</b>	<b>(17,292)</b>	<b>6,004</b>	<b>2012</b>	
2012-13	<b>6,004</b>	<b>14,422</b>	<b>(17,001)</b>	<b>3,425</b>	<b>2013</b>	
2013-14	<b>3,425</b>	<b>36,119</b>	<b>(37,868)</b>	<b>1,676</b>	<b>2014</b>	
2014-15	<b>\$1,676</b>	<b>\$36,339</b>	<b>(\$37,256)</b>	<b>\$759</b>	<b>2015</b>	

**We are concerned that misappropriations may have occurred prior to the time period we were engaged to examine, and that the total funds unaccounted for may be much higher.** It is important to note that Jaramillo Accounting Group LLC (JAG) does not conclude on the guilt or innocence of any party. This potential fraud, forgery, embezzlement, abuse and/or potential violations of criminal statute in connection with financial affairs will require further investigation by the relevant offices and authorities. We also realize that the next step that follows this letter is a report by the New Mexico State Auditor to the “proper prosecuting officer”, a further investigation by law enforcement (which includes the District Attorney’s Office), yielding their conclusions on these matters. We raise these matters for future consideration and draw no legal conclusions nor reach ultimate findings.

**Criteria**

NM State Audit Rule 2.2.2.10 (K)(2). Pursuant to Section 12-6-6 NMSA 1978 (criminal violations), an agency [District] or IPA [external auditor] shall notify the state auditor immediately, in writing, upon discovery of any violation of a criminal statute in connection with financial affairs. The

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

notification shall include an estimate of the dollar amount involved, and a complete description of the violation, including names of persons involved and any action taken or planned. If warranted, the state auditor may cause an audit of the financial affairs and transactions of the agency in whole or in part pursuant to Section 12-6-3 NMSA 1978 and 2.2.2.15 NMAC. If the state auditor does not designate an agency for audit, an agency shall follow the provisions of 2.2.2.15 NMAC when entering into a professional services contract for a special audit, performance audit or attestation engagement regarding the financial affairs and transactions of the agency relating to financial fraud, waste and abuse.

If any information comes to our attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. Additionally, the external auditor's consideration of fraud in a financial statement audit includes reporting to management and/or governance any evidence that fraud may exist.

NMSA 1978 Section 10-16-3(A). A legislator or public officer or employee shall treat the legislator's or public officer's or employee's government position as a public trust. The legislator or public officer or employee shall use the powers and resources of public office only to advance the public interest and not to obtain personal benefits or pursue private interests.

NMSA 1978 30-16-6. *Fraud* consists of the intentional misappropriation or taking of anything of value which belongs to another by means of fraudulent conduct, practices or representations.

NMSA 1978 Section 30-16-8. *Embezzlement* consists of the embezzling or converting to his or her own use of anything of value with which he or she has been entrusted, with fraudulent intent to deprive the owner thereof.

NMSA 1978 Section 30-16-10. *Forgery* consists of: A) falsely making or altering any signature to, or any part of, any writing purporting to have any legal efficacy with intent to injure or defraud; or B) knowingly issuing or transferring a forged writing with intent to injure or defraud. "Legal efficacy" is a writing which could be made the foundation of liability that would apparently operate to the legal prejudice of another. We usually think of forgery as altering a document for financial gain but it can also be "any document required by law to be filed...or necessary...to the discharge of a public official's duties."

NMSA 1978 Section 30-23-3. Making or permitting false public voucher consists of knowingly, intentionally or willfully making, causing to be made or permitting to be made, a false material statement or forged signature upon any public voucher, or invoice supporting a public voucher,

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

with intent that the voucher or invoice shall be relied upon for the expenditure of public money. Whoever commits making or permitting false public voucher is guilty of a fourth degree felony.

NMSA 1978 Section 30-36-4. *Worthless checks:* It is unlawful for a person to issue in exchange for anything of value, with intent to defraud, any check, draft or order for payment of money upon any bank or other depository, knowing at the time of issuing that the offender has insufficient funds in or credit with the bank or depository for the payment of such check, draft or order in full upon its presentation.

NMSA 1978 22-8-37. *Public school funds:* Except for money received for a cafeteria or for an activity fund, all money for public school purposes distributed to a school district, or collected by a county, school district or public school authorities for a school district, shall be delivered to and kept by a county treasurer or a board of finance of a school district in funds approved by the division. Disbursements from these funds shall only be made for matured debts by voucher and warrants or checks of the local school board. In no event shall any money be expended or debts incurred except as authorized by the Public School Finance Act. Money for a cafeteria or for an activity fund shall be deposited in a bank, or in a savings and loan association whose deposits are insured by an agency of the United States, or may be deposited in a credit union, as long as the credit union deposit is insured by an agency of the United States, approved by the local school board. The local school board may deposit any cafeteria funds, any activity funds or any other funds in one or more accounts with any such bank or insured savings and loan association in its county, but no local school board, in any official capacity, shall deposit any cafeteria funds, any activity funds or any other funds in any one such savings and loan association the aggregate of which would exceed the amount of federal savings and loan insurance corporation insurance for a single public account. As used in this section, "deposit" includes share, share certificate and share draft.

District Policy Manual and Administrative Regulations – October 29, 2014 G-0650 Staff Ethics. We, professional educators of New Mexico, affirm our belief in the worth and dignity of humanity. We recognize the supreme importance of the pursuit of truth...We affirm and accept our responsibility to practice our profession according to the highest ethical standards.

District Policy Manual and Administrative Regulations – October 29, 2014 G-0750 Staff Conduct. All employees of the District are expected to conduct themselves in a manner consistent with effective and orderly education and to protect students and District property.

**Effect**



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Allegations of fraud causes a decrease in public trust of the District. There is potentially fraud and embezzlement of public funds that taxpayers, teachers, parents, staff, and students worked so hard to obtain for their Schools. There are costs associated with auditing these situations further.

**Cause**

The District did perform background checks before hiring the Bookkeeper, first as an Educational Assistant (EA), in 2008. However, the Bookkeeper's embezzlement case at her former employer, New Mexico Educators Federal Credit Union, was pending indictment and did not come up on the background check.

The District's internal controls and accountability were not strong enough to prevent and detect fraud or errors.

**Recommendation**

We recommend the Board of Education, the Audit and Finance Committees, Administration, Principals, and other staff should assess risk and put into place strong controls and accountability to prevent and detect any future fraud or noncompliance.

**Management Response**

**Corrective Action(s):** The Finance Department will conduct on-going financial trainings with all directors, principals and bookkeepers. The Finance Department will update the Manual of Procedures Activity Fund Guidelines to include details of segregation of duties, procurement, bank reconciliations, Request for Fundraiser Approval Forms. Manuals will be distributed to all school sites and departments. Procure outside financial training for the Board members.

**Responsible person(s):** Chief Financial Officer and Business Manager

**Timeline of corrective action:** Initial training were held with all directors, principals and bookkeepers on August 5, 2016 and August 18, 2016. All participants received an updated manual. All future trainings participants will receive updated manuals. Quarterly trainings are scheduled for FY17. Present a Board training proposal to the Board members by January 2017.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-002 Lack of Segregation of Duties over Activity Funds**

**Type of finding:** Material Weakness

**Finding category:** Segregation of Duties

**Statement of Condition**

While reviewing the policies, procedures and internal controls processes in place at WD/LE, we ascertained that the same person (WD/LE Bookkeeper) who received the cash receipts also made the deposits into the bank accounts and reconciled the bank account. The same person that received the invoices for goods or services delivered and followed up on vendor calls, created POs, wrote the checks, obtained the Principal's signature, sent checks, and reconciled the bank account. There is a lack of controls in place to ensure separation of duties at the Schools. This lack of checks and balances allowed the Bookkeeper to maintain a "second set of books" and seemingly mislead her co-workers, superiors, vendors, and even parents.

**Criteria**

A strong system of controls requires separation between custody of assets, recording of transactions and authorization of transactions. If a small number of employees does not allow for proper separation of duties, deep supervisory reviews should be used to compensate for the lack of separation of duties.

New Mexico PED PSAB Supplement 2 - Internal Control Structure - CONTROL ACTIVITIES AND PROCEDURES. Control activities are the internal policies and procedures that help ensure district directives are carried out. These policies and procedures help ensure necessary actions are taken to address risks to achieving the school district's objectives. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets, and segregation of duties. Control procedures are those processes in addition to the control environment and accounting system that the district or charter school has established to provide reasonable assurance that specific school district objectives will be achieved. Control procedures have various objectives and are applied at various organizational and data processing levels. They may also be integrated into specific components of the control environment and the accounting system. PSAB Supplements 7 through 14 address defined processes for the subject of each Supplement coupled with a sample Risk Assessment Analysis worksheet for each process.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Central Focus Points are: *Assess Risk & Determine Needs, Monitor & Evaluate, Promote Awareness, and Implement Policies and Controls*. Certain basic internal control structure concepts will not vary from one school district to the next (6.20.2.11, NMAC Internal Control Standards). Each school district will devise, establish and maintain a written structure of internal administrative and accounting controls to provide: Segregation of responsibilities which is also known as division of duties shall be established and implemented. The three main duties to be segregated are the authorization to execute a transaction, the recording of the transaction, and the custody of assets involved in the transaction. A system of authorization and recording procedures shall be adopted by the local school board and implemented by the school district.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics. As governments increasingly respond to the demands for fiscal and operational accountability, best practice dictates the creation of strong controls surrounding activity funds, including assurance that all transactions are recorded and reported in district and charter school financial records. Additionally, at a minimum, proper lines of authority combined with strong control practices, such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting, are the elements to protect against error, waste, fraud or misuse.

**Effect**

Theft and errors remained undetected since proper controls are not in place over cash receipts, payables, and disbursements.

**Cause**

Separation of duties over cash receipts and disbursements is difficult to achieve in a small office environment at the Schools. It has also been difficult because WD has not retained a consistent Principal over time.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**Recommendation**

Although the Schools have limited administrative staff, steps could be taken to separate incompatible duties between the Schools' offices and Central Office. The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction.

For the Cash Receipts transaction cycle, there should be adequate segregation of duties among those who:

- Collect accounts receivable
- Open the mail or copy checks received
- Prepare deposits
- Compare the listing of receipts received daily to the bank receipt of daily deposit
- Post cash receipts to the activity funds' sub-ledgers (by PTO, Students, Teachers, etc.)
- Review the activity fund reconciliations
- Authorize write-offs or adjustments
- Independently investigate discrepancies or issues related to revenue
- Process staff/parent calls and complaints
- Reconcile bank accounts
- Perform surprise audits

For the Cash Disbursements transaction cycle, there should be adequate segregation of duties among those who:

- Review, authorize, or sign checks
- Initiate checks for expenditures such as Purchase Requisitions and Purchase Orders
- Prepare checks
- Mail checks
- Order checks
- Edit the Vendor master file
- Independently investigate discrepancies or issues involving expenditures
- Process staff and Vendor calls and complaints
- Open the mail or copy checks received
- Receive invoices to be paid
- Reconcile bank accounts
- Perform surprise audits

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Having duties and even more importantly *access* to the different areas in a particular transaction cycle separated with strong independent reviews is critical to prevent and detect fraud and errors.

**Management Response**

**Corrective Action(s):** The Finance Department will conduct on-going financial trainings with all directors, principals and bookkeepers. All participants received an updated manual. All future trainings participants will receive updated manuals.

**Responsible person(s):** Chief Financial Officer and Business Manager

**Timeline of corrective action:** Initials training were held with all directors, principals and bookkeepers on August 5, 2016 and August 18, 2016. Quarterly financial trainings are scheduled for FY17.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-003 Inadequate Controls over Activity Fund’s Cash Receipts and Fundraisers**

**Type of finding:** Material Weakness

**Finding category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Condition**

The District could not provide a complete listing of cash receipts or documentation to support review and approval of WD/LE revenues. We could not thoroughly test for compliance with the Public Monies Act regarding the requirement to deposit funds within 24 hours after receipt since very few cash receipts tickets could be matched to bank statement deposits. Many cash receipts (funds collected) were never captured as deposits and never recorded as revenue in the activity fund reconciliations prepared for audit. The Finance Department and WD Principal did not compare revenues to fundraisers and events. When the PTO officers and the LE Principal compared their expected revenues, they were reasonable because the Bookkeeper provided them with a “second set of books” showing them balances they expected. These spreadsheets did not agree to the activity fund reconciliations submitted to the Finance Department. Cash receipts were not reconciled to the general ledger daily, as activity funds are not tracked in the District’s general ledger (Visions). It was reported to us by several witnesses that the Bookkeeper had “lost” a \$5,000 deposit and found it later in her closet in her office. The School copied checks that were received; however, these were missing. The Bookkeeper kept black butcher paper on her window and would frequently close her door and tell the front office staff that she couldn’t be bothered.

The District has a policy that all fundraisers must be approved by the Superintendent. However, this policy was not enforced and the fundraisers were not being reconciled by anyone to the activity funds’ bank account. We noted there were not two signatures on the fundraiser triplicate forms, even though the cash was originally counted under dual control and then left with the Bookkeeper to deposit.

**Criteria**

District Policy Manual and Administrative Regulations – October 29, 2014 D-3300. Cash in School Buildings Monies collected by school employees shall be handled in accordance with prudent business procedures. All monies collected shall be receipted, accounted for, and directed without delay to the proper location of deposit. In no case shall money be left overnight in school buildings, except in safes provided for safekeeping of valuables.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Strong internal controls require review and approvals throughout accounting processes. This includes segregation of duties for receiving, depositing and posting receipts. A thorough review and approval of all deposits and retention of related documentation is essential.

Control Environment Attitudes, awareness, and actions of management, as well as those charged with governance, demonstrate the District's commitment to accurate accounting and financial reporting and compliance with provisions of laws, regulations, contract, and grant agreements relative to federal programs. The District should demonstrate a commitment to integrity and ethical values. The governing body must demonstrate independence from administration in exercising oversight of the development and performance of internal control over financial reporting and its compliance with laws, regulations, and the provisions of contracts or grant agreements relative to federal award programs. With governing body oversight, administration establishes structures, reporting lines, and appropriate authorities and responsibilities to achieve financial reporting objectives and compliance objectives relative to major programs. The District should demonstrate a commitment to attract, develop, and retain competent individuals in alignment with financial reporting objectives and compliance objectives relative to major programs. The District must hold individuals accountable for their internal control responsibilities and compliance objectives relative to major programs.

District Policy Manual and Administrative Regulations – October 29, 2014 J-4050 Student Fundraising Activities – October 29, 2014. Fund-raising activities by students on school premises or elsewhere as representatives of the school will be permitted only when connected with specific school activities approved by the Superintendent. The proceeds of all fund-raising activities shall be deposited in the Student Activity Fund, and funds from such activities shall be used only as specified in the Manual of Procedures for Public School Accounting and Budgeting.

New Mexico PED PSAB Supplement 2 - Internal Control Structure - CONTROL ACTIVITIES AND PROCEDURES. Control activities are the internal policies and procedures that help ensure district directives are carried out. These policies and procedures help ensure necessary actions are taken to address risks to achieving the school district's objectives. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets, and segregation of duties. Control procedures are those processes in addition to the control environment and accounting system that the district or charter school has established to provide reasonable assurance that specific school district objectives will be achieved. Control procedures have various objectives and are applied at various organizational and data processing levels. They may also be integrated into specific components of the control environment and the accounting system. PSAB Supplements 7 through 14 address

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

defined processes for the subject of each Supplement coupled with a sample Risk Assessment Analysis worksheet for each process.

Central Focus Points are: *Assess Risk & Determine Needs, Monitor & Evaluate, Promote Awareness, and Implement Policies and Controls*. Certain basic internal control structure concepts will not vary from one school district to the next (6.20.2.11, NMAC Internal Control Standards). Each school district will devise, establish and maintain a written structure of internal administrative and accounting controls to provide: Segregation of responsibilities which is also known as division of duties shall be established and implemented. The three main duties to be segregated are the authorization to execute a transaction, the recording of the transaction, and the custody of assets involved in the transaction. A system of authorization and recording procedures shall be adopted by the local school board and implemented by the school district.

Management will insure that protection of the public trust is a major focus when granting the authorization to execute business of the school district. Sound accounting practices in performance of duties and functions shall be implemented to include varied error-checking routines that may be performed in connection with record keeping and by comparing recorded amounts with existing budgets. Appropriate action shall be taken with respect to any differences. Bonding of employees handling significant amounts is required. Access to assets is permitted only in accordance with the district's authorization through written policies.

Sequential numbering of receipts, checks, purchase orders, and vouchers either on pre-printed forms or by the financial accounting system as appropriate is required. Sequences should be examined to determine any skips in numbers or any duplicate numbers. Proper safeguards to protect unused checks and other pre-numbered forms, cash prior to deposit, and other receipts, and facsimile signature plates shall be in place. Transactions shall be properly recorded on a timely basis in order to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). In addition school districts shall establish any other criteria applicable to such statements to maintain accountability for assets. Independent performance checks and proper valuation of recorded amounts such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances, and user review of computer generated reports will be performed.



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

An internal control structure is required to demonstrate the school district's ability to record, process, summarize and report financial data consistent with financial statement assertions (See PSAB Supplement 5, Financial Statements) which are: *Rights and Ownership, Existence and Occurrence, Valuation and Allocations, Completeness, and Presentation and Disclosure*. This structure shall demonstrate that the school district identifies applicable laws and regulations and designs procedures to provide reasonable assurance that the school district complies with those laws and regulations. Please refer to PSAB Supplements 5 and 6 for examples of laws and regulations the school district should be aware of when disbursing public funds and carrying out public programs.

Internal control procedures shall be established, implemented and documented via school district memos, manuals, etc. These procedures should be adopted within a school district to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure should address all school district transactions for all operating units and departments.

**Effect**

The lack of strong controls surrounding receipts greatly increases the risk for misappropriation of funds that should be for the benefit of the Schools.

**Cause**

The District did not have sufficient controls over cash receipts and activity funds.

**Recommendation**

The District must develop and implement strong policies and procedures to ensure that receipts are processed completely, recorded accurately, and approved. Cash receipts are to be deposited intact (in the same form received) promptly or stored in a secure location until the daily deposit is made. No petty cash should be used or change made from the receipts. We recommend discontinuing use of the WD "vault" cash box in the filing cabinet since it has proven to not be secure. Receipts must be counted under dual control openly, not with closed doors or before/after hours. All fundraisers must be properly approved, tracked, and reconciled to the bank account receipts. JAG recommends that Central Office be involved in the Schools' significant, material fundraisers. Policy should be approved to delineate which fundraisers this would apply to.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Individuals who prepare deposits cannot:

- Authorize rates, fees, charges
- Initiate bills to be paid to the District
- Deposit cash receipts
- Reconcile bank accounts
- Investigate discrepancies or issues related to cash

We recommend that procedures for transaction initiation and processing be formally documented as soon as possible. Written procedures, instructions, and assignments of duties will also prevent or reduce the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

**Management Response**

**Corrective Action(s):** The Finance Department will conduct on-going financial trainings with all directors, principals and bookkeepers. All participants received an updated manual. All future trainings participants will receive updated manuals. Unannounced Activity Fund audits will be conducted at a minimum of once a year. Activity Funds with findings will be audited more frequently.

**Responsible person(s):** Chief Financial Officer and Business Manager

**Timeline of corrective action:** Initial trainings were held with all directors, principals and bookkeepers on August 5, 2016 and August 18, 2016. Quarterly financial trainings are scheduled for FY17. Activity Fund audits will begin in December 2016 and continue through June 2017.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-004 Irregular Cash Receipts for Money Collected, Form of Receipts, Lack of Controls over Receipt Books**

**Type of Finding:** Material Weakness

**Finding category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Statement of Condition**

The Bookkeeper did not retain evidence that receipts are issued for all monies collected. Receipts were sometimes duplicated, as she used two receipt books – one to be audited and one for people who gave her cash and checks. CO does not specifically track the issuance, use, completion, and inventory of pre-numbered receipt books and reconcile those to the Activity Fund reconciliations turned in by the Schools. Additionally, the receipts were not kept in-tact as required. Using receipts as a petty cash fund is not allowed, but was reported by other employees as common practice in the Schools' office. It was also reported that the Bookkeeper insisted on cash payments only. An example of this is an e-mail on November 10, 2015 to the Bookkeeper from a teacher asking permission to submit two checks from reliable parents.

**Criteria**

District Policy Manual and Administrative Regulations – October 29, 2014 D-3300 Cash in School Buildings. Monies collected by school employees shall be handled in accordance with prudent business procedures. All monies collected shall be receipted, accounted for, and directed without delay to the proper location of deposit. In no case shall money be left overnight in school buildings, except in safes provided for safekeeping of valuables.

District's Internal Manual of Procedures – Activity Fund Guidelines – July 2009

1. Receipt books must be pre-numbered and in triplicate.
  - White – to person turning in money
  - 1<sup>st</sup> Copy – attach to backup documentation
  - 2<sup>nd</sup> Copy – stays in receipt book
  
2. Receipts must contain the following information:
  - Name of School
  - Date
  - Receipt Number (pre-numbered)
  - Received of

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

- Amount
  - Brief description of club or account to be credited
  - List any refund with an explanation.
3. Sponsors must turn in monies received within 24 hours of raising, or receiving to the bookkeeper's office with a completed cash slip. Cash slip should include the following:
- Date
  - List currency and coins
  - Checks may be listed as a lump sum. (**Bookkeeper will attach copies of checks to the cash slip.**)
  - Description of how money was raised
  - Signature of **both**, the sponsor and the bookkeeper
- Bookkeeper will verify cash, checks, etc. while sponsor is present.  
Bookkeeper will sign off on cash slip and issue a receipt after verification is complete.  
**Reminder:** Bank interest must be receipted.
4. Issue a separate receipt for each deposit.
5. Deposits must be made within 24 hours after issuance of the receipt.
6. Attach bank receipts to the deposit slip for reference.  
**(Amount on bank receipt and deposit slip must match)**
7. Backup documentation should include the following:
- Bank Receipt
  - Copy of School Receipt
  - Copy of Cash Slip
  - Copy of Checks

**Transfers**

If you wish to transfer any amount of funds from one account to another, approval is needed from both sponsors involved. Final approval is by the principal.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**Effect**

The District is exposed to the risk of collections of money that may be misappropriated and not make it into Activity Fund accounts for benefit of the students, staff, and parents.

**Cause**

The District's controls were not strong enough over cash receipts and many people trusted the Bookkeeper without verification.

**Recommendation**

The District should maintain tight controls over receipts for money collected and track the pre-numbered receipt books. These should also be reconciled to the monthly reports Bookkeepers submit and to the Fundraisers the Superintendent approves.

**Management Response**

**Corrective Action(s):** The Finance Department will conduct on-going financial trainings with all directors, principals and bookkeepers. All participants received an updated manual. All future trainings participants will receive updated manuals. The Finance Department will issue each school and department uniform, pre-numbered receipt books that include the site's name and address to prevent the use of unauthorized receipts. The Finance Department will train all employees that handle funds in the proper receipting procedures. An example of a proper receipt will be posted in each location at the bookkeeper's office to ensure that no inappropriate receipts can be issued. The approved Bernalillo Public Schools Request for Fundraiser Approval forms, which will include projected revenue, will be maintained in the Finance Office and compared to monthly reconciliations. Principals and Directors will have to justify discrepancies in writing.

**Responsible person(s):** Chief Financial Officer and Business Manager

**Timeline of corrective action:** Initial trainings were held with all directors, principals and bookkeepers on August 5, 2016 and August 18, 2016. Quarterly financial trainings are scheduled for FY17. Pre-numbered receipt books for each location will be implemented and sample posted by January 1, 2017. Implementation of the BPS Request for Fundraiser Approval forms was implemented July 1, 2016.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-005 Inadequate Internal Controls over Activity Fund’s Cash Disbursements, Purchases, and Accounts Payable**

**Type of finding:** Material Weakness

**Finding category:** Expenses and Expenditures - Payables

**Condition**

During forensic testing, we found that the Schools did not always have requisitions and invoices to support activity fund expenditures or liabilities. Due to the lack of documentation, we could not document that invoices went through a review and approval process and we could not test the validity of certain payments or amounts due to vendors. Generally, vendors were paid months late or not at all and complaints via email, phone calls, or faxes would be routed to the WD/LE Bookkeeper who was in charge of paying the vendors. Even when communications went to the Business Manager at CO or to the WD/LE Principals, they referred the Vendor back to the Bookkeeper and there were no consequences.

We discovered emails from various people asking the Bookkeeper to pay vendors months past the due dates. In many cases, the late payments would prohibit the Schools from obtaining goods or services. The Bookkeeper always had excuses such as: the Finance Department had a bad run of checks, she had already paid the vendor, she was confused about funding sources, that she did not have a requisition or purchase order, that she had sent checks to the Business Manager who would not release them, the checks got lost in the mail, etc.

Here are certain examples of the WD/LE Bookkeeper not paying vendors timely:

- School Specialty, Frey Scientific, Sportime – As far back as March 17, 2010 the Business Manager (Accounts Payable then) emailed the Bookkeeper regarding a call she had received from a vendor on three unpaid invoices.
- HP – On June 15, 2011, HP emailed the Business Manager, the Bookkeeper, WD Principal, and others regarding 5 invoices from June of 2010 and 2011 and 3 invoices coming due that month, which totaled \$58,398.22. The Bookkeeper sent her supervisor, WD Principal, an email stating, *“I am looking in to this right away. I sent this for payment months ago. I will let you know the status.”*
- Transportation – On April 24, 2014, the Transportation Department of the District emailed the Bookkeeper regarding past due amounts for a WD field trip on 11/25/13.
- Lakeshore Learning Materials – The Business Manager emailed the WD/LE Bookkeeper on November 19, 2015 regarding 4 invoices outstanding invoices dated 05/05/15, 05/05/15, 06/25/15, and 08/14/15 totaling \$1,721.91. The Business Manager stated, *“I*

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

*am in receipt of a statement from Lakeshore requesting payment for the following. Please submit as soon as possible as the vendor has made numerous calls.”*

- Scholastic Book Fair – The WD Librarian emailed the Bookkeeper on April 28, 2015 about a book fair payment to Scholastic that they had not yet received. The invoice was dated 03/30/2015 totaling \$2,538.90 and was overdue. The vendor would not allow the Fall book fair until this invoice was paid. After the Fall book fair, the Bookkeeper did not pay Scholastic again and the WD Librarian emailed and called the Bookkeeper and the Business Manager numerous times, through 02/11/2016.
- Barnes & Noble – Employee emailed the Bookkeeper on April 8, 2015 requesting: “CAN I HAVE A SUPERVISOR TO CONTACT ME ON SOME TRANSACTIONS ON YOUR ACCT PLEASE”. We see one invoice with the email for 9 books purchased on 01/26/2015 for \$50.31.
- Teaching Strategies – On April 27, 2015, the LE Principal emailed the Bookkeeper an email regarding a past due invoice dated 01/26/15 for \$2,465.
- Blake’s Lotaburger – The Bookkeeper received two emails, one on May 16, 2015, regarding past due invoice from Blake’s for \$90. We did not see email responses.
- Dion’s – Email on May 27, 2015 from Dion’s reflects a conversation with the Bookkeeper and a reminder to pay an outstanding invoice for \$66.
- Really Good Stuff – Purchase Order #201502061 totaling \$1,315.44 was dated on 06/04/15 with a current status of Closed. However, the Bookkeeper emailed on November 4, 2016 a confusing explanation to the Business Manager about why it had not been paid, with a claim that she had sent payment on 10/22/15 and that the Finance Department did not process her payment.
- 4imprint, Inc. – On December 14, 2015 the vendor emailed the Bookkeeper regarding a past due invoice dated 08/03/2015 with a notification that they would not process their current order until the old invoice was paid. The Bookkeeper responded that a check was sent that day for \$497.98.
- Cooperative Educational Services (CES) – On January 7, 2016 CES employee emailed the Bookkeeper that invoices from 8/31/2015, 10/30/2015, 11/16/2015, and 11/30/2015 totaling \$2,543.90 were past due and that this was the same issue as last year (2014).
- Believe Kids – According to the PTO Vice-President, she had difficulty with the Bookkeeper paying Believe Kids after these fundraisers (normally around \$15-20,000 per year). She would remind her for months with no resolution. At the time the Bookkeeper was terminated, she had not yet paid the vendor for the fall fundraiser despite multiple reminders from the PTO Vice-President.

After the Bookkeeper failed to report back to duty, and the District began to investigate, it became necessary to call all vendors to determine balances the Schools owed. The District paid

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

\$25,276 from the School's general fund monies to cover what the activity fund should have been able to pay (had the funds been deposited appropriately).

<b>Vendor</b>	<b>Amount</b>
4 Imprint, Inc.	\$ 227
Believe Productions Inc.	2,234
City of Albuquerque	2,103
Cookies By Design	68
Kenneth Brown Photography	911
McCall's Pumpkin Patch	6,826
Midway Office Supply Center, Inc.	332
National Center for Fathering	396
NM Museum of Natural History & Science	1,419
Oriental Trading Company, Inc.	904
Scholastic Book Fair	5,498
Scholastic, Inc.	2,511
School Specialty, Inc.	290
Simply One Stop LLC	1,509
Smith's Food and Drug Centers, Inc.	48
<b>Total General Fund Payments</b>	<b>\$25,276</b>

Our forensic procedures also identified stale dated outstanding checks through September 2014. It appears the Bookkeeper held these checks for months (crossing fiscal years) and then presented them for payment all in one day.

<b>Checks Clearing on October 17, 2014</b>				
<u>PO</u>	<u>Check #</u>	<u>Check Date</u>	<u>Payee</u>	<u>Amount</u>
1043	3194	3/14/2014	Albertsons	\$ 114.46
1041	3199	3/15/2014	Albertsons	38.53
1091	3200	3/25/2014	Albertsons	42.46
1052	3229	6/4/2014	Albertsons	53.87
1055	3230	6/4/2014	Albertsons	134.26
1085	3231	6/4/2014	Albertsons	66.51
1076	3232	6/4/2014	Albertsons	41.88
1083	3233	6/4/2014	Albertsons	94.94
				<u>\$ 586.91</u>



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

It also appears that the Bookkeeper would write checks to Sam's Club since they would allow gift cards to be purchased without a District PO. Wal-Mart would reportedly not accept the Bookkeeper's POs or checks. Some of the Sam's Club/Wal-Mart transactions appear to be in Belen, New Mexico.

**Criteria**

District Policy Manual and Administrative Regulations – October 29, 2014 D-1800 Authorized Signatures. Authorized signatures for all checking accounts shall be approved by the Board. All checks, except in case of an emergency authorized by the business office, will be generated electronically. The signatures of the officials approved by the Board appear on each check. These signatures may be affixed by use of signature plates. The business office is responsible for the security of all signature plates. The business office shall be responsible for the justification and origination of all District issued checks. 6.20.2.12 NMAC

District's Internal Purchasing and Payables Guidelines – February 23, 2011. The District does utilize these internal procedures for purchases and payables; however, it appears to apply mainly to payments which flow through Visions. The Guidelines do specifically state, "All invoices are to be paid on a timely basis. Invoices for August should be paid either end of August or first week of September and so on. Account Payable should not be paying invoices for August in December, January February, etc."

District's Internal Manual of Procedures – Activity Fund Guidelines – July 2009

**Disbursements/Expenditures**

1. The individual issuing checks must have a signed copy of a purchase order and invoice before issuing any checks.
2. Checks must be pre-numbered, in duplicate, require two signatures and have corresponding check stubs with running balance.
3. All check numbers must be accounted for, including voided checks. Notify Central Office immediately if a check is lost or stolen.
4. Prepayments/advances/reimbursements: for any reason must be justified by the principal and noted on the requisition and on the purchase order. If the principal, bookkeeper or any other "authorized signer" on the account is requesting a reimbursement or purchase, it must be approved by the Finance Director at Central Office. The Finance Director will approve these reimbursements and/or purchases and will co-sign the check.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

- All receipts or invoices must be turned in to the bookkeeper and attached to the voucher/purchase order within 24 hours of purchase.
- 5. Under no circumstances should expenditure or a purchase order be allowed if a club is short of funds, in the red, or have a zero balance.**
- 6. No checks will be allowed to be made out to “cash”.
- 7. No post-dated checks will be allowed.

**Outstanding Checks**

List any outstanding checks at the end of the month for reconciliation. Void after one year of check date. Check may be reissued or funds may be returned to club/class.

**Requisitions/Purchase Orders**

1. Staff will send requests (requisition) to principal for approval.
2. Requisitions must be complete with all required information before the bookkeeper will issue a purchase order.
3. A requisition is not a purchase order and cannot be used to purchase. When the purchase order is issued, the principal will authorize process for hand delivery, fax, or mail to vendor.
4. A requisition and purchase order must be signed by the principal before purchase.
5. Any staff purchasing items before the purchase order has been approved and signed by the principal **will not be reimbursed** for that purchase.

**Effect**

The District’s reputation has suffered negatively. There may have been late fees or interest paid. The balances owed were not completely known due to lack of controls.

**Cause**

It appears that due to a cash-skimming fraud scheme, the Bookkeeper did not have enough funds in the activity fund bank account to pay all the vendors timely.

**Recommendation**

It is recommended that the District develop and implement sound policies and procedures related to the review and approval of invoices. Additionally, documents must be safeguarded.

Checks must be pre-numbered, the sequence and any voids are accounted for regularly, and unissued checks are controlled and kept in a secure location. Bank statements must be reviewed

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

carefully in a timely fashion. POs should be issued after an approved Requisition and before the commitment to purchase. All documents should be on file and support the purchase.

**Management Response**

**Corrective Action(s):** The Finance Department will investigate the available options for a centralized, automated activity fund system.

**Responsible person(s):** Chief Financial Officer

**Timeline of corrective action:** The Chief Financial Officer will submit a proposal for Board approval to the Board by the January 2017 Board meeting.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-006 Override of Controls over Information Technology – Passwords**

**Type of finding:** Material Weakness

**Finding category:** Lack of Policies, Procedures, and Internal Control Structure or Environment  
**Condition**

During our review of the Bookkeeper’s emails, we noted that her husband provided her with another employee’s password on October 18, 2012 and another email regarding a password was “done” on August 17, 2015.

There were also reports at the two Schools of the Bookkeeper knowing information only communicated between the two Principals and the CFO. This created great concern that the Bookkeeper’s husband, an IT employee and/or her cousin, WD Attendance Monitor, was monitoring the internal investigation in some way. His account access was cut on April 8, 2016, as he was on FMLA leave. The District had already backed up her hard drive, her network directory, archived her emails, and disconnected her computer from the network.

**Criteria**

Best practices and a strong internal control system require safeguarding the District’s information and assets. Additionally, the District’s computers may not be used to engage in any illegal acts.

District’s Acceptable [IT] Use Policy – July 14, 2006. 2. Illegal Activities a. Users will not attempt to gain unauthorized access to the district system or to any other computer system through the District System, or go beyond their authorized access. This includes attempting to log in through another person’s account or access another person’s files without expressed written permission. c. Users will not use the District system to engage in any other illegal act. 3. System Security a. Users are responsible for the use of their individual account and should take all reasonable precautions to prevent others from being able to use their account. Under no conditions should users provide their password to another person.

**Effect**

Without these controls, the entity is at more risk for identity theft, loss of data, loss of funds, lack of segregation of duties, fraud, waste, abuse, and noncompliance.

**Cause**

The District does have a specific policy regarding information technology; however, the Bookkeeper and her husband allegedly chose to violate the policy.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**Recommendation**

We recommend that the District formally monitor policies and procedures over information technology, including a system for monitoring compliance and safety.

**Management Response**

**Corrective Action(s):** The District will develop and implement a comprehensive IT plan.

**Responsible person(s):** The IT Director with the assistance of Finance Department.

**Timeline of corrective action:** The plan will be developed by July 1, 2017.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-007 Untimely Activity Fund Bank Reconciliations**

**Type of finding:** Material Weakness

**Finding category:** Cash and Investments

**Statement of Condition**

The District requires the Schools' Bookkeepers to turn in a monthly reconciliation of the activity funds to CO Business Manager by the 10<sup>th</sup> of the following month. The WD/LE Bookkeeper was reminded frequently by the Business Manager to turn in her reports, as they were consistently late. The Bookkeeper turned in the Activity Fund Reconciliation on-time only 3 months of the 29 months tested during the period we were engaged to examine. The reports frequently had errors and omissions and did not agree to the "second set of books" she maintained for the PTO, the Teacher, and the LE account balances. The following chart summarizes exceptions found during our forensic testing:

Month/Year of Reconciliation	Due Date	Date Submitted to Finance Department	Days Late (After 10th of Month)	Exceptions Found During Forensic Testing
June 2013	7/10/2013	9/5/2013	57	1. Outstanding checks were on the check register checked off as cleared.
				2. Second set of books does not match amount reported to district office, and checks and deposits do not match.
July 2013	8/10/2013	9/5/2013	26	1. No checks listed on register or outstanding check list but statement shows checks.
				2. Nothing posted for July in second set of books.
August 2013	9/10/2013	9/18/2013	8	1. No activity fund spreadsheet.
				2. Missing check register.
				3. Deposit for \$876.00 is on second set of books but not the activity account sheet.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

<b>Month/Year of Reconciliation</b>	<b>Due Date</b>	<b>Date Submitted to Finance Department</b>	<b>Days Late (After 10th of Month)</b>	<b>Exceptions Found During Forensic Testing</b>
September 2013	10/10/2013	10/22/2013	12	1. Outstanding checks were on the check register checked off as cleared.
				2. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				3. Deposit for \$642.25 (Winefest) on second set of books is on activity account sheet for \$3,178.00
October 2013	11/10/2013	12/2/2013	22	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Simply one stop payment of \$1,131.50 on second set of books is dated 10/18/13 but did not clear 11/26/13.
				3. Deposits of \$44.00, \$961.00 and \$212.00 are on second set of books but not on activity account sheet.
November 2013	12/10/2013	12/18/2013	8	1. Outstanding checks were on the check register checked off as cleared.
				2. Second set of books does not match amount reported to district office, and checks and deposits do not match.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Month/Year of Reconciliation	Due Date	Date Submitted to Finance Department	Days Late (After 10th of Month)	Exceptions Found During Forensic Testing
				<p>3. Checks written for \$18.25 (Oriental Trading), \$1550.00 (McCall's Pumpkin Patch), \$108.00 (BPS Transportation), and \$58.13 (Wagner's Pumpkin Patch) is on the second set of books but not on the activity account sheet (also note they were not posted in the following month of December).</p> <p>4. Deposit of \$44.00 from October is deposited a month later according to this statement.</p>
December 2013	1/10/2014	1/23/2014	13	<p>1. Second set of books does not match amount reported to district office, and checks and deposits do not match.</p> <p>2. Deposit for \$232.66 on the second set of books is not on the activity account sheet this month or the next.</p> <p>3. Payment to Simply One Stop in the amount of \$1,002.00 is on the second set of books but not on the activity account sheet until 1/21/14.</p>
January 2014	2/10/2014	2/20/2014	10	<p>1. No activity fund spreadsheet</p> <p>2. Check written for \$114.46 (Albertsons) is on the second set of books but not on the activity account sheet.</p>



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

<b>Month/Year of Reconciliation</b>	<b>Due Date</b>	<b>Date Submitted to Finance Department</b>	<b>Days Late (After 10th of Month)</b>	<b>Exceptions Found During Forensic Testing</b>
February 2014	3/10/2014	3/14/2014	4	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Deposit for \$1,250.75 is on the second set of books but not on the activity account sheet.
March 2014	4/10/2014	4/15/2014	5	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Checks written to the Natural History Museum for \$1,412.25 (cleared in June) and to the City of Albuquerque for \$568.50 and \$175.50 are on the second set of books but not on the activity account sheet.
				3. Deposits of \$475.00 and \$175.50 are on second set of books but not on the activity account sheet.
April 2014	5/10/2014	5/23/2014	13	1. Nothing posted for April in second set of books.
May 2014	6/10/2014	6/6/2014	0	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Check written to Oriental Trading for \$42.96 on the second set of books is not on the activity account sheet.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Month/Year of Reconciliation	Due Date	Date Submitted to Finance Department	Days Late (After 10th of Month)	Exceptions Found During Forensic Testing
				3. Deposits of \$616.93, \$494.00, and \$385.00 are on the second set of books but not on the activity account sheet.
June 2014	7/10/2014	No Date Stamp	Unknown	1. No date stamp. 2. Second set of books does not match amount reported to district office, and checks and deposits do not match.
July 2014	8/10/2014	8/6/2014	0	1. No checks listed on register or outstanding check list but statement shows checks. 2. Nothing posted for July in second set of books.
August 2014	9/10/2014	9/11/2014	1	1. No activity fund spreadsheet. 2. Check written to Teacher Heaven for \$393.69 is on the second set of books but not on the activity account sheet. 3. Deposits for \$330.00 and \$112.00 are on the second set of books but not on the activity account sheet.
September 2014	10/10/2014	10/14/2014	4	1. Second set of books does not match amount reported to district office, and checks and deposits do not match. 2. Checks written for \$35.91 (Barnes & Noble) and \$1,550.16 (Simply One Stop) are on the second set of books but not on the activity account sheet.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Month/Year of Reconciliation	Due Date	Date Submitted to Finance Department	Days Late (After 10th of Month)	Exceptions Found During Forensic Testing
October 2014	11/10/2014	11/21/2014	11	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Checks written for \$108.97 (Albertsons) and \$2,220.00 (McCall's Pumpkin Patch) are on the second set of books but not on the activity account sheet.
				3. Deposit of \$130.00 is on the second set of books but not on the activity account sheet.
November 2014	12/10/2014	12/15/2014	5	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Deposit of \$1,032.45 is on the second set of books but not on the activity account sheet.
December 2014	1/10/2015	2/13/2015	34	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Deposit of \$122.00 is on the second set of books but not on the activity account statement.
				3. Check written for \$82.03 is on the second set of books but not on the activity account sheet.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

<b>Month/Year of Reconciliation</b>	<b>Due Date</b>	<b>Date Submitted to Finance Department</b>	<b>Days Late (After 10th of Month)</b>	<b>Exceptions Found During Forensic Testing</b>
January 2015	2/10/2015	2/27/2015	17	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Deposits of \$338.00, \$1108.50, and \$134.00 are on the second set of books but not on the activity account sheet.
				3. Checks for \$1,419.00 (NM Museum of Natural History) and \$252.14 (Oriental Trading) are on the second set of books but not on the activity account sheet.
February 2015	3/10/2015	3/16/2015	6	1. No activity fund spreadsheet.
				2. Checks for \$114.66 (Albertsons), \$56.53 (Albertsons), \$50.31 (Barnes & Nobe), and \$35.91 (Barnes & Noble) are on the second set of books but not on the activity account sheet.
				3. Deposit of \$614.00 are on the second set of books but not on the activity account sheet.
March 2015	4/10/2015	4/15/2015	5	1. Deposit amount does not agree to bank statement.
				2. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				3. There is a \$50.00 check on the activity account sheet but not on second set of books.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

<b>Month/Year of Reconciliation</b>	<b>Due Date</b>	<b>Date Submitted to Finance Department</b>	<b>Days Late (After 10th of Month)</b>	<b>Exceptions Found During Forensic Testing</b>
April 2015	5/10/2015	6/3/2015	24	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Deposit of \$733.65 is on the second set of books but not on the activity account sheet.
May 2015	6/10/2015	6/3/2015	0	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				2. Multiple checks written for a total of \$2,864.98 is on the second set of books but not on the activity account sheet.
				3. Deposit of \$461.93 is on the second set of books but not on the activity account sheet.
June 2015	7/10/2015	7/27/2015	17	1. Missing Ann's signature or initials.
				2. Second set of books does not match amount reported to district office, and checks and deposits do not match.
July 2015	8/10/2015	8/18/2015	8	1. Nothing posted for July in second set of books.
August 2015	9/10/2015	9/22/2015	12	1. Second set of books does not match amount reported to district office, and checks and deposits do not match.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Month/Year of Reconciliation	Due Date	Date Submitted to Finance Department	Days Late (After 10th of Month)	Exceptions Found During Forensic Testing
				2. Check written for \$68.40 (Cookies By Design) is on the second set of books but not on the activity account sheet.
September 2015	10/10/2015	10/9/2015	0	1. Outstanding checks were on the check register checked off as cleared.
				2. Second set of books does not match amount reported to district office, and checks and deposits do not match.
				3. PTO account activity not accurately tracked and submitted to District's office.
				4. Check for \$98.32 (Albertsons) is on the second set of books but not on the activity account sheet.
October 2015	11/10/2015	11/24/2015	14	1. Outstanding checks were on the check register checked off as cleared 2. No activity fund spreadsheet
				2. Check for \$3080.00 (McCall's Pumpkin Patch) is on the second set of books but not on the activity account sheet.
				3. Deposit of \$3,042.90 is on the second set of books but not on the activity account sheet.
November 2015	12/10/2015	N/A	N/A	1. Reconciliation was not completed.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Month/Year of Reconciliation	Due Date	Date Submitted to Finance Department	Days Late (After 10th of Month)	Exceptions Found During Forensic Testing
				2. Checks written for \$20.00 (Albertsons), \$54.00 (Scholastic), and \$46.00 (Scholastic) are on the second set of books but not on the activity account sheet.
December 2015	1/10/2016	N/A	N/A	1. Reconciliation was not completed and no activity on the second set of books.
January 2016	2/10/2016	N/A	N/A	1. Reconciliation was not completed. 2. Deposit for \$700.00 (Beerfest) and \$10.00 are on the second set of books but not on the bank statement.
February 2016	3/10/2016	N/A	N/A	1. Reconciliation was not completed. 2. Check written for \$1508.50 is on the second set of books but not on the bank statement.
March 2016	4/10/2016	N/A	N/A	1. Reconciliation was not completed.

**Criteria**

Best practices dictate that bank reconciliations should be performed monthly in order to enhance timeliness of the financial information as well as timely authorization of corrections necessary. To fully comply with NM State Statutes, the District must provide complete books and records for audit.

NMSA 1978 Section 6-10-2 states that it is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

daily so as to show the balance of public money on hand at the close of each day's business. Except as may be otherwise provided by law, the cash record is a public record and is open to public inspection.

NMSA 1978 Section 14-2-5. Inspection of Public Records Act (IPRA) indicates that the public is entitled to the greatest possible information and documents are to be made available to the public.

District Policy Manual and Administrative Regulations – October 29, 2014 D-2200 Accounting System – The District shall establish and maintain a general ledger in accordance with generally accepted accounting practices (GAAP). The general ledger will be comprised of individual funds and account groups using the State Public Education Department (PED) uniform chart of accounts. 6.20.2.13 NMAC

District's Internal Manual of Procedures – Activity Fund Guidelines – July 2009

**Reconciliation**

1. Bank statements must be reconciled as soon as received each month.
2. Activity Fund Reports are to be turned in to Central Office by the **10<sup>th</sup> of each month** (attention: Business Manager) and should include the following:
  - ✓ Activity Fund Cover Sheet
  - ✓ Account Summary
  - ✓ Check Register
  - ✓ Receipt Register
  - ✓ Outstanding Check List
  - ✓ Bank Statement
  - ✓ Balance Sheet(If for any reason you cannot meet this deadline, please notify the finance department.)
3. Receipt numbers should be accounted for including voided receipts.
4. Check numbers must be accounted for including voided checks.
5. Central Office will schedule a visit with each school to check procedures, verify balances, answer questions, make any adjustments, and verify that deposits equal receipts.
6. If any procedure is not followed, your activity fund will be subject to review by an auditor and subject to discontinuation.



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**Effect**

Potential fraudulent disbursement of District funds or theft of cash receipts could go undetected for long periods of time if bank and individual activity accounts by type (PTO, Teachers, LE, WD, etc.) are not reconciled and approved in a timely manner.

**Cause**

Unknown

**Recommendation**

We recommend the District perform activity funds reconciliations on a monthly basis and make any necessary corrections at the time of reconciliation. For future years, all supporting documentation for accounts should be provided with the reconciliations.

JAG recommends that BPS consider the following items to strengthen internal controls over activity fund reconciliations compliance to prevent fraud, errors, or noncompliance from occurring in the future:

- Communicate from the top down the expectation that employees elevate instances such as this up the chain of command or even to an anonymous hotline. This situation may have been alleviated if those involved had brought the urgency to the CO or other agency, who could have interceded in the process and initiated discussions with the employee sooner. Employees should be trained to report any red flags or hunches that something is not right.
- Quality control procedures, perhaps with a checklist, should be created for those preparing and reviewing Bookkeepers' work. The person performing the quality control review (someone other than the preparer or approver, independent of the process) will carefully check details such as dollar amounts agree to the bank statements, dates, fundraisers, copies of receipts, and other items.
- There should be consequences for not following deadlines, job requirements, and corrective action plans.
- Some of the most important steps are to track the pre-numbered receipts and tie them to the bank statements and tie them to the revenue activities.
- Require that all vendor complaints go to an independent person not involved with the activity funds or with Accounts Payables.
- Require that all vendor invoices be sent to Central Office.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

- Reports of the Schools' activity funds' reports and balances by purpose should be shared between all staff in a central location, such as a network drive. Signoffs indicating review of the information should be included with signatures and dates of approval. The data must be updated daily as required.
- Key personnel, including Bookkeepers and their Principals, should have annual training in purchasing and procurement, internal controls, reconciling, safeguarding assets, Board of Education policies, PED regulations, applicable NM State Statutes, District procedures, accountability, and the consequences for violations. The severe ramifications stated in Sections 13-1-199 and 13-1-196 (NMSA 1978) for Procurement Code violations should be communicated to all employees. It is best that the District develop and utilize handbooks and assist new hires to feel comfortable with their roles, responsibilities, and tasks.

**Management Response**

**Corrective Action(s):** The Finance Department will conduct on-going financial trainings with all directors, principals and bookkeepers. The Finance Department will update the Manual of Procedures Activity Fund Guidelines to include details of segregation of duties, procurement, bank reconciliations, Request for Fundraiser Approval Forms. Chief Financial Officer will review the bank reconciliations monthly and will communication to the Superintendent, principals and directors any discrepancies including failure to meet deadlines. Chief Financial Officer will require a corrective action plan be developed by principal or department head to address deficiencies.

**Responsible person(s):** Chief Financial Officer

**Timeline of corrective action:** Beginning with the October 2016 bank reconciliations due November 10, 2016.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-008 District’s Finance and Audit Committees of the Board of Education – Monitoring and Corrective Actions**

**Type of finding:** Material Weakness

**Finding Category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Statement of Condition**

During the forensic engagement, we reviewed the District’s prior external audit findings and summarized them in the following chart.

<b>Summary of Prior External Audit Findings Bernalillo Public School's Activity Funds</b>			
<b>Fiscal Year Ended June 30,</b>	<b>Activity Funds' Finding</b>	<b>Severity of Finding</b>	<b>Summary Description of Finding</b>
2009	FS 09-03	Significant Deficiency	Missing vendor invoices and receipts
2010	FS 09-03	Material Weakness	Missing required signatures on checks; missing check
2011	FS 09-03	Material Weakness	Missing required signatures on checks; missing check
2012	FS 09-03	Material Weakness	PO dated after order/purchase; unusual reimbursement of \$11,313.10; missing invoice; missing voided check
2013	FS 09-03	Material Weakness	Invoice dated after check; lack of proper review; check missing in sequence; voided check missing; use of temporary checks; lack of Principal signature; untimely reconciliations including WD/LE
2014	FS 2009-003	Other Matter	Missing invoice
2015	FS 2009-003	Other Matter	Invoices exceed purchase order amounts
<b>These audit Findings reported an increased risk of abuse and misappropriation of public funds. The auditors specifically recommended that management should educate the employees responsible for activity funds regarding the State Statutes and the District's Activity Fund policy and procedures, and continue to monitor each site for continuous improvement.</b>			

While the District has had the required finance and audit committees with the required members, it does not have Charters outlining the committees’ purposes, responsibilities, functions, and planned actions. The audit committee did meet with the auditors during the audit as required by state statute; however, there was no indication that either the finance or audit committee or Central Office was actively assessing risks and following up on the thorough implementation of the independent auditor’s recommended corrective actions. Repeated

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

findings year after year are red flags for administration and governance to analyze the causes and implement strong controls to take corrective action.

**Criteria**

In 2010, the 49<sup>th</sup> Legislature of the State of New Mexico passed House Bill 227, which resulted in NM Stat §22-8-12.3. This statute requires each District to create a Finance Committee and an Audit Committee, the purposes of which, we believe, are to increase accountability and transparency by providing independent oversight of District financial practices that may impact the annual external audit and District budget, revenues, expenditures, and operations. The relevant language of the bill is as follows (emphases added):

Section 1: (B) Each local school board shall appoint at least two members of the board as a finance subcommittee to assist the board in carrying out its budget and finance duties. (C) The finance committee shall: (1) make recommendations to the local school board in the following areas: (a) financial planning, including **reviews** of the school district's revenue and expenditure projections; (b) **review** of financial statements and periodic **monitoring** of revenues and expenses; (c) annual budget preparation and **oversight**; and (d) procurement; and (2) serve as an **external monitoring** committee on budget and other financial matters.

Section 1: (C) each local school board shall appoint an audit committee that consists of two board members, one volunteer member who is a parent of a student attending that school district and one volunteer member who has experience in accounting or financial matters. The superintendent and the school district business manager shall serve as *ex-officio* members of the committee. The audit committee shall: (1) evaluate the request for proposal for annual financial audit services; (2) recommend the selection of the financial auditor [to the Board]; (3) attend the entrance and exit conferences for annual and special audits; (4) meet with external financial auditors at least monthly after audit field work begins until the conclusion of the audit; (5) be accessible to the external financial auditors as requested to facilitate communication with the board and superintendent; (6) **track and report progress on the status of the most recent audit findings and advise the local school board on policy changes needed to address audit findings**; (7) **provide other advice and assistance** as requested by the local school board; and (8) be subject to the same requirements regarding the confidentiality of audit information as those imposed upon the local school board by the Audit Act and rules of the state auditor.

District Policy Manual and Administrative Regulations – October 29, 2014 B-0200 Board Powers and Responsibilities – October 29, 2014. The Board shall, in accordance with the Administrative Code of the Secretary of Education: ensure that District funds are appropriately managed and

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

disbursed; [and] be responsible for oversight of revenue and expenditures within the District budget.

District Policy Manual and Administrative Regulations – October 29, 2014 D-2150 Fiscal Accounting and Reporting. The Board is responsible for the control of all funds of the District including funds collected at individual schools. The Superintendent shall be responsible for the development and maintenance of all procedures necessary to ensure adequate fiscal control. The Superintendent and business staff shall establish and maintain a complete auditable financial system which meets all statutory and regulatory requirements and guidelines of the State of New Mexico (The Manual of Procedures for Public School Accounting and Budgeting). Such system shall be defined in administrative procedure and presented to the Board for review. 6.20.2.12 NMAC and 6.20.2.13 NMAC

District Policy Manual and Administrative Regulations – October 29, 2014 D-2300 Financial Reports and Statements. The Superintendent shall also ensure that a report of expenditures of public funds and student activity funds is provided to the Board on a monthly basis. 6.20.2.10 NMAC.

District Policy Manual and Administrative Regulations – October 29, 2014 D-0050 Fiscal Management Goals / Priority Objectives Guide the expenditure of funds to achieve the greatest educational returns. Require maximum efficiency in accounting and reporting procedures. Follow the Manual of Procedures for Public School Accounting and Budgeting (PSAB).

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics. Board of Education or Governing Council Responsibilities: The school district or charter school governing board is responsible for adopting policies over the establishment of all agency funds. These policies should include the appropriate accounting and reporting practices. Activity funds must be supported by detailed records, maintained as (sic) the school building responsible for the organization or club account. Due to the fiduciary responsibility of the BOE or Governing Council these funds are subject to the same internal controls as all other district funds.

Internal Controls over Monitoring. The District should obtain an understanding and describe how management monitors the operation of the entity's five components of internal control to make sure (a) controls are operating as intended and (b) changes to controls are made when necessary. Also describe what reports or other information (such as budget variances, reconciliations, or monthly financial reports) administration uses for that purpose and why administration considers the information reliable. Consider controls relevant to the audit. Consider the following principles: The District selects, develops, and performs ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. The District evaluates and communicates internal control deficiencies in a timely manner to those parties

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

responsible for taking corrective action, including senior administration and the governing body, as appropriate.

**Effect**

The District's finances and operations do not have the proper external monitoring and oversight. Corrective action on findings are not occurring as completely as they should. This leaves the District susceptible to fraud, waste, abuse, and errors.

**Cause**

The statutory powers of the Board of Education and its Finance and Audit Committees are not being utilized to their intended and fullest extent.

**Recommendation**

The Board of Education, through its two committees and any necessary policies, should monitor that corrective action is being taken and that all audit findings are resolved promptly. The committees should document their purposes, responsibilities, functions, and procedures to assess risks and monitor the correction of existing deficiencies in the accounting internal controls environment. The Superintendent should provide a monthly report of student activity funds' activities to the Board.

We recommend creating an Audit Committee Charter approved by the Board of Education. We have provided an example to the District's CFO. *We recommend that the Finance and Audit Committees remain active throughout the year to increase their effectiveness.* Examples of remaining active are: attending NMSBA/NMASBO finance and ethics trainings, performing random audits of activity funds, fundraisers, athletic events and concessions, requesting reports from administration on specific areas with findings or risks, evaluating internal controls, etc.

Board and committee members are principally adept at assessing risks that may exist in the District and monitoring correction of problems because they are the closest to the people – parents, children, staff, business owners, and community members – and are accountable to their constituents.

**Management Response**

**Corrective Action(s):** The Finance Department with Board approval will develop policies and procedures for the Audit Committee and Finance Committee. The committees will meet on a quarterly basis throughout the year in addition to the meetings during the Financial Audit.

**Responsible person(s):** Chief Financial Officer and Superintendent

**Timeline of corrective action:** Chief Financial Officer will present the policies and procedures to the Board at the December 2016 Board meeting.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-009 District’s Central Office Superintendent and Finance Department – Monitoring, Risk Assessment and Corrective Actions**

**Type of finding:** Material Weakness

**Finding Category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Statement of Condition**

During the forensic engagement, we reviewed the District’s prior internal audit findings and summarized them in the following chart.

<b>Summary of Prior Internal Audit Findings on BPS Activity Funds during the Period (June 1, 2013 through January 31, 2016)</b>				
<b>No Activity Fund Internal Audits for School Year 2013-2014</b>				
<b>Six Activity Fund Internal Audits for School Year 2014-2015</b>				
<b>Date of Audit by Finance Department</b>	<b>School</b>	<b>Month Audited</b>	<b>Number of Internal Findings</b>	<b>Summary Description of Findings</b>
1/16/2015	Bernalillo Middle School	November 2014	5	Purchase Orders (PO) processed untimely; PO amount not matching check; Checks and log not including complete information; State dated checks older than 12 months
1/20/2015	Bernalillo High School - Athletics	November 2014	6	Missing approval signatures on POs and Requisitions; Checks and activity fund reports not including complete information; Stale dated checks older than 12 months
1/20/2015	Bernalillo High School	October 2014	27	Purchase Orders (PO) processed untimely; Missing approval signatures; Missing invoices and receipts; Requisition and PO not matching; Incomplete check information; PO or Requisition not matching check amount; Outstanding Albertson’s invoice; Missing checks 6408-6427
1/27/2015	Santo Domingo Schools	October 2014	4	Missing Requisitions; Improper use of open PO; Checks and activity fund reports not including complete information; Void check with a signature; PO with no number and no Requisition
1/24/2015	Algodones Elementary School	November 2014	8	Missing requisitions; POs processed untimely; Voided checks with signatures; Checks, Receipts, and activity fund reports missing information
1/30/2014	Placitas Elementary School	November 2014	5	Missing POs, Requisitions processed untimely; Void check with a signature; Funds not deposited within 24 hours; Missing date stamps; Incorrect receipt payee information; Activity fund reports missing information
<b>One Activity Fund (WD/LE) Internal Audit for School Year 2015-2016</b>				

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

While the District did perform the required activity fund audits in January 2015, the audits should be conducted annually. The internal audits did check for documentation and approvals and yielded good internal recommendations to the Schools; however, the audits did not test for certain key controls such as segregation of duties, inventory and control of cash receipt logs, document retention, and fundraising reconciliations. There was no indication that Central Office was actively assessing risks, tightening up internal controls over activity funds in response to their internal findings, and monitoring the thorough correction of the findings with accountability. Multiple findings in a particular area are red flags for administration and governance to analyze the causes and implement strong controls to prevent the errors from occurring in the future.

**Criteria**

District Policy Manual and Administrative Regulations – October 29, 2014 D-2411 Audits / Financial Monitoring. Each program, instructional unit, and department shall prepare and maintain such financial records as are directed by the Superintendent. The documents shall be accurate and of essential sufficiency to enable the District to comply with all requirements for financial monitoring and audits, both internal and external. The Superintendent shall be promptly informed of any material deficiency that is discovered during a monitoring or auditing process.

District Policy Manual and Administrative Regulations – October 29, 2014 C-0100 Superintendent. The Board shall employ a Superintendent, who shall enforce the statutes of the state of New Mexico, the rules of the Secretary of Public Education, and the policies of the Local Board of the District. The Superintendent shall: carry out the educational policies and rules of the State Board and Local School Board; administer and supervise the School District; be accountable for student achievement, budget management, expenditure of funds, dissemination of information, District communications, and the development, implementation, and evaluation of the EPSS, and all other District business; administer and implement the District's approved staff accountability plan and procedures. The administration of the school system in all aspects is the responsibility of the Superintendent, whose functions shall be carried out in accordance with the policies of the Board.

The Superintendent may establish regulations for the administration of the District that are in compliance with applicable statutes or regulations of the Secretary of Public Education and the policies of the Board. These regulations are binding on the employees of this District and students in the schools.



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

District Policy Manual and Administrative Regulations – October 29, 2014 D-2150 Fiscal Accounting and Reporting. The Board is responsible for the control of all funds of the District including funds collected at individual schools. The Superintendent shall be responsible for the development and maintenance of all procedures necessary to ensure adequate fiscal control. The Superintendent and business staff shall establish and maintain a complete auditable financial system which meets all statutory and regulatory requirements and guidelines of the State of New Mexico (The Manual of Procedures for Public School Accounting and Budgeting). Such system shall be defined in administrative procedure and presented to the Board for review. 6.20.2.12 NMAC and 6.20.2.13 NMAC

District Policy Manual and Administrative Regulations – October 29, 2014 D-0050 Fiscal Management Goals / Priority Objectives. Guide the expenditure of funds to achieve the greatest educational returns. Require maximum efficiency in accounting and reporting procedures. Follow the Manual of Procedures for Public School Accounting and Budgeting (PSAB).

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics. As governments increasingly respond to the demands for fiscal and operational accountability, best practice dictates the creation of strong controls surrounding activity funds, including assurance that all transactions are recorded and reported in district and charter school financial records. Additionally, at a minimum, proper lines of authority combined with strong control practices, such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting, are the elements to protect against error, waste, fraud or misuse.

- All activity funds must be audited and subject to well-defined procedures for internal and external auditing.
- All employees responsible for handling and recording activity fund transactions shall have adequate training.
- A system of purchase orders and vouchers should be applied to all activity funds that requires written authorization for payment and should be strictly enforced.
- Random audits should be performed by school administration periodically to 1) view transactions and documents for accuracy 2) verify that approvals are in place and 3) establish that the accounting for these funds is in compliance with local, state, and federal regulations.
- Address any weaknesses in accounting practices and procedures as soon as possible.
- Hold personnel accountable for not demonstrating competencies set forth.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

- The management of student activity funds shall be in accordance with sound business practices, including budgetary procedures and thorough audits.

Internal Controls over Risk Assessment. The District must identify and respond to risks that may affect accounting or financial reporting. Risk assessment involves administration identifying potential risks of misstatement in the financial statements or material noncompliance, estimating their significance, assessing the likelihood of their occurrence, and implementing control activities or taking other steps to address those risks. Document business risks that administration has identified and how they have addressed those risks and consider whether those risks may result in material misstatement of the financial statements or material noncompliance. Consider the following principles: The District specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to financial reporting objectives and compliance objectives relative to major programs. The District should identify risks to achieving its objectives including compliance objectives relative to major programs and analyze risks to determine how the risks should be managed. The District must consider the potential for fraud in assessing risks to the achievement of financial reporting objectives and compliance objectives relative to major programs. The District should also identify and assess changes that could significantly impact the system of internal control and its compliance with laws, regulations, and the provisions of contracts or grant agreements relative to federal award programs.

**Effect**

The District's finances and operations do not have the proper monitoring, risk assessment, and oversight. Internal audit procedures and corrective action on internal findings are not as complete as they should be. This leaves the District susceptible to fraud, waste, abuse, and errors.

**Cause**

The Finance Department did provide training to employees to address the external and internal audit findings; however, the procedures, corrections, and accountability were not strong enough.

**Recommendation**

The District's administration should monitor that corrective action is being taken and that all external and internal audit findings are resolved promptly. Setting an ethical and strong tone at the top, followed through with accountability for staff is critical, as this sets the tone for standard conduct.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

We recommend analyzing the internal controls over the activity funds' internal audit process to ensure the internal audits are testing everything they should and frequently enough to address various risks and set up stronger accountability for staff to remain in compliance with District and PED policies, procedures, and regulations. We recommend strong procedures and monitoring to ensure compliance with the Governmental Conduct Act.

**Management Response**

**Corrective Action(s):** Unannounced Activity Fund audits will be conducted at a minimum of once a year. Activity Funds with findings will be audited more frequently. The principals or department directors will respond in writing with corrective actions and the Finance Department will verify that the corrective actions have been implemented.

**Responsible person(s):** Chief Financial Officer

**Timeline of corrective action:** Activity Fund audits will begin in December 2016 and continue through June 2017.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-010 District’s School Principals – Monitoring and Corrective Actions, Principal Turnover, and Staff Evaluations**

**Type of finding:** Material Weakness

**Finding Category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Statement of Condition**

Because errors with the activity funds at Schools in the District have been repeated for many years, the Principals of the Schools may not be monitoring activity fund records and holding their staff accountable for corrective action on findings and implementation of strong internal controls.

We reviewed the personnel file of the Bookkeeper of WD Carroll Elementary School (WD) and La Escuelita Pre-School (LE) and noted there were very few evaluations of her performance since her hire in 2008. Yet, there were several interviews and documentation corroborating the WD/LE Bookkeeper’s excessive time off work, failure to submit leave reports, failure to pay vendors timely, conflicts with roles and responsibilities within WD’s office, personality conflicts, failure to submit accurate and timely reports to Central Office, avoidance of communications from LE’s Principal and Administrative Assistant regarding the activity fund accounting, etc. We did not find disciplinary actions taken, other than her termination in 2016.

Both Schools experienced high turnover in the Principal position, particularly at WD with one Principal per year, sometimes two in a year. As each new Principal was learning the School and their duties and their staff, the Bookkeeper had been a “go-to” person with the history and resources to help the new Principal transition into their position. This built trust and a tendency to believe the answers the Bookkeeper gave them. High rates of turnover in supervisory positions highly contributes to the lack of consistent staff accountability.

The Principal of WD who most recently supervised the Bookkeeper did review monthly packets submitted to the Finance Department and the Schools A/P Clerk also reviewed the same packets. The Principal knew the PTO brought in tens of thousands of dollars each year and had questioned the Bookkeeper about where the money for the PTO was. The Bookkeeper stated it was in a separate account. However, on the packets he was reviewing, the PTO was listed there along with the one bank account for the activity fund. According to the Principal, not being an accountant and taking the Bookkeeper’s word for it, he did not question further, even though it did not entirely make sense to him.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Additionally, it has been reported to us that there are irregularities with Bernalillo High School Athletics activities funds and cash advances. It has also been reported to us that there are concerns with Algodones Elementary School activity funds and missing records. These Schools' activity funds were not in the scope of our engagement but these serious risks were brought to our attention during our engagement.

**Criteria**

District Policy Manual and Administrative Regulations – October 29, 2014 C-0150 Qualifications and Duties of the Superintendent. Establishes and maintains efficient procedures and effective controls for all expenditures of school funds in accordance with the adopted budget, subject to direction and approval of the Board. Maintains or has maintained adequate records for the schools, including financial accounts; business and property records; and personnel, school population, and scholastic records. Ensures that all employees are evaluated in accordance with the schedule established by the Board.

District Policy Manual and Administrative Regulations – October 29, 2014 C-1200 School Principals / Building Administrators. A principal is responsible for the supervision and evaluation of the building staff members and the development of professional development plans or job improvement plans to assist school employees to improve. A principal will recommend employment, promotion, transfer, discharge and termination of school employees in the assigned school. A principal will maintain discipline on the part of personnel and students. A principal will care for and protect the building, the equipment, the grounds, and other school property. A principal will maintain school records and prepare reports.

District Policy Manual and Administrative Regulations – October 29, 2014 C-1961 Policy Implementation. Principals, directors, and others designated by the Superintendent shall establish procedures for conducting activities within their individual units that are consistent with administrative regulations and Board policies.

District Policy Manual and Administrative Regulations – October 29, 2014 D-1550 Gate Receipts and Admissions. Admission receipts from school events shall be adequately controlled. The Superintendent is responsible for the proper collection, supervision, disbursement, and/or remittance of these fees. Admission to school events for which an admission is charged ordinarily will be by purchased ticket or special pass only. Adequate records will be maintained for accounting purposes.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

District Policy Manual and Administrative Regulations – October 29, 2014 D-0050 Fiscal Management Goals / Priority Objectives. Guide the expenditure of funds to achieve the greatest educational returns. Require maximum efficiency in accounting and reporting procedures. Follow the Manual of Procedures for Public School Accounting and Budgeting (PSAB).

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics. As governments increasingly respond to the demands for fiscal and operational accountability, best practice dictates the creation of strong controls surrounding activity funds, including assurance that all transactions are recorded and reported in district and charter school financial records. Additionally, at a minimum, proper lines of authority combined with strong control practices, such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting, are the elements to protect against error, waste, fraud or misuse.

- Address any weaknesses in accounting practices and procedures as soon as possible.
- Hold personnel accountable for not demonstrating competencies set forth.
- The management of student activity funds shall be in accordance with sound business practices, including budgetary procedures and thorough audits.
- The faculty advisor of each student organization is responsible for supervising all activities of the organization or club. As such, the advisors approve all transactions of the student club account. Advisors are expected to be familiar with the budget, including receipting and depositing procedures, purchasing and disbursement requirements. Advisors shall understand that all transactions are subject to internal and external audits.
- The principal of the school is the agency (activity club accounts) fund supervisor, and shall be directly responsible for the conduct of student financial activities in accordance with the policies, rules and procedures set forth by the state, and local district (with guidance by the Business Manager or finance officer of the district). Principals are expected to be familiar with the processes to implement, manage and approve all fund raising activities.

**Effect**

The District's finances and operations do not have the proper monitoring and oversight. Internal audit procedures and corrective action on internal findings are not as complete as they should be. This leaves the District susceptible to fraud, waste, abuse, and errors.

**Cause**

The Finance Department did provide training to employees to address the external and internal audit findings; however, the procedures, corrections, and accountability were not strong enough.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**Recommendation**

The District's administration should monitor that corrective action is being taken and that all external and internal audit findings are resolved promptly. Setting an ethical and strong tone at the top, followed through with accountability for staff is critical, as this sets the tone for standard conduct.

The District should take a close look at WD for the reasons for the high rate of turnover in the Principal position. Several employees did report that there is a strong pressure in the District against "outsiders" who were not "from Bernalillo" and this discrimination may be difficult for the Principals to feel as if they are a part of the District and have the respect they deserve in their position. Whatever the reasons may be, we recommend the District identify the root causes and take actions to prevent such high turnover in the future.

We recommend analyzing the internal controls over the activity funds' internal audit process to ensure the internal audits are testing everything they should and frequently enough to address various risks and set up stronger accountability for staff to remain in compliance with District and PED policies, procedures, and regulations.

**Management Response**

**Corrective Action(s):** The Finance Department will conduct on-going financial trainings with all directors and principals. All participants will continue to receive an updated manual. Bookkeeper evaluations by the principals will occur annually based on the PDP.

**Responsible person(s):** Training Chief Financial Officer and Business. Manager Performance evaluations Human Resources Director.

**Timeline of corrective action:** Initials training were held with all directors, principals and bookkeepers on August 5, 2016 and August 18, 2016. All participants received an updated manual. Quarterly trainings are scheduled for FY17. Human Resources Director will ensure that evaluations are done before rehire letters are issued each year in April.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-011 Insufficient Accounting Records, Document Retention, Inspection of Public Records Act**

**Type of Finding:** Material Weakness

**Finding category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Statement of Condition**

The WD/LE Bookkeeper did not maintain the required appropriate accounting records for activity funds' transactions and balances. We were unable to comprehensively complete our procedures due to missing records including but not limited to: cash receipts, detailed balances of the activity fund balance by area such as PTO, Teachers, Students, etc., invoices, check copies, checkbook ledgers, approvals, POs, activity fund reconciliations (November 2015 through January 2016 and pieces of the reconciliations prior to those months), fundraising records, School deposit slips, and bank deposit receipts.

**Criteria**

District-wide, all records should be categorized and placed in files, folders, or binders for safekeeping and easy access by an auditor. All records should be filed in order by date. Approved bank Statements and reconciliations should be kept together in one binder. Along with this binder there should be a file kept with all the receipts for deposits and withdrawal from the bank as well as a file with any and all check registers used. All receipts for purchases should be filed by month throughout the fiscal year. The original approved budgets as well as any approved Budget Adjustment Requests should be all in one file or binder. The same goes for any monthly or quarterly financial statements produced throughout the fiscal year. Electronic records of all this should be maintained as well in archives for permanent access. They are the official record which the auditor must go by to ensure that an entity is in compliance with its own operating standards.

Once records have been properly filed it is important that they are stored in a safe place so that they may be utilized in the future by the Board of Education, Administration, Principals, new employees, Auditors, or even in to comply with an Inspection of Public Records Act request from a member of the public. The New Mexico Administrative Code (NMAC) sets forth the requirements for how long certain types of records must be maintained by a government entity before they can dispose of them. The NMAC outlines these retention requirements in Title 1, Chapter 15 in various parts. They are known as General Records Retention and Disposition Schedules (GRRDS).



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

NMSA 1978 Section 14-2-5 Inspection of Public Records Act (IPRA). An essential function of a representative government is to ensure an informed electorate. A public records custodian is designated and all persons are entitled to the greatest possible information about government activities and decisions. All records should be safeguarded and available to the public.

Internal Controls over Information and Communication. The Board of Education and Administration should obtain an understanding and describe the overall availability and timeliness of information (both internal and external) necessary for internal controls and the financial reporting system to function properly. This involves determining how the right information is made available to the right people at the right time. Also, describe how administration communicates financial reporting roles and responsibilities and significant financial reporting matters to employees, those charged with governance, and appropriate external parties (such as regulatory authorities) and how exceptions are brought to the attention of persons at the appropriate level to take corrective action. (Communication may be written, electronic, oral, or through the direct actions and involvement of administration.) Consider the following principles: The District obtains or generates and uses relevant, quality information to support the functioning of internal control over financial reporting and to compliance with major federal award program requirements. The District internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control over financial reporting and to compliance with major federal award program requirements. Lastly, the District communicates with external parties regarding matters affecting the functioning of internal control and to compliance with major federal award program requirements.

**Effect**

We could not gather sufficient documents to support the balances and transactions of the WD/LE activity fund. Complete information is not available to review. Trust in government is decreased.

**Cause**

The reasons the Bookkeeper did not maintain the supporting documentation for transactions and the full accounting records is unknown; however, it appears that she did not want the details of the funds to be known since many are missing.

**Recommendation**

The District should hold employees accountable for their duties and for retaining the documents required to perform their duties in all government activities and decisions.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**Management Response**

**Corrective Action(s):** The Finance Department will inspect files during unannounced audits and the principals will be responsible for verifying before signing and submitting monthly bank reconciliations.

**Responsible person(s):** Chief Financial Officer and Business Manager and Principals

**Timeline of corrective action:** Activity Fund audits and principal verifications will begin in December 2016 and continue through June 2017.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-012 Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks**

**Type of finding:** Material Weakness

**Finding category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Condition**

During our review of internal controls surrounding the District’s risk assessment process, we noted that adequate mechanisms are not in place to identify risks applicable to the District and financial reporting objectives, including fraud risk and then mitigate and monitor them.

**Criteria**

Good internal control practices require that the Board and Administration have a process in place to identify risks potentially impacting the achievement of financial reporting objectives.

Pursuant to the AICPA *Audit and Accounting Guide for State and Local Governments*, AAG-SLV 13.08, “[m]anagement is responsible for the design and implementation of programs and controls to prevent and detect fraud; management's knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements; and management's knowledge of any allegations of fraud or suspected fraud affecting the entity.”

**Effect**

Without a risk assessment approach to identify potential risks applicable to the District, the District is vulnerable to errors and/or fraud. Without a proactive risk assessment, errors or fraud could occur and go undetected.

**Cause**

The District’s approach to risk has historically been to focus on compliance with state requirements instead of diving deep into their own accounting policies and procedures.

**Recommendation**

It is recommended that the Board of Education establish a practice for the identification of risks affecting the District. Mechanisms that should be in place to identify risks applicable to the District and financial reporting objectives include a) changes in operating, economic, and regulatory environments; b) participation in new programs and activities. The District should consider routine events or activities that may affect the District’s ability to meet its objectives as

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

well as non-routine events. We recommend developing forward looking mechanisms to provide early warning of potential risks relevant to all transaction cycles and preparation of financial statements. Any risks related to the ability to initiate and process unauthorized transactions, skim cash, submit late reports, not pay vendors, maintain a second set of books, etc. should be appropriately identified.

Fraud assessments should be part of the risk identification process. The assessment of fraud risk should consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud. The assessment of fraud risk should consider risk factors relevant to its activities and to the geographic and political region in which the District operates. Plans should be implemented to mitigate identified risks and then monitor them.

**Management Response**

**Corrective Action(s):** Hire outside firm to perform a District risk assessment.

**Responsible person(s):** Chief Financial Officer

**Timeline of corrective action:** Submit proposal to the Board for discussion and approval by the April 2017 Board Meeting.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**2016-013 Other Risks Identified during the Forensic Procedures**

**Type of finding:** Material Weakness

**Finding category:** Lack of Policies, Procedures, and Internal Control Structure or Environment

**Condition**

During our procedures, we noted the following additional risks that were outside the scope of our engagement; however, we recommend the District follow up on:

- Types of Funds – The District should closely review PSAB 18 to determine the Schools’ revenue streams and various activities in order to properly classify them into various accounting funds. Activities may be tracked in District Agency funds, District General or Special Revenue funds, or possibly tracked in the non-profit entity that serves the District, such as a Foundation or a PTO. It does not appear the District has made these assessments. As well, outside entities supporting the District must also be evaluated to determine if they are component units of the District (see GASB 61).
- Timesheet Fraud – Many employees reported to us that the Bookkeeper was frequently not at work for a variety of reasons. There were complaints that she would call substitutes and use that as an excuse to miss hours of work and would have many doctor appointments that interfered with her duties. There were also complaints that she left in the middle of the day or in the afternoon and would not return, with no consequences. One employee was left alone at the front office to cover for the Attendance Monitor (Bookkeeper’s cousin) in addition to her regular duties because the Attendance Monitor would frequently go into the Bookkeeper’s office and close the door for extended periods of time. It was also alleged that the Bookkeeper would be on Facebook, sometimes at the mall or other off-site area, during work hours.
- Unreported Leave – The Finance Department discovered in the Bookkeeper’s office a stack of leave slips that had been signed and approved by the WD Principal but never submitted to CO. Therefore, although approved by the Principal, the leave taken may not have been subtracted from balances in the timekeeping system.
- Supplies Inventory – The Finance Department also discovered in the Bookkeeper’s office many supplies that had been purchased but never issued to the staff and teachers who had requested them. There were complaints that there was “favoritism” in the allocation of supplies. No one noticed a large amount of supplies being ordered and/or missing. However, we noted that there were no controls over the supplies inventory – a lack of segregation of duties and no records to indicate what was received, what was issued, and what the balances were.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

- Access to Offices – Allegedly, the Bookkeeper prevented access to the certain offices to an employee even though she was approved to have this access. The Bookkeeper stated she put in a work order for the access, but maintenance stated they never received the work order.
- Use of Copier – During our review of emails, we noted the Principal found that the copiers had been used off-hours likely for non-school business. He had the codes changed and sent an email reminding everyone about the District’s usage policy on copiers.
- Security of Records – The PTO discovered that their receipts, paperwork, and some money was removed from the “vault”, a cash box in a supply closet. Additionally, records were missing from the Bookkeeper’s office that should have been maintained.
- Borrowing Money for Gift – The Bookkeeper borrowed money from LE’s cash box to supposedly purchase the WD Principal a gift. She also collected funds from WD staff to purchase this gift. When the LE Principal asked the WD Principal if he had received his gift, he said no. Later, the Bookkeeper bought him a “giant flask gag gift” that was reportedly not worth the amounts she had borrowed and collected.
- Student Nutrition Funds – Although the Finance Department has stated the Bookkeeper did not have access to lunch money collections and other student nutrition funds, we noted during our review of emails and interviews of employees that it appears she was involved with these funds.
- Debit Cards – Our forensic procedures showed two District employees asking the Bookkeeper to “do the debit card thing” without further explanation. We also discovered the Bookkeeper purchased several prepaid Debit cards and/or gift cards with District funds. According to the PTO Vice-President, the Bookkeeper would do this sometimes because Wal-Mart would no longer accept the District’s checks or POs. She also stated there was a \$100 debit card meant for the PTO. However, during our review of the School’s records located in the evidence room at the Town of Bernalillo Police Department; we could not find this debit card.
- Cross Training – We noted there were no dedicated fill-ins to ensure that when the Bookkeeper was on leave or assigned to other projects that the Bookkeepers’ tasks and responsibilities were not delayed or missed. Fraud or errors are sometimes discovered earlier when the employee is on leave and the fill-in person is performing the duties.
- PTO Funds – It was disclosed to us that the PTO and various teachers allege that over \$20,000 of PTO funds went missing before 2011. Additionally, if the PTO funds of approximately \$20,000 (estimated balance as of February 2016) are restored to the PTO from insurance or other funds, it is important that the District consult with legal counsel

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

so as to not violate the Anti-Donation Clause of the New Mexico Constitution (Art. IX, Sec. 14).

- Fraud, Waste, and Abuse Hotline – It is critical that a hotline number is posted throughout the District and perhaps on other paperwork and in trainings. The New Mexico Office of the State Auditor has one on their website that is free and very effective. Employees should be encouraged to report any red flags or concerns without fear of retaliation. In this situation, several employees felt uncomfortable with the Bookkeeper and thought something was wrong for a long period of time before her termination.

**Criteria**

NMSA 1978 Section 13-1-158 (A) No warrant, check or other negotiable instrument shall be issued in payment for any purchase of services, construction or items of tangible personal property unless the central purchasing office or the using agency certifies that the services, construction or items of tangible personal property have been received and meet specifications.

New Mexico PED PSAB Supplement 18 – Student Activity and Athletics. The appropriate fund classification for student activity funds is determined by their legal status. If resources accounted for in student activity funds are legally owned by students or student groups, these funds should be classified as Agency Funds (Fund 23000). If the school district legally owns the resources accounted for in student activity funds, they should be accounted for in the General or Special Revenue Fund type. Reference PSAB Supplement 3, Uniform Chart of Accounts. Additionally, some funds are maintained by the related non-profit entity itself and are not public funds that must follow state laws – many PTOs maintain their books and records separately from the District they serve.

District Policy Manual and Administrative Regulations – October 29, 2014 D-2361 Inventories. Supply records shall be kept, which will show: The name of the individual receiving the supplies. The date received. The disposition of the supplies. An inventory shall be maintained for all supplies warehoused by the District.

Various requirements already listed in the findings from NM State Statutes, NM PED Cash Controls-PSAB Supplement, District Activity Fund Guidelines, and District Policy Manual such as:

- Money received is required to be deposited within 24 hours or one banking day.
- Bank deposit slip shall have numbers from receipts entered on it or attached as reference. Cash record shall be balanced daily to show balance of public money on hand at the close of each business day.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

- Bookkeeper receives cash from sponsor and gives receipt, which is then taken to district office for them to deposit.
- A perpetual inventory should be maintained on pre-numbered forms, receipts, and other documents to create an adequate audit trail.
- Bank statements for activity funds should be reconciled as soon as they are received. Random audits should be performed by school administration periodically to 1) view transactions and documents for accuracy, 2) verify that approvals are in place, and 3) establish that the accounting for these funds is in compliance with local, state and federal regulations.
- Reconciling accounting records for the activity fund is an additional important aspect of a system of checks and balances. A third person (someone other than the bookkeeper or activity fund supervisor) should be responsible for reconciling bank statements and verifying receipts and expenditures. Essential to this process are internal accounting controls over the activity fund cash collections. *Bookkeeper was also doing reconciliations*

**Effect**

Without a risk assessment approach to identify potential risks applicable to the District, the District is vulnerable to errors and/or fraud. Without a proactive risk assessment, errors or fraud could occur and go undetected.

**Cause**

The District's approach to risk has historically been to focus on compliance with state requirements instead of diving deep into their own accounting policies and procedures.

**Recommendation**

It is recommended that the Board of Education establish a practice for the identification of risks affecting the District. Mechanisms that should be in place to identify risks applicable to the District and financial reporting objectives include a) changes in operating, economic, and regulatory environments; b) participation in new programs and activities. The District should consider routine events or activities that may affect the District's ability to meet its objectives as well as non-routine events. We recommend developing forward looking mechanisms to provide early warning of potential risks relevant to all transaction cycles and preparation of financial statements. Any risks related to the ability to initiate and process unauthorized transactions, skim cash, submit late reports, not pay vendors, maintain a second set of books, etc. should be appropriately identified.



**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

Fraud assessments should be part of the risk identification process. The assessment of fraud risk should consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud. The assessment of fraud risk should consider risk factors relevant to its activities and to the geographic and political region in which the District operates. Plans should be implemented to mitigate identified risks and then monitor them.

We also recommend monitoring office access and copier use along with security cameras, including backup recordings, in areas which cash is collected and counted.

Employees should be trained on what to do and who to call should they suspect inappropriate activity.

All equipment and supplies should have a designated, locked area with controlled access instead of being maintained in individuals' offices throughout the building. Inventory should be tracked (beginning balances, purchases, issuances, and ending balances) and counted monthly and approved.

**Management Response**

**Corrective Action(s):** The Finance Department will conduct on-going financial trainings with all directors, principals and bookkeepers. The Finance Department will update the Manual of Procedures Activity Fund Guidelines to include Request for Fundraiser Approval Form. All fundraisers have to be approved by the principal, Chief Financial Officer and Superintendent and the form will include projected revenue and expenses for the fundraiser. Finance Department will verify that the fundraiser(s) did occur and will require a written explanation of any variances from projected from the principal or director.

The District currently has a timekeeping system (TimeClock Plus™) which utilizes biometrics. All employees, including Event Workers that are currently submitting timesheets will be utilizing the timekeeping system to record hours worked.

The District is in the process of implementing a substitute calling and leave entry automated system (Aesop) and Human Resources will be monitoring.

A safe was purchased for WD Carroll Elementary School and installed over the summer. Along with the example of a proper receipt posted in each location at the bookkeeper's office the State Auditors Fraud Hotline will be displayed.

All schools and departments will be required to purchase general supplies through the district warehouse which maintains a current inventory that is audited annually.

**EXHIBIT 5**  
**Bernalillo Public Schools**  
**Forensic Audit Consulting Procedures**  
**Schedule of Findings and Responses**  
**September 30, 2016**

**Responsible person(s):** Chief Financial Officer and Business Manager

**Timeline of corrective action:** The Request for Fundraiser Approval form was implemented August 1, 2016. The timekeeping system is currently being used for some departments (substitutes, Food Service and Transportation) and will be implemented for Event Workers by January 31, 2017. The substitute calling and leave system (Aesop) will be fully implemented by January 31, 2017. The purchase of general supplies will be mandated by November 30, 2016.