



"Excellence Today, Opportunity Tomorrow"

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

JULY 17, 2019

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**CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
JULY 17, 2019**

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REPORT OF INDEPENDENT ACCOUNTANT'S FORENSIC AUDIT CONSULTING PROCEDURES

To the Board of Education, Audit Committee and
Dr. Gerry Washburn, Superintendent
Carlsbad Municipal School District
Carlsbad, New Mexico and
Mr. Brian Colón, New Mexico State Auditor
Santa Fe, New Mexico

Subject: Carlsbad Municipal School District Forensic Audit of the Activity Funds of Carlsbad High School

Dear Board of Education and Auditor Colón:

Thank you for the opportunity to work with you to complete this forensic audit consulting engagement for Carlsbad Municipal School District (the District or CMS). This report summarizes our procedures, findings, and recommendations as it relates to our assistance with your evaluation of the Yearbook fund irregularities at Carlsbad High School (CHS).

We have performed the consulting procedures enumerated below, which were agreed to by the Carlsbad Municipal School District and the New Mexico Office of the State Auditor (OSA), solely to assist you in determining the fraud risk and dollar value of funds that are unaccounted for and the causes for unaccounted funds. The period subject to review was six fiscal years: July 1, 2012 through June 30, 2018 (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 procedures described below either for the purpose for which this report has been requested or for any other purpose. The District's Administration and Board of Education (Board) remain 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

During our external audit, on July 23, 2018, the then Superintendent ("B") and Finance Director ("B") (see [EXHIBIT 1](#) for list of names) asked us to look further into the CHS Yearbook activity fund since it was showing a negative balance. Having a negative cash balance did not appear analytically correct, as there were sales of ads along with the Yearbooks each year that should have more than covered the cost of the Yearbooks. After performing limited procedures, we reported to the Audit Committee that a forensic engagement was warranted. After coordination

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with the OSA and procurement, the District's contract with Jaramillo Accounting Group LLC (JAG) for the forensic consulting procedures was executed at the end of September 2018.

Through our forensic testing, we identified an estimated \$353,000 in cash receipts that *should have been* collected and deposited for Yearbooks and ad sales, but there were only approximately \$249,000 in cash receipt tickets issued to people who submitted the money (*meaning not all funds paid for Yearbooks and ads, by Parents and Students, were accounted for on receipt tickets by the Yearbook Teacher/Sponsor ("Teacher")*). However, even though there was an estimated \$249,000 in cash receipt tickets, there was only approximately \$227,000 recorded in the general ledger and deposited into the bank (*meaning not all funds that were receipted were deposited; many receipts tickets were marked VOID by the Teacher and these funds were not deposited*). From the limited information available to us and from only certain revenue/receipt sources, **there is a shortage of an estimated \$126,000 unaccounted for over the 6 years in the Period (EXHIBIT 2)**. The Teacher was in this position for 14 years with the same trends and declining cash balances, so the potential loss to the District may be over \$300,000; however, these previous years (2005 through 2012) were not in the Period covered by this engagement and, therefore, this is not certain.

- A. The evidence indicates that the Teacher may have embezzled funds with skimming schemes:
 - 1. Not issuing cash receipt tickets for Yearbooks and ads sold and not providing these funds to the CHS Secretary for deposit
 - 2. Issuing cash receipt tickets for Yearbooks or ads but not providing certain funds to the CHS Secretary for deposit
 - 3. Marking certain cash receipt tickets VOID or tearing out receipt book pages and not providing these funds to the CHS Secretary for deposit
- B. The evidence and her admission indicate the Teacher may have committed fraud/forgery by voiding and reissuing certain cash receipt tickets with a later date – to avoid consequences for violating the New Mexico state statute which requires Districts to deposit all funds within 24 hours of receipt of the funds (the “24-hour rule”).
- C. The evidence and her admission indicate the Teacher violated the Governmental Conduct Act, which requires employees to disclose outside employment or conflicts of interest. Per our interviews and by the Teacher's admission, she was personally paid for taking Senior pictures for Students and also performs graphics design work. The Teacher stated she does not report this income because she didn't know she needed to.
- D. The evidence and her admission reveal dereliction of the duties of her position (recordkeeping, safeguarding assets, following laws, regulations, policies, procedures, ethical commitment to: Students, community, profession, professional employment practices, professional conduct, etc.) NMAC 6.60.9.8

From our testing of limited information, it does not appear plausible that the material cash shortages were a result of actions by person(s) other than the Teacher. This is discussed in detail below and in **EXHIBITS 3 & 4**. The differences calculated are conservative for the following reasons: We did not include late fees (\$25 each) or personalization fees (\$5/line) in the estimated revenue that should have been receipted. There may also be instances where receipts include AP fees since the Teacher did not use a separate receipt book for these.

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INFORMATION FROM TESTING & INTERVIEWS

Factors Leading to Discovery of CHS Yearbook Cash Receipts Irregularities

One of the former CHS Secretaries (“Secretary C”) stated that in the School Year (SY) 2017-2018 she reported to the CHS Interim Principal (“Principal B”), to Finance, and again to CHS Principal C, hired in January 2018, that the Yearbook fund did not have enough funds to pay for the Yearbook past due invoices (about \$32,400 at the time) and that the Teacher “had discrepancies in all the [Yearbook] receipt books, not just one”. CHS Secretary C, the whistleblower, no longer employed with the District, appeared to be conscientious and persistent with her work (noted in our testing and interview and from Finance Director A’s comments about her) and requested a locked drop box for her office. She made copies of discrepancies she had found and provided them to CHS Principal C.

CHS Principal C discussed the issue in May and June 2018 with CHS Secretary C and reported the situation to the new then, but now former, Superintendent (“Superintendent B”). Superintendent B and CHS Principal C arranged a meeting with the Teacher. This Teacher has been in this position since August 2005. At this July 18, 2018 meeting, she answered questions but did not have answers for the shortages. She declined union representation at this meeting. The Assistant Superintendent was in the meeting as well.

According to CHS Principal C, he was a Yearbook sponsor at another District and knew the Yearbook should more than pay for itself; there should be no reason, especially with the ad sales factored in, for a \$24,000 invoice to the Vendor that could not be paid. Ostensibly, the Teacher had no explanation for the shortages. When he asked if some Students did not pay, she said “*I don’t know*”, her demeanor was “*very paranoid*”, and she pressed him repeatedly, “*Let’s just move forward.*” He said no. He also stated there were 3 Parents asking for a Yearbook, saying they were not issued a receipt ticket, so there was incorrect recordkeeping.

CHS Principal C also requested to meet with the Yearbook Vendor. The HR Director and CHS Principal B were at this meeting. According to CHS Principal C, the Vendor had asked the Teacher why the link for people to pay online for the Yearbook was not advertised and she “*just said they didn’t use one.*” Reportedly, the Vendor offered the online program again and stated CHS should have been making a lot of money and in the black.

The Teacher was placed on administrative leave until November 2018 at which point she resumed her duties.

Teacher’s Side Businesses of Charging for Senior Ad Pictures and Marketing

The Teacher at first stated she did not have any other side work or businesses, but later said she no longer took Senior pictures on the side in the past several years (since approximately 2015). Our internet research shows the Teacher advertising her business *Custom Concepts, Too – Photography by [the Teacher]* on Photlo.com. CHS Principal C stated he did not think it was ethical for the Teacher to charge Students money for senior pictures when she was already paid to be the Yearbook Teacher. The Teacher shared that the senior ad photoshoot fees were about \$50 for each Senior and that she would take pictures on-campus for those who could not afford a headshot picture for the Yearbook.

CHS Principal C stated the Teacher also has a marketing business creating ads, menus, and printing. In our interview of the Teacher, she did say she does graphic design work on the side, but does not report this income. He also reported that she frequently was not feeling well, was sick, always tired and complaining about work, but that her performance evaluations (before he was hired) did not indicate these situations interfered with instruction. He also stated that the Teacher’s husband is also a teacher in the District and some tools did go missing and that he has a construction business on the side (not in our scope to follow through on).

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The Teacher did not disclose her self-employment activities to the District on her SY15-16 or later Related Party Transactions Disclosure forms as required and admitted that she did not report the related business income.

Secretaries’ and Finance’s Receipts and Reports to Sponsors

It was reported to us that receipts for amounts submitted to the CHS Secretaries and reports showing their activity and balances were not consistently provided to the Sponsors and they did not have read-only access to iVisions to see their balances. It was also reported to us that CHS Principal A stated that the Yearbook would be negative and need supplemental funds. **Negative balances are not allowed in agency/activity/fiduciary funds; the public has put their trust in the District to be the “fiscal agent” of the funds collected from the public, teachers, staff, and students.**

Receipts Indicating Cash vs. Checks

JAG noticed a pattern during our testing. There were many months during the Period without any cash receipt tickets indicating they were from “Cash” (i.e., they were all “Check”). **It appears likely that the cash funds were skimmed, while the checks were always deposited.** We also noted the receipt tickets marked “Cash” were more likely to be missing from the CHS Secretary records, the Central Office general ledger records, and the bank account deposits. They were also more likely to be voided with no re-issuance of another cash receipt ticket.

Example Amounts that Could not be Tied to Student Sales

The Teacher’s recordkeeping was so deficient that we could not identify if certain Students had paid for their Yearbooks and ads or not. According to the Teacher, any outstanding items would have been on a fine list; however, CHS’s Fine Lists by SY, which included charges, payments, and balances, did not indicate any items were outstanding for these sales. The pre-order sheets showed Student signatures for books picked up, so according to the Teacher they were paid for. **She stated there were only a few Yearbook ads which she donated to Students, but also said they would not account for the difference between expected and actual receipts. This would be a violation of the NM State Constitution Anti-Donation Clause.** Ad packets many times did not agree to other documents. For example, the ad packet showed no payment but we found a cash receipt ticket for payment; we found payments stapled to ad packets but they were someone else’s cash receipt tickets; and remaining balances not tracked correctly. Her records on the ad forms were inconsistent and could not always be traced to cash receipts or to the actual ads in the printed Yearbooks.

This chart shows the results of our efforts to tie out receipt tickets to Students’ ads/Yearbooks for FY15 and FY18:

	Yearbook Pre-Sales Only			Senior Ads		
FY	Amount Pre-Sales Listing	Tied Out List to Receipt	Could Not Be Tied Out	Amount per Ad Count	Tied Out Ad to Receipt	Could Not Be Tied Out
15	\$20,475	\$7,834	\$12,641	\$36,420	\$20,920	\$15,500
18	\$17,924	\$8,437	\$9,487	\$26,520	\$18,569	\$7,951

Yearbook Fines

The Teacher said there were some senior ads not fully paid for and she would provide a list of who didn’t pay to the office. The Teacher stated that if a Student did not pay for their Yearbook, they would be on the fines list and then bring a receipt to pick up their Yearbook (she remembers this occurring once). She would give the list of

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Students who owed to the CHS Secretary (A, B, C). Per discussions with Administrators, there were no Yearbooks withheld from Students.

The Teacher stated she would type into a Word document and print and hand this list to them. She stated that she saved these documents to her classroom computer itself – not the network drive. However, these files were not on the backup copy of the hard drive provided to us for our procedures and contrary to what the Teacher stated, it did not appear from the information provided to us that fines were paid or balances owed to the District for Yearbook or ad sales. **This means the differences between estimated and actual receipts cannot be explained by balances owed by Students.**

The following is a list of Yearbook related activity in the fine list reports in the Period:

FY	Student Initials	Trans Number	Date	Trans Type	Description	Amount
13	KD	766113	6/7/2012	Charge	A.V. Yearbook	\$27.00
14	KP	765211	5/22/2012	Charge	Damaged another Student's Yearbook	10.00
14	PT	765210	5/22/2012	Charge	Stole another Student's Yearbook	32.00
15	SB	784521	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	SB	784522	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	MC	784516	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	AC	784517	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	AC	784518	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	AC	784520	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	QD	784523	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	AH	784519	5/22/2015	Charge	Yearbook Jump Drive	5.00
15	AH	784524	5/22/2015	Charge	Yearbook Jump Drive	5.00
16	SB	784999	8/17/2015	Charge	Yearbook Jump Drive Duplicate Entry	(5.00)
17	None	None	None	None	None	None
18	None	None	None	None	None	None

Lack of Oversight and Audits from Central Office Finance Department

Our testing indicates that no analytical review of the Yearbook fund was performed – if it had, the potential fraud may have been discovered much sooner. The Yearbook fund should be making money based on the sales.

Our testing indicates a lack of internal controls and accountability over the finances of the District. For instance, in accordance with NM Public Education Department PSAB No. 18 over Activity Funds and the District's Policy 521 (Daily Cash Deposits), "the bank deposit slip shall have the numbers from applicable receipts entered on it or attached as reference" – **this was not occurring and made it possible for the Teacher to not submit every cash receipt ticket to the CHS Secretary, even voiding some.**

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External Audits

The District’s prior audit firm(s) did report findings relating to activity funds/cash receipts.

Year/ Finding #	Title of Finding in the Audited Financial Statements	Notes for Clarity
2003-2:	Control Over Receipts and Deposits	[Certain Without Receipt Numbers and 24 Hour Rule]
2004-1:	Internal Control over Receipts at Schools	[Not Using Factory Pre-Numbered Receipts]
2005-1:	Natatorium Receipts Not Timely Deposited	[24 Hour Rule]
2005-3:	Activity Account Being Managed Independently	[Not Being Reconciled]
FS 2010-01:	Improper Control over Cash Receipts	[No Sequential Listing]

The District did take corrective action on these findings and, in fact, the implementation of the previous auditors’ recommendations for strong internal controls (such as the factory pre-numbered receipts, tracking of receipt books, and having Central Office reconcile the accounts) has made this investigation more straight forward, with stronger evidence, than similar cases we have encountered in other School Districts with similar potential fraud. The finding that has not been remedied, per our testing, is the continued violation of the 24 Hour Rule, without consequences to the employees who violate this law.

Students Handling Yearbook Funds

According to the Teacher and her union representative, there was an incident where District cash was missing in 2015 (unrelated to Yearbook). The union notified its members to not send cash with Students. So, in accordance with District policy and this advice, the Teacher stated she no longer sent Students with deposits to the CHS Secretary. **This means the shortages were not likely to have been because of Student deliveries to the front office because differences continued after 2015.**

The Teacher did say, and our evidence corroborated, that she would have Yearbook Students assist her in writing out cash receipt tickets during busy times. However, she stated she did not leave the Students alone with the funds during these times. She also shared with us that she did not believe that Students collected monies without her being present or without her checking the accuracy of all receipts.

Cash Not Secured Properly

The Teacher stated that she did not lock her drawer where she left the money and that her back door did not lock for years and that anyone with a key to her classroom door could have taken the receipts she left there. **It does not appear this would explain the consistent shortages over the six years; it seems if another employee that had been there during the same six years was taking receipts from her desk that she would have noticed that she was consistently missing cash.**

Asking Students to Watch Her/Making Change

The Teacher stated that she would ask Students to watch her as she handled cash or made change because she was so uncomfortable with handling cash. This was corroborated by a Yearbook Student. Making change from funds or cashing checks is a violation of NM PED PSAB No.18. **It is contradictory that if she was so worried about the security of the cash, she did not use a locking drawer or cabinet or money box the 14 years that she was Yearbook Sponsor.**

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CHS/Finance Training on Cash Handling and Cash Receipting Policies and Procedures

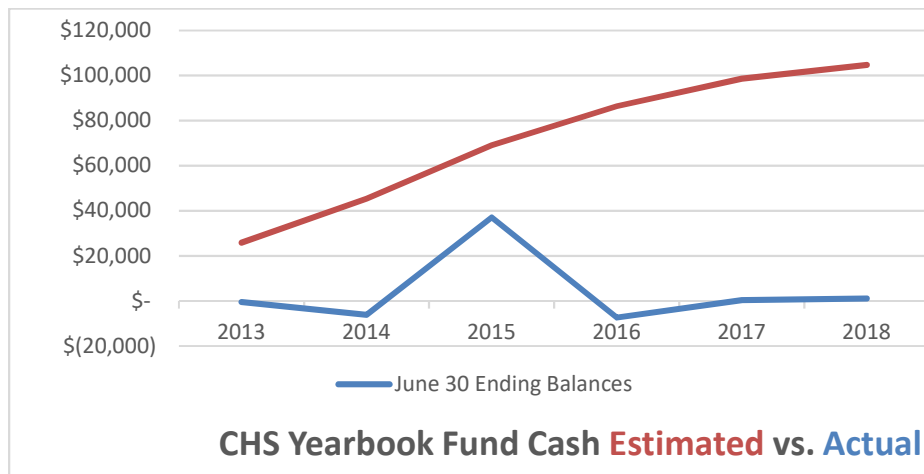
According to Finance Director A, she remembers the Teacher attending at least one training, but she did not remember the year. Complete signing in/out sheets for trainings during the Period were not properly maintained at Central Office. **The Teacher first stated she had no training on District policies/procedures over cash receipts, but after presented with the blue folder from her office, which clearly included a daily cash balancing sheet, small cash submission tickets, and the District’s Cash Receipting Policies and Procedures for SY 2017-2018, she then admitted to receiving the information at a beginning of the school year meeting.**

Yearbook Expenses

Other than the cost of the Yearbooks themselves, there were little to no expenses in the fund, as there was never enough money deposited for Students to do other things such as purchase new equipment, go on fieldtrips, or attend training conferences. They did purchase jump drives.

Estimated vs. Actual Cash Balances in Yearbook

Using information from Finance and from the Summary at **EXHIBIT 2**, we show what cash balance may have been at each year-end if the potential irregularities had not occurred and expenses did not change. This leaves a considerable shortage of funds that could have been applied to the Yearbook class for education, such as equipment or training for Students.



Controls over Documentation Retention and Backups

It does not appear that the District maintains proper controls over documents (collection, organization, storage, retention, and destruction); therefore, the Teacher’s emails and hard drive and network files she stated existed were not retrievable for our testing. At the time of our testing, there were fewer files than we expected, and it is possible the Teacher deleted files before leaving on administrative leave. **The District does not have a working backup system in place for these files and emails or for local computer drives.** We were only able to obtain emails currently undeleted from other current user accounts.

From our testing, it does not appear the District maintains controls and compliance over all Inspection of Public Record Act (IPRA) requests. 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 District employees, the auditors, or the public.

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Old Original Pictures of Students

During our testing in the Teacher’s classroom, we noted filing cabinets and boxes full of old Student pictures which had been provided for senior ads over many years, even before the Teacher began in August 2005. The Yearbook storage areas were very disorganized. We recommend the District return any original pictures they can and secure and/or properly dispose of what they cannot return.

Senior Ad Pictures Not Adhering to District’s Dress Code

There were concerns about the immodest nature of the senior ad pictures, reflecting poorly on the District and its Students. The Teacher said for the SY18-19 Yearbook she was going to require the pictures adhere to the District’s policy on dress.

Rumors of Excessive Lifestyle – Travel, Vehicle

During our interviews, CHS Principal C reported that there were rumors that the Teacher would go once a month to Las Vegas, Nevada and that other teachers were wondering how the Teacher and her husband (also a teacher in the District) could afford to travel this much. He also reported that she bought a car in January or February 2018. Living beyond her means and gambling would be, if true, red flags in the Teacher’s behavior.

Interviews of Parents/Students

In May 2019, we interviewed a random selection of parents. In one case, the parent asked their Student questions and provided JAG with the answers. We did not interview Students directly or without parental consent. The general results for SY17-18 were:

PARENT	YEARBOOK	SENIOR AD	COMMENTS
A	2 Paid in Full \$165 (Checks)	1 Paid in Full \$360 (Check) for a full-page Senior Ad	Received, Deposited – Parent is a Teacher
B	Receipt Missing for 1 st payment \$Amt Unknown (Cash); Receipt for Paid in Full \$57 (Cash)	Receipt Missing \$360 (Cash); Paid to Teacher in class who put it in a folder or binder; Senior Ad was in Yearbook; Ad contract said only ½ page but was a full page	2 Receipts Not Completed (Cash) or Deposited; 1 Receipt completed and deposited (Cash)
C	Receipt Ticket VOIDED, white copy not in book (likely provided to parent/Student before voided); \$80 (Cash)	N/A	Received, Voided, Not Deposited
D	Receipt Ticket VOIDED, white copy not in book (likely provided to parent/Student before voided); \$80 (Cash)	N/A	Received, Voided, Not Deposited
E	Paid 1 payment \$40 (Check) and 1 payment \$60 (Cash); Shows balance of \$10 on last receipt; No other payment (Cash per Parent) was Received for the 2 Yearbooks.	Received \$360 (Cash) and texted to Parent, but Not Voided or Deposited	Receipts (Cash) may be missing; 2 Receipts Completed (Cash/Check) and Deposited; 1 Receipt (Cash) Not Voided or Deposited

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F	Paid in Full \$70 (Cash), but Not Voided or Deposited	Receipt Missing \$360 for a full page ad	1 Receipt Not Completed; 1 Receipt (Cash) Not Voided or Deposited; Left Message
G	Receipt Ticket VOIDED, white copy not in book (likely provided to parent/Student before voided); \$80 (Cash)	Paid in Full \$180 (Check)	Received, Voided, Not Deposited (Cash); Received and Deposited (Check)

Average Yearbook Price

To calculate the Summary of Potential Losses (EXHIBIT 2), we used the following average sales prices per Yearbook, based on the cash receipt tickets available to us. According to the Teacher, the sales prices increased during the year approximately as follows: SY11-12 it was \$55 through mid-September, \$60 through December, \$65 from January-February and \$70 from March to distribution of books. During SY17-18, she increased the final distribution price to \$80 due to the knowledge of the deficit and in the hopes to get more pre-sales. From examination of the cash receipt tickets these prices were not followed precisely, but we did see the range the Teacher indicated and we did see the prices increase each year.

Fiscal Year	Average Yearbook Price
FY13	\$60.74
FY14	\$60.22
FY15	\$63.10
FY16	\$68.48
FY17	\$67.98
FY18	\$72.74

Procedure Results Concerning Employees Possibly Involved

- CHS Principal B had turned over the fund to the Teacher in August 2005 with \$25,800 in Cash Balance as of 6/30/2004. She stated the fund was self-sustaining and she had extra funds for equipment and training purposes.
- The three skimming schemes spanned over a minimum of 6 years (our scope) and over a variety of Students and employees; the Teacher was the consistent variable.
- Most of the missing funds were not receipted on cash receipt tickets and, therefore, not turned into the two CHS Secretaries (A and B), meaning they did not have access to the cash.
- The CMS Finance employees did not have access to the cash receipts, as independent Runners would take the bank deposits in a sealed bag from the CHS Secretaries (banks do not accept tampered bags and bag numbers were reconciled). We checked accounting strings in the general ledger and did not see others.
- The Teacher stated she was certain she receipted all monies she received, even if she had a group to do, she would complete a cash receipt ticket for each and deliver them later. She said, "Everything I got was receipted and taken up to the office." Reportedly, the Teacher told CHS Secretary C she had given her "every single receipt that she [the Teacher] received."

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- The Teacher did not think that Students received money without her being there or without her checking the accuracy. If they did help with receipts, it was because she asked a Student to help her complete the cash receipt tickets. She stated she was always present. To her knowledge, she does not know that a Student took anything while she was absent from the classroom. If cash was consistently missing from her desk, it is only logical that over the six years in the Period, she would have noticed these large cash amounts missing (**EXHIBITS 3 & 4**).
- The Teacher did not think she ever lost any receipts or receipt books. One time someone spilled a drink and she dried them up. She only used what she signed out. She stated she did not use any other receipt books than what the Secretary provided her, which she signed for.
- She stated she maintained possession of the receipt books during the year, meaning the Secretary could not have altered the receipts during the year to match a deposit lower than what was turned into her.
- She could not explain the VOID tickets in her handwriting which were not re-written (forged, to meet the 24-hour rule), such as:
 - \$200 paid in Cash on 10/2/2017, Receipt Ticket #78793
 - \$80 paid in Cash on 3/16/2018, Receipt Ticket #91967
 - \$65 paid in Cash on 3/16/2018, Receipt Ticket #91968
 - \$80 paid in Cash on 4/5/2018, Receipt Ticket #91980

See also the Interviews of Parents/Students chart above for other unexplained VOIDS that Parents verified in our interviews that they did not cancel their order or receive funds back.

- The funds not deposited from cash receipt tickets which *were* written, were marked Cash.
- We examined entire CHS receipt packets for 30 months to see if there were any Yearbook related deposits posted elsewhere or not in the general ledger and did not find any.
- It would take hundreds of yearbooks and ads given away for free to make up the sum of shortages.
- If the Teacher had taken a deposit and left her door unsecured and someone had stolen money from it, the CHS Secretary would have asked why there was missing cash from the Teacher's note or from the yellow copies of the receipts.
- There are not random amounts missing, such as if a Student or another employee was taking money from her desk. The missing amounts were exact receipt amounts voided or simply not turned in.
- Per interviews, the front office did not accept Yearbook money. This was corroborated by a Parent.
- We see from our testing that the Teacher did not follow certain of the CHS Secretaries' documentation requirements and District training requirements as other CHS employees did. According to CHS Secretary C: *"Teachers were told that when they turn in receipts they must have the tab with Yearbook and account # cut out and filled in but she [the Teacher] would not comply. She would only do an envelope with a total with cash/receipts...she would say, "I will do it next time." [The Teacher] would not turn this in even for CHS Secretary B who started this [internal control]. She was the only one in the school who would not comply for me."*
- JAG tested SY16-17 Night School deposits since that was a cash activity submitted to the CHS Secretaries and did not find missing funds. The rosters, receipts, and deposits reconciled, actually showing more cash deposited than was receipted, not shortages.
- Per discussion with certain Parents, the receipt tickets marked VOID (to which the Teacher admitted were in her handwriting) were not funds returned to Parents/Students.
- The Teacher stated there were very minimal Yearbooks and ads given away for free or at discounts and she said that could not have made up the difference.
- The Teacher remembers two instances of returning money back, but was pretty sure those were the only times she had done this.

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- We confirmed remaining Yearbook inventory amounts, ad spaces sold, and Yearbook orders/cost, and sale prices with a variety of sources (our own observation/recalculations, CHS Principal C, Finance Director B, CHS Principal D, the Teacher, the Yearbook Vendor, accounting records, other interviews, etc.).
- The Teacher's union representative mentioned that other teachers could have scavenged her room and taken extra Yearbooks before the counts; however, it does not seem that enough teachers would do this unethically to cause material shortages. The Teacher also confirmed that the 2015 Yearbook sold out – and there were still shortages in 2015, so this would not explain the differences each year.
- The District also had controls over the triplicate cash receipt ticket books (pre-printed with District logo from FY14 forward), requiring the Teacher to sign in/out the books – which provided us with a complete population of cash receipt tickets by date, payor, fund type (cash/check), description, person receipting the funds, and amount.
- The Teacher has admitted to being under financial pressure which was corroborated by her December 7, 2017 credit report and November 2017 bank statement found in her classroom with Yearbook paperwork.
- She stated there could be some Students who did not pay for their balances. But she gave any balances to the office and they would have put on the fine list for the Student. See section above for our analysis of this, which indicates this could not account for the differences.
- She stated there were a couple of kids who were adamant they paid, and she believed them instead of looking up their balances; however, this would not account for the material shortages.
- The Teacher admitted, in relation to incomplete documentation, *"I did not track everything and that is on me...it is my fault."*
- In our interview, we requested the Teacher help us with the math (i.e., sales did not equal the receipt tickets). She answered, *"Truthfully, I did not take any money, I don't know why there is such a discrepancy. I don't. I don't have an answer because I don't know. And I'm being as honest as I possibly can right now that I cannot believe that it would be that much money, er difference, and so I don't know how to do the math. I don't have an answer for you. But I didn't take it."* This sounded as over-reassurance of truthfulness.
- In response to the question of what happened with the VOIDS, she stated, *"I don't have the answer."*
- In response to the question "Did you take the cash?", she answered, *"I did not. I did not."*
- The Teacher would *"...tell Students to watch and make sure I am not doing anything with this. I wish I had answer for you, but I did not take any cash."* This request of Students is unusual, especially combined with the fact she did not secure the monies, as discussed above.
- The Teacher shared that she was told after April 1st to accept cash only from Seniors – because checks may not clear. They need their diploma so they pay their balances. This appears somewhat consistent in our testing for May each year, not entirely for April. The records indicate certain cash receipted was not deposited in these months. We did note that perhaps after the questions and pressure were on the Teacher to explain the shortages to CHS Principal C and Secretary C, May of 2018 did not show any cash shortages (from the receipts that *were* filled out).
- The Teacher mentioned that a few years ago the Administration posted on Facebook old Yearbooks were on sale for \$10 – we did see this minimal revenue (\$380) in the fund which went into the June 2016 deposit. This does not account for the material shortages on Yearbooks and could not have accounted for the senior ad shortages.
- The Teacher's union representative shared that CHS Principal C was throwing out books into the dumpster. Per review of emails, we noted that CHS Principal C had requested the policies and procedures on *textbook* disposal and made others aware of this. Per discussion with CHS Principal C, he counted all

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Yearbooks from our Period that were left (from 19 storage areas on campus) and he did not throw away Yearbook leftover stock. He also stated that he asked CHS Principal B about any Yearbooks disposed of, and she stated that CHS Principal A had purged *textbooks* years ago, but old Yearbooks were retained and some were sold online (see previous bullet point). Therefore, this likely does not account for the Yearbook shortages and could not have accounted for the ad revenue shortages.

- The Teacher stated that CHS Principal A would not allow her to provide online payments as an option because he wanted to keep it “local” and not everyone had internet access or credit cards. The Yearbook Vendor stated he asked the Teacher each year and she declined. CHS Principal A declined our request for interview, so we could not corroborate this position. Either way, it increased access to cash.
- According to the whistleblower, CHS Secretary C: At the end of May 2018, the Teacher returned and signed back in the cash receipt ticket books, as required. She saw receipts pulled, out missing pages, and voided receipts. She showed CHS Principal C. She stated, *“There were missing receipts. There was money receipted not coming to me. There were receipts written that cannot be matched to deposits. But any receipts that [the Teacher] gave me, did match deposits....In the receipt books that were never turned in with money the yellow copy is still in the receipt book [which are required to be turned in with deposits to the CHS Secretaries]. Some cash receipt tickets all three pink and yellow and white are missing. Voided ones [the Teacher was] supposed to staple white copies.”*
- **Based on the information available to us, and the interviews conducted, the evidence corroborates that the material cash receipt shortages do not appear to be the result actions of a person other than the Teacher.**

FACTORS OF THE FRAUD TRIANGLE

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

The first leg of the fraud triangle represents *perceived pressure*. This is what motivates the crime in the first place. The individual(s) have some financial problem that she is unable to solve through legitimate means, so she begins to consider committing an illegal act, such as stealing cash or falsifying a financial statement, as a way to solve the problem. The financial problem can be personal (e.g., in personal debt or an addiction) or professional (e.g., job or organization is in jeopardy or political/public expectations).

In this case, from her own admission and from a credit report in her classroom found with Yearbook documentation, we are aware the Teacher had significant personal financial pressures. She stated, *“I took money, I followed what I thought what I was supposed to do. I did leave money in my desk. \$16,000 [missing for 2018] is a huge sum. I guarantee you, if I would have had \$16,000, I would not have had to refinance my house, admit to my husband that we were so far in debt that we needed to go to the bank and pay off all these little loans that I’ve taken out. I certainly would have taken that money and used that to pay for that. I wouldn’t have.....done that knowing...”*

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Opportunity

The second leg of the fraud triangle is *perceived opportunity*, which defines the method by which the crime can be committed. The person must see some way to use (abuse) her position of trust to solve her financial problem with a low perceived risk of getting caught. It is also critical that the fraud perpetrator can solve her problem in secret. Many people commit white-collar crimes to maintain their social status. Fraudsters not only have to be able to steal funds, she has to be able to do it in such a way that will likely not be caught and the crime itself will not be detected.

The Teacher had the opportunity to skim activity funds from CHS, as described above and in **EXHIBIT 5 – SCHEDULE OF FINDINGS AND RESPONSES** of this report. Inadequacy of fraud detection 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.

No one in the District during the Period, except CHS Secretary C, appears to have questioned the balances, format or amounts receipted/deposited, which allowed the opportunity of theft for a long period of time.

Rationalization

The third leg of the fraud triangle is *rationalization*. The vast majority of fraudsters are first-time offenders with no criminal past; they do not view themselves as criminals. They see themselves as ordinary, honest people who are caught in a bad set of circumstances. Consequently, the person must justify the crime to herself in a way that makes it an acceptable or justifiable act. Common rationalizations include: “I was only borrowing the money”, “I was underpaid”, “I worked 2-3 job duties and got paid for one”, and “I had to steal to provide for my family and get by”.

DEFINITIONS

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 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

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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.

NM State Audit Rule 2.2.2.15 SPECIAL AUDITS, ATTESTATION ENGAGEMENTS, PERFORMANCE AUDITS AND FORENSIC AUDITS:

A. Fraud, waste or abuse in government reported by agencies, IPAs or members of the public:

(1) Definition of fraud: Fraud includes, but is not limited to, fraudulent financial reporting, misappropriation of assets, corruption, and use of public funds for activities prohibited by the constitution or laws of the state of New Mexico. Fraudulent financial reporting means intentional misstatements or omissions of amounts or disclosures in the financial statements to deceive financial statement users, which may include intentional alteration of accounting records, misrepresentation of transactions, or intentional misapplication of accounting principles.

Misappropriation of assets means theft of an agency's assets, including theft of property, embezzlement of receipts, or fraudulent payments. Corruption means bribery and other illegal acts. (GAO-14-704G federal internal control standards paragraph 8.02).

(2) Definitions of waste and abuse: Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another. Waste and abuse do not necessarily involve fraud or illegal acts. However, they may be an indication of potential fraud or illegal acts and may still impact the achievement of defined objectives. (GAO-14-704G federal internal control standards paragraph 8.03).

Internal controls

Effective internal controls require independent and ethical oversight with integrity, accountability and ongoing risk assessment in order to provide reliable indicators of an entities performance. The U.S. Governmental Accountability Office, in Section OV1.01 of the Green Book, defines internal control as "a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved ..." Without the appropriate design and implementation of these controls, entities are more susceptible to fraud, waste and abuse. JAG recommends the District adopt the US GAO Green Book as the basis for its internal controls, guiding the ongoing development of its policies and procedures. These policies and procedures need to ensure transparency and risk assessment and monitoring are occurring.

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Auditing Standards

Auditing standards provide that it is the responsibility of management to ensure that agencies have sound internal structure. Statement of Auditing Standards (SAS) Codification (AU) Section 110, paragraph .03, explains that it is management's responsibility to adopt sound accounting policies and to establish and maintain internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. SAS AU 316 paragraph .04 states that "Management, along with those charged with governance, should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those charged with governance fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly."

Furthermore, Statement on Auditing Standard AU Section 325 paragraph 3 provides that "internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations." Agencies and IPAs that pursuant to Section 12-6-6 NMSA 1978, an agency or IPA shall notify the State Auditor immediately, in writing, upon discovery of any violation of a criminal statute in connection with financial affairs. The 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.

Each agency should evaluate the internal controls by reviewing and testing internal controls to ensure they are properly designed and implemented. Any violation of law or good accounting practice including instances of noncompliance or internal control weaknesses must be reported as an audit finding per Section 12-6-5 NMSA 1978. Pursuant to GAGAS 4.23, "auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed: significant deficiencies and material weaknesses in internal control; instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and abuse that has a material effect on the audit."

CMS and the Board of Education (Board) remain 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.

FINDINGS

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 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 for all financial areas at all campuses and monitor 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 CMS and has already taken some corrective action and implemented some of the recommendations to prevent future theft, fraud, or embezzlement.

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Findings include the elements as required by 2.2.2.15 B and 2.2.2.10 I (3) (c) NMAC. Management's responses to the findings were not audited and/or presented verbatim.

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 identified 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 High School for handling cash during the Period.
2. Identify all of the High School revenue sources during the Period, focusing on Yearbook funds.
3. Identify and analyze all Yearbook transactions handled by the High School during the period of July 2012 through June 2018.
4. Identify and analyze any High School charge accounts, including local Vendors, for purchases handled by the High School (relating to the Yearbook funds) during the period of July 2012 through June 2018.
5. Document all records supporting Yearbook revenues during the Period including:
 - a. Receipts and receipt books
 - b. Documents used for tracking changes in the custody of cash and receipt books.
 - c. Bank records and reconciliations
6. Identify Yearbook activity fund fraud risks at the High School for the period of July 2012 through June 2018.

DETAILED PROCEDURES PERFORMED

This section expands upon our testing and results of the consulting procedures listed above. JAG has performed procedures for the time period requested, July 1, 2012 through June 30, 2018:

1. Processes and Procedures

- ✓ We interviewed those who were involved in the process for the CHS activity funds, including: CMS Superintendent B, HR Director, HR Assistant, CHS Principals B and C, the former Business Managers A and B, Staff, the former auditors, the Yearbook Vendor, the Yearbook Teacher/Sponsor, the CMS Audit Committee, and others. CHS Principal A and CHS Secretary A declined to be interviewed.
- ✓ We reviewed the CMS 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 CMS Finance Department had already collected on this matter.

2. Identify Revenue Sources

- ✓ We identified revenue sources and Yearbook balances in the District's annual audit and activity fund disclosures. However, the Yearbook fund was no longer identified separately in the audited financial statements during the Period.
- ✓ Interviews and Yearbook documentation testing assisted us in determining what the revenue should be.

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- ✓ To the extent that information was available, we identified the receipts that should have gone through this fund during the Period.
- ✓ See **EXHIBIT 2 – SUMMARY OF POTENTIAL LOSSES** included in this report.

3. Identify and Scrutinize Transactions

- ✓ We applied forensic auditing procedures to the transactions handled by the Teacher during the period requested. In general, the information provided to us, the Teacher's records, were incomplete and inaccurate. We relied substantially on records from the remaining cash receipt books and CHS Secretaries' and Central Office Finance's bank deposit packets to complete our engagement.
- ✓ See **EXHIBIT 2 – SUMMARY OF POTENTIAL LOSSES** included in this report.

4. Identify and Analyze High School Charge Accounts

- ✓ Through our interviews, we determined there were no charge accounts relating to the Yearbook funds.
- ✓ There were amounts past due to the Yearbook Vendor and finance charges of approximately \$600 paid.

5. 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 and reconciliations, emails, contents of the CHS Secretaries' office and the Yearbook classroom, information provided to us in interviews, reports from CO, audited financial statements, various deposit listings, electronic records, iVisions reports.
- ✓ 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.

6. 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 three Certified Public Accountants (CPAs), one Certified Fraud Examiner (CFE) and various Governmental Auditors with two years or greater experience in governmental and auditing and consulting.
- ✓ Regarding potential collusion, the evidence does not point to this.
- ✓ 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

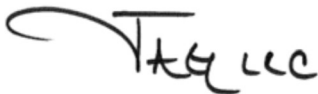
- ✓ During our external audit on July 23, 2018, the then Superintendent ("B") and Finance Director ("B") asked us to examine with preliminary procedures if a Special Audit would be recommended.
- ✓ Employees have disclosed the alleged embezzlement to the OSA (on October 12, 2018) and the City of Carlsbad Police Department (Superintendent B had a meeting with a Detective on an unknown date).
- ✓ The District engaged an external independent auditor, Jaramillo Accounting Group LLC (JAG), to perform these forensic procedures.
- ✓ Due to high turnover in Administrative and Finance positions since the discovery of Yearbook shortages, the District will take corrective action in accordance with their Management Responses to the Findings (**EXHIBIT 5**) after the issuance of this report.

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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. 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" that loops around the "A" and "G".

Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
July 17, 2019

Our Vision: JAG's local industry experts analyze, problem solve, and train to provide NM with Clarity from the Complexities of accounting, operations, and fraud.

Our Mission: Through audit, training and consulting JAG will facilitate continuous development in accounting, processes, internal control systems, fraud prevention and detection. We create professional growth for clients and employees.

**CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUCIT CONSULTING PROCEDURES
EXIT CONFERENCE AND DISCLAIMER**

The contents of this report were discussed on July 12, 2019. The following individuals were in attendance:

Carlsbad Municipal School District – Audit Committee

David Shoup, Board President, Audit Committee Member
Ron Singleton, Board Member, Audit Committee Member (by phone)
Elizabeth Cass, Parent Representative, Audit Committee Member

Carlsbad Municipal School District – Administration

Dr. Gerry Washburn, Superintendent, Audit Committee Member (Ex-Officio)
La Vern Shan, District Deputy Superintendent, Audit Committee Member (Ex-Officio)
Maria Fidalgo, Finance (by phone) , Audit Committee Member (Ex-Officio)

Jaramillo Accounting Group LLC (JAG)

Audrey J. Jaramillo, CPA, CFE, Managing Partner
Scott Eliason, CPA, Partner

NM Office of the State Auditor

Joseph Holloway, Esq., General Counsel

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 of the Yearbook fund sales. 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 (REDACTED)
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
ROSTER OF RELEVANT POSITIONS
JULY 17, 2019

REPORT NAME	NAME	POSITION/PARENT OF	START DATE	END DATE
Teacher				
Union Representative				
Director Secondary Education				
CHS Secretary A				
CHS Secretary B				
CHS Secretary C				
CHS Principal A				
CHS Principal B				
CHS Principal C				
CHS Principal D				
CHS Assistant Principal				
Finance Director A				
Finance Director B				
Finance Director C				
Superintendent A				
Superintendent B				
Superintendent C				
Superintendent D				
HR Director				
Parent A				
Parent B				
Parent C				
Parent D				
Parent E				
Parent F				
Parent G				
Parent H				

EXHIBIT 2
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SUMMARY OF POTENTIAL LOSSES
SCHOOL YEARS 2012-2018

School Year	Source of Fees/Fines	Estimated Amount That Should Have Been Collected, Net of Amounts Forgiven *	Amount Confirmed as Collected (Receipted) per Receipt Books Provided to JAG **	Estimated Difference Between What Should Have Been and What was Actually Receipted	Amount Entered as Receipted into the General Ledger	Estimated Difference Between What Should Have Been and What was Receipted per G/L
2012-2013						
	Yearbook Sales	\$ 28,001	\$ 29,372	\$ (1,371) ***		
	Senior Ads	36,540	19,730	16,810		
	Subtotal (2012-2013)	<u>64,541</u>	<u>49,102</u>	<u>15,439</u>	\$ 41,360	\$ 23,181
2013-2014						
	Yearbook Sales	25,955	20,533	5,422		
	Senior Ads	33,660	23,647	10,013		
	Subtotal (2013-2014)	<u>59,615</u>	<u>44,180</u>	<u>15,435</u>	35,309	24,306
2014-2015						
	Yearbook Sales	26,187	20,344	5,843		
	Senior Ads	36,420	26,060	10,360		
	Subtotal (2014-2015)	<u>62,607</u>	<u>46,404</u>	<u>16,203</u>	44,447	18,160
2015-2016						
	Yearbook Sales	25,406	18,157	7,249		
	Senior Ads	36,540	29,540	7,000		
	Subtotal (2015-2016)	<u>61,946</u>	<u>47,697</u>	<u>14,249</u>	39,129	22,817
2016-2017						
	Yearbook Sales	23,521	16,445	7,076		
	Senior Ads	31,560	19,450	12,110		
	Subtotal (2016-2017)	<u>55,081</u>	<u>35,895</u>	<u>19,186</u>	33,670	21,411
2017-2018						
	Yearbook Sales	23,059	15,592	7,467		
	Senior Ads	26,520	21,981	4,539		
	Subtotal (2017-2018)	<u>49,579</u>	<u>37,573</u>	<u>12,006</u>	33,162	16,417
Total (2012-2018)		\$ 353,369	\$ 260,851	\$ 92,518	\$ 227,077	\$ 126,292

* These amounts are conservative, as the personalization fees (\$5/line) and late fees (\$25 each) are not included in these estimates.

** Certain receipt books relating to fiscal years 2013, 2014, and 2016 were not provided to JAG. By averaging the receipt books we were provided by fiscal year, JAG estimated the amounts of the missing receipts and allocated them to either yearbook sales or senior ads based on the percentages of yearbook sales receipts and senior ad sales receipts in relation to total receipts by fiscal year from the receipt books that were provided.

*** The amount confirmed as collected (receipted) per receipt books provided to JAG is likely greater than the amount that should have been collected, net of estimated amounts forgiven, due to the percentage-based allocation of the estimated receipts to either yearbook sales or senior ads. It is likely that more of the receipts NOT provided to JAG were related to senior ad sales rather than yearbook sales.

EXHIBIT 3
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
EXAMPLE SHORTAGES BY AREA OF RESPONSIBILITY
SELECTED [MONTHS ONLY] - AUGUST 2014 TO MAY 2018

Date	Cash Receipt Ticket#	General Ledger		Cash Receipt Book			Teacher Area of Responsibility ONLY	Teacher OR CHS Secretary Area of Responsibility POSSIBLE (Assuming Teacher Did Submit these Funds to the CHS Secretary)	CHS Secretary
		CHS SECRETARY Amount	CENTRAL OFFICE Amount	Tickets TEACHER Amount	CASH or Check Not Deposited	VOID Not Deposited			
8/18/2014	25021	\$ -	\$ -	\$ 430	\$ 430	\$ 430	\$ 430		A
8/26/2014	25022	-	-	305	305	305	305		A
9/8/2014	25023	-	-	180	180	180	180		A
9/9/2014	25034	-	-	200	200	200	200		A
9/3 to 9/24/2015	49263 to 49271	-	-	865	865			865	A
9/24 to 10/2/2015	49273 to 49276	-	-	Tickets Removed	Unknown Amt	Unknown Amt	Unknown Amt		A
10/2/2015	49298	-	-	65	65	65	65		A
10/12/2015	49313	-	-	200	200	200	200		A
11/4/2015	49369	-	-	40	40	40	40		A
1/5/2016	52053	-	-	80	80	80	80		A
2/16/2016	52055	-	-	200	200	200	200		A
2/17/2016	52057 to 52073	1,265	1,265	1,305	40		40		A
3/3/2016	52075	-	-	30	30	30	30		A
3/22/2016	52078-9, 52442	-	-	205	205	205	205		A
4/5/2016	52471, 52472	-	-	255	255			255	A
4/5/2016	52473	-	-	80	80	80	80		A
6/6/2016	52817 to 52834	320	320	380	60		60		A
9/29/2016	75322	-	-	425	425	425	425		A
10/7/2016	75345	300	300	300	300	300	300		A
11/14/2016	77386	-	-	415	415			415	A
12/14/2016	77398 to 77728	2,445	2,445	2,505	60		60		A
12/16/2016	77729 to 77732	-	-	1,020	1,020			1,020	A
1/2/2017	77733, 77734	-	-	80	80			80	A
1/25/2017	77777 to 77779	-	-	315	315	315	315		A
3 or 5/8/2017	78188	-	-	200	200	200	200		A
4/7/2017	78207, 78208	-	-	120	120			120	A
5/1/2017	78218 to 78222	160	160	460	300		300		B
5/2/2017	78224	-	-	75	75		75		B
5/8/2017	78227, 78229-30	150	155	440	440		440		B
5/9/2017	78228	-	-	60	60	60	60		B
5/11/2017	78235-6, 78240	150	150	225	75		75		B
5/15/2017	78237 to 78239	-	-	300	300		300		B
9/5-7/2017	78782 to 78786	1,080	1,180	1,260	80			80	B
9/11/2017	78787, 78788	180	180	540	360			360	B
9/13/2017	78790	-	-	360	360			360	B
10/6/2017	77821-3, 78831-2	7,620	7,620	8,745	1,125		1,125		B
10/11/2017	78835, 778836	6,935	6,935	7,159	224		224		B
11/8/2017	91258, 91259	1,350	1,350	1,530	180		180		B
11/27/2017	91260	-	-	65	65		65		B
12/6-11/2017	91753 to 91757	-	65	270	205		205		B
12/12/2017	91758	1,540	1,540	1,670	130		130		B
12/22/2017	91786	140	140	205	65		65		B
12/19/2017	91779, 91777	65	65	70	5	5	5		B
2/20/2018	91935	-	-	75	75	75	75		B
2/22/2018	91941 to 91943	-	-	400	400			400	B
2/27/2018	91944	-	-	200	200	200	200		B
3/2-12/2018	91953 to 91956	-	-	32	32		32		B
3/16/2018	91967, 91968	-	-	145	145	145	145		B
4/20/2018	92416 to 92420	-	-	380	380		380		B
4/24/2018	92421	-	-	160	160	160	160		B
5/2018 No Differences Noted in Testing - the Negative Balance was known by the New Principal C by this point.									
Totals in Sample		\$ 23,700	\$ 23,870	\$ 35,026	\$ 11,611	\$ 3,900	\$ 7,656	\$ 3,955	

EXHIBIT 4
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
EXAMPLE TESTING OF DAILY DEPOSITS – FEBRUARY 2018

Cash Receipt Ticket #	Date	CHS Secretary's Amount	GL/Bank Finance's Amount	Cash Receipt Book Teacher's Amount	Payment Type on Cash Receipt Ticket	Known CASH Not Deposited
FEBRUARY 2018						
91933	2/2/2018	\$ 160		\$ 160	Check	
91934	2/2/2018	25		25	Check	
	2/2/2018	185				
Check	Bank Adj	50				
	Adjusted	\$ 235	\$ 235	\$ 235		\$ -
91935				VOID	CASH	\$ 75
91936	2/20/2018	\$ 70	\$ 70	\$ 70	Check	\$ -
91937	2/21/2018	70		70	Check	
91938	2/21/2018	70		70	Check	
91939	2/21/2018	70		70	Check	
91940	2/21/2018	70		70	Check	
	2/21/2018	\$ 280	\$ 280	\$ 280		\$ -
91941	2/22/2018			\$ 70	CASH	\$ 70
91942	2/22/2018			70	CASH	\$ 70
91943	2/22/2018			260	CASH	\$ 260
91944	2/27/2018			VOID	CASH	\$ 200
		\$ -	\$ -	\$ 400		\$ 600
91945	2/28/2018			\$ 70	Check	
91946	2/28/2018			70	Check	
91947	2/28/2018			70	Check	
91948	2/28/2018			70	Check	
91949	2/28/2018			65	Check	
	3/1/2018	\$ 345	\$ 345	\$ 345		\$ -
TOTAL KNOWN CASH FROM CASH RECEIPT TICKETS UNDEPOSITED (FEB 2018)						\$ 675

EXHIBIT 4 (CONTINUED)
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
EXAMPLE TESTING OF DAILY DEPOSITS – DECEMBER 2015, 2016, 2017

Cash Receipt Ticket #	Date	CHS Secretary's Amount	GL/Bank Finance's Amount	Cash Receipt Book Teacher's Amount	Payment Type on Cash Receipt Ticket	Known CASH Not Deposited
DECEMBER 2015						
52041 to 52053	12/18/2015	\$ 980	\$ 980	\$ 980	Checks/\$20 Cash	\$ -
Unlikely received only \$20 Cash in an entire month.						
DECEMBER 2016						
77398 to 77709	12/14/2016	\$ 905	\$ 905	\$ 905	Checks	
77710	12/14/2016	50	50	50	Money Order	
77711 to 77727	12/14/2016	1,490	1,490	1,490	Checks	
77728	12/15/2016	-	-	60	CASH	\$ 60
Deposit Total		\$ 2,445	\$ 2,445	\$ 2,505		\$ 60
77729	12/16/2016	\$ -	\$ -	\$ 70	CASH	\$ 70
77730	12/16/2016	-	-	155	CASH	155
77731	12/16/2016	-	-	75	CASH	75
77732	12/16/2016	-	-	720		720
Deposit Total		\$ -	\$ -	\$ 1,020		\$ 1,020
DECEMBER 2017						
91741 to 91752	12/1/2017	\$ 920	\$ 920	\$ 920	Checks	\$ -
91753 to 91757	12/6-11/2017	-	65	270	CASH	205
91758	12/12/2017	-	-	130	CASH	130
91759 to 91785	12/12-19/2017	1,540	1,540	1,540	Checks	
91786	12/22/2017	-	-	65	CASH	65
91777 & 91779	12/19/2017	Receipt was voided and re-written for Check Amt (CASH	5
91787 to 91788	12/22/2017	140	140	140	Checks	
Deposit Total		\$ 1,680	\$ 1,680	\$ 1,875		\$ 405
TOTAL KNOWN CASH FROM CASH RECEIPT TICKETS UNDEPOSITED (DEC 2015, 2016, 2017)						\$ 1,485

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES
JULY 17, 2019

Finding #	Finding Description (Material Weaknesses)
2019-001F	Potential Fraud, Forgery, Embezzlement, and Non-Compliance
2019-002F	Negative Activity Fund Balances
2019-003F	Lack of Segregation of Duties – Reconciliation of Receipt Books to Deposits
2019-004F	Commingling Receipts
2019-005F	Failure to Reconcile Activity Funds and Report Accurate Balances to Sponsors and Teachers
2019-006F	Inadequate Controls over Activity Fund's Cash Receipts and Collections
2019-007F	Irregular Cash Receipts for Money Collected, Form of Receipts, and Lack of Controls over Receipt Tickets and Books
2019-008F	District's Finance and Audit Committees of the Board of Education - Monitoring and Corrective Actions
2019-009F	District's Central Office Superintendent and Finance Department - Monitoring, Risk Assessment, and Corrective Actions
2019-010F	District's School Principals - Monitoring and Turnover
2019-011F	Insufficient Accounting Records, Document Retention, and Inspection of Public Records Act
2019-012F	Lack of Established Practices for the Identification, Mitigation, and Monitoring of Risks
2019-013F	Lack of Controls over Compliance with the Anti-Donation Clause of the NM State Constitution
2019-014F	Other Risks Identified During the Forensic Procedures

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

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. The next step that follows this letter is a potential referral by the New Mexico State Auditor to the “proper prosecuting officer”, a further investigation by law enforcement (which includes the District Attorney’s or New Mexico Attorney General’s Office), yielding their conclusions on these matters. We raise these matters for future consideration and draw no legal conclusions nor reach ultimate findings.

2019-001F POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, AND NON-COMPLIANCE

CONDITION

In summary, from the information the District provided and interviews we performed, it appears that the Carlsbad High School (CHS) Yearbook Sponsor (“Teacher”) may have committed fraud by misappropriation, forgery, and embezzlement of District activity funds (potentially misappropriating with skimming schemes approximately \$126,000 during the six-year time period we were engaged to examine, calculated from the available information we were engaged to examine) and non-compliance with state statutes, NM Public Education Department regulations, and District policies and procedures. See Summary at [EXHIBIT 2](#).

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 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, non-compliance, 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.

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-001F POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, AND NON-COMPLIANCE (CONTINUED)

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 30-26-1. *Interfering with Public Records* consists of knowingly altering any public record without lawful authority.....destroying, concealing, mutilating or removing without lawful authority any public record or public document belonging to or received or kept by any public authority for information, record or pursuant to law.

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 – 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 – 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.....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. No employee shall, by action or inaction, interfere with or disrupt any District activity or encourage any such disruption. No employee, other than one who has obtained authorization from the appropriate school administrator, shall carry or possess

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-001F POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, AND NON-COMPLIANCE (CONTINUED)

a weapon on school grounds. All employees shall at all times attempt to maintain order, abide by the policies, rules, and regulations of the District, and carry out all applicable orders issued by the Superintendent.

District Policy Manual and Administrative Regulations – 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.

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.

EFFECT

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 hard to obtain for their School, other entities and individuals. Also, there may be additional costs as others may be required to follow up on certain aspects of the potential fraud.

CAUSE

The District's internal controls and accountability were not strong enough to prevent, detect, and stop continued fraud or errors. It appears to be a common mistake in Districts to not analyze the amounts that *should be* in the accounts. Administrative and Finance employees did not check the account

RECOMMENDATION

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

**EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-001F POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, AND NON-COMPLIANCE (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action:

The District's new Director of Finance will conduct a complete review of internal controls and report to the Board on actions taken to strengthen internal controls to prevent and detect possible fraud or non-compliance.

Due Date of Completion: October 31, 2019

Responsible Party: Finance Director

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-002F NEGATIVE ACTIVITY FUND BALANCES

CONDITION

During our testing, we noted that as of June 30, 2018, the CHS Yearbook fund had only \$1,126 showing in their cash balance and the District still owed the yearbook vendor \$27,839. Had the District been on the accrual basis of accounting, the missing funds would have likely been discovered in 2015 instead of 2018. This time delay, among other factors, caused an estimated additional \$60,500 to have been stolen.

Complicating the matter, the Finance Office (“Finance”) in Central Office (“CO”) closed the Yearbook’s ending fund balance (\$43,074) into a Finance code instead of the CHS Yearbook code. The Yearbook trial balance and general ledger reports do not show the actual cash balances; only approximately \$360 in cash was showing in the reports. There is pooled cash in iVisions and several activity funds, including athletics, feeds into one bank account.

Per our discussion with Finance Director A, the Teacher and her union representative, activity funds (in general) would sometimes have negative balances. Although other funds were outside our scope, further work should be performed in this area since controls are lacking.

From our forensic testing, we see evidence that the Finance Director A and Assistant Comptroller should have been aware of the reported the negative amount owed to the Yearbook fund vendor, from a \$25,964 purchase order, from an email on June 2, 2017. It seems this was not followed through on by Finance or CHS Principals. According to CHS Secretary C, who was on that email string, she reported the problem again to Finance and to CHS Principals A and B. It was not until she again provided information to Principal C in the spring of 2018 that he informed the Superintendent B, who took the matter seriously, leading to this engagement.

CRITERIA

NMSA 1978 Section 6-10-2 Public money; cash books; daily balance; public record. 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 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.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics. No activity fund account shall ever be permitted to incur a deficit. Financial records of student activity funds must be in accordance with generally accepted accounting principles and an adequate internal control structure established and maintained, as well as audit trails, in the same manner as the school district’s regular funds.

EFFECT

There were not the funds available to make the CHS Yearbook fund whole. The District paid the yearbook vendor out of operational funds during FY19. The alleged fraud was not discovered timely.

**EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-002F NEGATIVE ACTIVITY FUND BALANCES (CONTINUED)

CAUSE

The District Administrative and Finance employees did not recalculate what should have been in the fund and since payables were not recorded, it was unknown that the fund was in the negative for three years. We also noted that when a CHS Secretary C started with the District in May 2017, she started telling the CHS High School Principals and Finance about the negative balance – Secretaries prior to her may not have been monitoring the balance well enough.

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 non-compliance. It is critical for all Administrators to analyze each activity fund from an analytical perspective to ensure that revenues, expenditures, and balances are what they logically “should be” based on knowledge of rates, sales, students, etc.

MANAGEMENT RESPONSE

Corrective Action:

Building administrators or designee will review activity fund balances monthly to ensure that deposits and expenditures have been correctly entered and accounted for.

Due Date of Completion: Immediate

Responsible Party: Building Administrators

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-003F LACK OF SEGREGATION OF DUTIES – RECONCILIATION OF RECEIPT BOOKS TO DEPOSITS

CONDITION

While reviewing the policies, procedures and internal controls processes in place at CHS, we ascertained that segregation of duties and internal controls were relatively strong compared to other Districts, because of corrective action taken on audit findings in years past. However, the last piece of the puzzle would have been for CHS Secretaries A or B and/or Finance to reconcile the cash receipt tickets to the deposits in the bank and general ledger. This was designed but not implemented properly, which caused the potential skimming scheme to remain undetected.

From certain cash receipt packets we noted the following deposits for the Yearbook activity did not follow the District's cash handling policy, in that deposits were forwarded to the CHS Secretaries without the individual prenumbered cash receipts documents, signed by the Teacher:

- a. 2-2-18,2-20-18,2-21-18,2-22-18, 2-28-18
- b. 1-29-18
- c. 8-18-2014,8-26-2014,9-8-2014,9-9-2014,9-26-2014
- d. 3-2-18, 3-15-18,3-28-18, 3-29-18
- e. 4-11-18,4-19-18,4-20-18, 4-27-18
- f. 5-2-18,5-9-18,5-14-18,5-15-18,5-17-18,5-18-18,5-21-18,5-21-18,5-23-18,5-24-18,5-24
- g. 1-5-17, 1-10-17
- h. 2-8-17, 2-13-17,2-17-17
- i. 3-10-17,3-16-17,3-17-17
- j. 4-10-17, 4-20-17 and 4-25-17
- k. 5-2-17,5-8-17,5-10-17,5-11-17,5-17-17,5-18-17,5-19-17,5-22-17,5-25-17 & 5-26-17
- l. 8-14-2017
- m. 9-5-17,9-7-17,9-8-17,9-13-17,9-26-17
- n. 10-6-17 & 10-11-17
- o. 11-8-2017
- p. 12-1-17,12-12-17,12,21-17,12-22-17
- q. 9-24-2015
- r. 10-2-15, 10-7-15, 10-14-15, 10-22-15
- s. 11-5-15, 11-12-15, 11-30-15
- t. 12-18-15
- u. 2-17-16
- v. 3-22-16, and 3-32-16
- w. 4-11-16, 4-20-16, 4-28-16
- x. 5-3-16, 5-4-16, 5-11-16, 5-16-16, 5-19-16, 5-23-16, 5-25-16, 5-27-16, 5-31-16
- y. 9-16-2016, 9-20-2016, 9-28-2016
- z. 6-6-2016, 6-7-2016, 6-27-2016
- aa. 10-5-16, 10-13-2016, 10-20-2016
- bb. 11-21-2016

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

**2019-003F LACK OF SEGREGATION OF DUTIES – RECONCILIATION OF RECEIPT BOOKS TO DEPOSITS
(CONTINUED)**

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.

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.

Each school district will devise, establish and maintain a written structure of internal administrative and accounting controls to provide: ...Bonding of employees, Proper Safeguards to protect unused checks and other pre-numbered forms, cash prior to deposit, and other receipts, etc.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 7 – Cash Controls. Per the General Cash Receipts and Collections section: cash drawers should be reconciled daily, there is a daily reconciliation of cash receipts, cash is deposited daily, personnel with access to cash and inventory are bonded, and All district employees handling cash must be familiar with cash handling policies and sign an affidavit that they have read and understand the policies, and agree to abide by those policies.

Per the General Revenue Cycle Controls: Business office personnel audit the receipt books and deposit slips submitted by the accountable units to ensure that all receipts are timely deposited and that there are no missing receipts. Additional controls are included in the activity and agency funds section to ensure that fund raisers are authorized and there is a proper method for tracking funds collected (PSAB No. 18).

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

**2019-003F LACK OF SEGREGATION OF DUTIES – RECONCILIATION OF RECEIPT BOOKS TO DEPOSITS
(CONTINUED)**

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics.

EFFECT

Potential theft and errors remained undetected since internal controls are not implemented completely over cash receipt tickets.

CAUSE

There was a lack of review, reconciliation, and accountability for cash receipt tickets at the high school.

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. Also, all receipt books should remain pre-printed, the numbers accounted for, and reconciled to the bank deposits and general ledger.

As a reminder for when the District addresses this finding at all campuses:

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
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

**2019-003F LACK OF SEGREGATION OF DUTIES – RECONCILIATION OF RECEIPT BOOKS TO DEPOSITS
(CONTINUED)**

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:

Duties and access to different areas of the transaction cycle in activity funds will be separated and reviewed by the District's Finance Department for accuracy and fraud prevention.

Due Date of Completion: Immediate

Responsible Party: Finance Director and Building Administrators

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-004F COMMINGLING RECEIPTS

CONDITION

The District uses one bank account to record the transactions of many activity and athletic funds. Cash receipts tickets were not properly reconciled to the bank deposits. It was difficult to segregate CHS deposits in the bank statements.

CRITERIA

Best practices dictate that each campus should have a bank account, with athletics separately. This allows bank reconciliations performed monthly 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

New Mexico PED PSAB Supplement 2 - Internal Control Structure - CONTROL ACTIVITIES AND PROCEDURES.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 7 – Cash Controls.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics.

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 521 Daily Cash Deposits. Money received by all schools and organizations shall be receipted and deposited in the bank within twenty-four (24) hours or one banking day. The bank deposit slip shall have the numbers from applicable receipts entered on it or attached as a reference.

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.

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-004F COMMINGLING RECEIPTS (CONTINUED)

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

We recommend use of separate imprest bank accounts for each campus and athletics separately. We immediately recommended, and the District implemented, using online payments for the Yearbooks. We further recommend that ad payments be submitted only to the CHS front office.

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. 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 all the Schools' significant, material fundraisers and fee collections. Policy should be approved to delineate which fundraisers and fee collections this would apply to. 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 the District perform cash receipt ticket reconciliations daily, book reconciliations monthly, and make any necessary corrections at the time of reconciliation. For future years, all supporting documentation for accounts should be provided with the reconciliations. The District should also ensure documentation of employee training and bonding.

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

- Communicate from the top down the expectation that employees elevate any unusual instances such as this up the chain of command or even to an anonymous hotline. 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 the documents of those who work with cash. 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.

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-004F COMMINGLING RECEIPTS (CONTINUED)

- There should be consequences for not following deadlines, job requirements (such as trainings or cash receipt documentation that were not followed in this case), and corrective action plans.
- Some of the most important steps are to track all the pre-numbered receipts and agree them to the bank statements and agree 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.
- 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 Sponsors, Secretaries 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.
- Some Districts use procedures such as the following:

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 **10th of each month** (attention: Finance Director) 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
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-004F COMMINGLING RECEIPTS (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action:

The District will review and consider the recommendation for using separate imprest bank accounts for each campus and athletics.

The District will review, develop, and strengthen policies and procedures regarding cash receipts.

Cash receipt ticket process will be reviewed and strengthened as recommended.

Staff will be trained and procedures developed to ensure that cash receipts are handled correctly and any irregularities reported immediately to the Finance Director. The Finance Director will investigate irregularities and report findings to the Superintendent for action.

Reconciliations will be performed monthly. Activity Fund Reports will be turned in monthly. Procedures will be monitored and verified.

Due Date of Completion: Immediate and ongoing

Responsible Party: Finance Director, Superintendent, and Building Administrators

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-005F FAILURE TO RECONCILE ACTIVITY FUNDS AND REPORT ACCURATE BALANCES TO SPONSORS AND TEACHERS

CONDITION

The Finance Directors and CHS Principals did not ensure that each cash receipt ticket/book was properly reconciled to deposits and did not look at the fund from a logical, analytic perspective. If they had, the potential fraud may have been caught much sooner.

During our fieldwork, the Teacher and her union representative expressed frustration with the lack of information on activity fund balances. However, we did note in the Teacher's classroom several reports that the CHS Secretaries had provided her in way of receipt of funds or trial balances – she verified that she recognized these reports, so we know they were provided, albeit inconsistently. Accurate iVision receipts for each cash/check submission to Secretaries and iVision reports for revenue/expenses activity should be provided weekly on a shared network drive (created by Finance) to ensure accountability for funds collected and recorded and deposited.

Additionally, the Teacher did not accurately track yearbook sales and ads by Student. Ad forms would sometimes state there were balances owed, but the ad was still in the yearbook. Yearbook pre-order forms would sometimes not show a payment but would show a Student's signature as receiving the yearbook, which meant they had paid. The Teacher stated that any outstanding fines (she could not remember any in particular except one student who did pay) would be on the CHS fines list; however, there were no items for yearbooks/ads on the fines lists during the Period except for jump drives for the class.

CRITERIA

NMSA 1978 Section 6-10-2.

New Mexico PED PSAB Supplement 2 - Internal Control Structure - CONTROL ACTIVITIES AND PROCEDURES.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 7 – Cash Controls.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics.

NMSA 1978 Section 14-2-5.

EFFECT

The lack of strong controls surrounding receipts greatly increases the risk for misappropriation of funds that should be for the benefit of the community, staff, parents, and students.

CAUSE

The District did not have sufficient controls over cash receipt tickets.

RECOMMENDATION

The District must develop and implement strong policies and procedures to ensure that receipts are processed completely, recorded accurately, and approved. Staff must be made aware that they should not leave until they have a receipt in-hand for monies they turn over to another person. Teachers must keep independent records of their classes and amounts collected that are complete and accurate. Copies of checks should be made and kept on-file for the deposit supporting documentation. Monthly statements should be prepared at each School level and reviewed by Central Office and sent to teachers and sponsors by a person independent of the process.

**EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-005F FAILURE TO RECONCILE ACTIVITY FUNDS AND REPORT ACCURATE BALANCES TO SPONSORS AND TEACHERS (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action:

The District will review its policies and procedures to ensure that receipts are processed completely, recorded accurately, and approved. Recommendations for changes to policies and procedures will be presented to the Audit Committee and the School Board.

Due Date of Completion: October 31, 2019

Responsible Party: Finance Director

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-006F INADEQUATE CONTROLS OVER ACTIVITY FUNDS' CASH RECEIPTS AND COLLECTIONS

CONDITION

There were inadequate controls over receipts to safeguard the District's assets and collections. This resulted in potential fraud as described in more detail in the findings above. The Teacher stated she did not lock her desk drawer where she held the cash and although she was so worried about the cash and would ask Students to "watch her" with the cash she was handling, she did not take precautionary measures to lock up the cash in a filing cabinet or lock box. Additionally, the safe in CHS's office was in an unlocked closet and the CHS Secretaries A and B used a file folder on the outside of their door where teachers could leave public monies. CHS Secretary B did implement a secure drop box after she was hired in 2017. The Teacher also stated that in years past, she would allow Students to take monies to the front office in an envelope and never verified that the CHS Secretaries received the funds. Lastly, there were a few receipt books not properly signed for in FY13 and there were a few receipt books not turned into Central Office which were never found.

Although the District had stronger controls over receipting than some we have seen, there are improvements that can be made. Despite this, most of the alleged shortage of yearbook funds is not related to positions other than the Teacher's area of responsibility.

There were files which tracked yearbooks and ads which were missing from the Teacher's classroom hard drive, which was secured when she was placed on administrative leave. It is possible the files were deleted before backups were made for our engagement.

CRITERIA

District Policy 476-1 Use of District Computers. The Carlsbad Public Schools seeks to protect legitimate users of technology by establishing limits on such use and sanctions for those who abuse the privilege...Unacceptable use activities constitute, but are not limited to, any activity through which any user: 4. Uses or knowingly allows another to use any computer, computer network, computer system, program, or software to devise or execute a scheme to defraud or to obtain money, property, services, or other things of value by false pretenses, promises, or representations. 5. Destroys, alters, dismantles, disfigures, prevents rightful access to, or otherwise interferes with the integrity of computer based information resources, whether on stand alone or networked computers. 7. Uses the network for...personal or private gain. 8. Do not destroy, modify or abuse the hardware or software in any way. Users shall report any suspected abuse, damage to equipment or tampering with files to the school district system operators. Staff who violate this policy shall be subject to discipline, up to and including suspension, termination or discharge, in accordance with Board policy, negotiated agreements and applicable law. Violations of law will be reported to law enforcement officials.

New Mexico PED PSAB Supplement 2 - Internal Control Structure - CONTROL ACTIVITIES AND PROCEDURES.

EFFECT

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

CAUSE

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

**EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-006F INADEQUATE CONTROLS OVER ACTIVITY FUNDS' CASH RECEIPTS AND COLLECTIONS (CONTINUED)

RECOMMENDATION

The District must develop and implement strong policies and procedures to ensure that receipts are processed completely, recorded accurately, and approved. Staff must be made aware that they should not leave until they have a receipt in-hand for monies they turn over to another person. Copies of checks should be made and kept on-file for the deposit supporting documentation along with the daily cash reconciliation sheet and the small receipt submission form for the CHS Secretary. Monthly statements should be prepared at each School level and reviewed by Central Office and sent to teachers and sponsors by a person independent of the process.

MANAGEMENT RESPONSE

Corrective Action:

The District will review, develop, and implement policies and procedures in line with the recommendations.

Due Date of Completion: October 31, 2019

Responsible Party: Finance Director

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-007F IRREGULAR CASH RECEIPTS FOR MONEY COLLECTED, FORM OF RECEIPTS, AND LACK OF CONTROLS OVER RECEIPT TICKETS AND BOOKS

CONDITION

The former CHS Head Secretaries did not retain evidence that they received ALL receipt tickets in numerical order for all monies collected. CHS Secretary B stated she “tried and tried” to get the Teacher to comply with the requirement to use the small, square receipt submission form (provided in a blue folder the Teacher agrees she received at the beginning of the 2017-18 school year) but the Teacher would not comply. The Teacher contradicts this statement and says she was not told the little forms were “required” and the CHS Secretary B never asked her for them. This is not consistent with what we saw in other teachers’ submissions of cash/checks – they used the required form. The CHS Secretary also stated that the Teacher’s records were not organized as other teachers’ were – we corroborated this with evidence from CHS receipt packets in the CHS office and from what was turned into Central Office. The Teacher should have been held accountable by the Principals and the Finance Directors to follow the instructions she had received.

Central Office did not specifically audit the issuance, use, completion, and inventory of pre-numbered receipt tickets, along with the iVision receipts, and reconcile those to what analytically should have been turned in by the Schools. The receipts were not kept in-tact as required – the Teacher’s books showed pages removed, tickets voided, inconsistent use of the copies (white, yellow, pink), and there were a few instances in which the entire books were missing.

In our testing, the notes on the envelopes the Teacher provided to the CHS Secretaries agreed to the deposits. This means the CHS Secretary did not skim from those funds submitted. In our testing of 30 months, 18 months had deposits with copies of the Teacher’s note submitted to the CHS Secretary (for one or more of the deposits during that month).

Using receipts as a petty cash fund is not allowed, but was reported by other employees as common practice. It was also reported that the CHS Head Secretaries insisted on cash payments after April each year so that checks could not be bounced and all senior fees could be paid before receiving their diplomas.

CRITERIA

New Mexico PED PSAB Supplement 2 - Internal Control Structure - CONTROL ACTIVITIES AND PROCEDURES.
District Policy 520 Fiscal Control. The Carlsbad Schools’ Board of Education is responsible for the control of all funds of the school district including all funds collected at individual schools, whether by school personnel or by others, if students are used to assist, or, if the name of the school or of the school district is used in connection with the process. The Superintendent or designee shall be responsible for detailing and maintaining all procedures necessary to ensure adequate fiscal control.

1. All schools and departments within the Carlsbad School District shall comply with the regulations prescribed in the “Manual of Accounting and Budgeting” provided by the Public Education Department.
2. All schools and departments will use the established chart of accounts.

District Policy 500 Business Policy Statement.

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-007F IRREGULAR CASH RECEIPTS FOR MONEY COLLECTED, FORM OF RECEIPTS, AND LACK OF CONTROLS OVER RECEIPT TICKETS AND BOOKS (CONTINUED)

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 Teacher without independent analytical verification of what balances should have been in the fund.

RECOMMENDATION

The District should maintain tight controls over receipts for money collected and track the pre-numbered receipt ticket sequences. Below are some example internal procedures that Districts use:

1. Receipt books must be pre-numbered and in triplicate.
 - White – to person turning in money
 - 1st Copy – attach to backup documentation to CHS Office – sequence accounted for daily
 - 2nd Copy – stays in receipt book until completed – turned into Central Office, which reconciles to general ledger, CHS packets, bank deposits, etc. Any missing numbers/books are investigated immediately and employees are held accountable for any differences, including in their evaluations along with any 24-hour rule violations.
2. Receipts must contain the following information:
 - Name of School
 - Date
 - Receipt Number (pre-numbered)
 - Received of
 - 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 former CHS Head Secretary'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. (Attach copies of checks to the cash slip.)
 - Description of how money was raised
 - Signature of **both**, the Sponsor and the CHS Secretary

CHS Secretary will verify cash, checks, etc. while sponsor is present.

CHS Secretary will sign off on little form for cash submissions and issue a receipt after verification is complete.

4. Issue a separate receipt for each deposit.

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

**2019-007F IRREGULAR CASH RECEIPTS FOR MONEY COLLECTED, FORM OF RECEIPTS, AND LACK OF CONTROLS
OVER RECEIPT TICKETS AND BOOKS (CONTINUED)**

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 each cash receipt ticket in numerical order)
7. Backup documentation should include the following:
 - Bank Receipt, including sealed bag number/tracker
 - Copy of School Receipt
 - Copy of Small Cash/Check Submission Slip
 - Copy of Checks

MANAGEMENT RESPONSE

Corrective Action:

The District will review, develop, and implement policies and procedures in line with the recommendations.

Due Date of Completion: October 31, 2019

Responsible Party: Finance Director

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-008F DISTRICT'S FINANCE AND AUDIT COMMITTEES OF THE BOARD OF EDUCATION – MONITORING AND CORRECTIVE ACTIONS

CONDITION

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 complaints and rumors year after year are red flags for administration and governance (which includes the Board of Education and these two Committees) to analyze the causes and implement strong controls to take corrective action. Surprise audits should be conducted as well. Unfortunately, even \$360 in cash paid by an Audit Committee member to the Teacher for yearbook senior ads was not deposited into the bank.

CRITERIA

PSAB Supplement No. 2 – Internal Controls

District Policy 290 Reporting Illegal or Improper Conduct.

District Policy 520 Fiscal Control.

District Policy 500 Business Policy Statement.

Additionally, in 2010, the 49th 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;

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-008F DISTRICT'S FINANCE AND AUDIT COMMITTEES OF THE BOARD OF EDUCATION – MONITORING AND CORRECTIVE ACTIONS (CONTINUED)

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 127 Local School Board Audit Committee Duties. This policy covers the same items as the statutes.

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 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 must be tracked throughout the year. 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. *We recommend that the Finance and Audit Committees remain active throughout the*

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2019-008F DISTRICT'S FINANCE AND AUDIT COMMITTEES OF THE BOARD OF EDUCATION – MONITORING AND CORRECTIVE ACTIONS (CONTINUED)

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:

An Audit Charter will be drafted and presented to the Board for approval. The District will develop a schedule for training and regular meetings to ensure that the Audit and Finance Committee are informed and can adequately advise the Board.

Due Date of Completion: September 30, 2019

Responsible Party: Superintendent and Finance Director

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CARLSBAD MUNICIPAL SCHOOL DISTRICT
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SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-009F DISTRICT'S CENTRAL OFFICE SUPERINTENDENT AND FINANCE DEPARTMENT – MONITORING, RISK ASSESSMENT, AND CORRECTIVE ACTIONS

CONDITION

During the forensic engagement, we noted the District did not perform the required annual activity fund audits. The audits must test for certain key controls such as segregation of duties, inventory and control of cash receipt tickets, cash, document retention, and fundraising/fee reconciliations. There was no indication that Central Office was actively assessing risks, checking into outstanding encumbrances or accounts payable, reconciling individual Yearbook receipt tickets, or looking at the funds from an analytical perspective.

CRITERIA

District Policy 290 Reporting Illegal or Improper Conduct.

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics.

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 functioning 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

Setting an ethical and strong tone at the top, followed through with accountability for employees is critical, as this sets the tone for standard conduct. 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:

The District's procedures and monitoring will be strengthened to ensure compliance with the Governmental Conduct Act.

Due Date of Completion: Immediate and ongoing

Responsible Party: Superintendent and Finance Director

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CARLSBAD MUNICIPAL SCHOOL DISTRICT
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SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-010F DISTRICT'S SCHOOL PRINCIPALS – MONITORING AND TURNOVER

CONDITION

Because errors with the Yearbook activity funds at CHS have been occurring for many years, the various Principals may not have been properly monitoring the Yearbook fund balances (know or should have known it would be making money based on the book and ad sales).

CRITERIA

NM Public Education Department (PED) Manual of Procedures – PSAB Supplement 18 – Student Activity & Athletics.

District Policy 215 Evaluation of Employees.

EFFECT

The Teacher's receipts did not have the proper monitoring and oversight until CHS Secretary C. Internal audit procedures and any resulting corrective action on internal findings are not in effect 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. 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:

The District will analyze policies and procedures and ensure that all administrators are aware of their responsibilities and enforce adherence to District policies and procedures.

Due Date of Completion: Immediate and ongoing

Responsible Party: Superintendent, Finance Director, and all Administrators

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2019-011F INSUFFICIENT ACCOUNTING RECORDS, DOCUMENT RETENTION, AND INSPECTION OF PUBLIC RECORDS ACT

CONDITION

The Teacher did not maintain the required appropriate accounting records for Yearbook transactions and balances. We were unable to comprehensively complete our forensic procedures due to missing records including but not limited to: cash receipts, detailed balances of the activity fund balance by Student, and fee and forgiveness of fees records.

The District did not provide proper backup documentation of the Teacher's emails, hard drive and network drive for the engagement. It appeared from what was provided that her hard-drive had been cleaned. The District does not have policies or procedures to ensure compliance with IPRA.

During our very first conference call with the former Administrative team, we instructed both the Superintendent B and the Finance Director B to properly secure and preserve any and all documents related to this case (including electronic backups).

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 (or electronic file). 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).

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.

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JULY 17, 2019

2019-011F INSUFFICIENT ACCOUNTING RECORDS, DOCUMENT RETENTION, AND INSPECTION OF PUBLIC RECORDS ACT (CONTINUED)

Internal Controls over Information and Communication.
District Policy 476-1 Use of District Computers.

District Policy 680-1 Inspection of Public Records. The Superintendent of the Carlsbad School District shall designate at least one custodian of public records who shall: 1. Receive and respond to requests to inspect public records; 2. Provide proper and reasonable opportunities to inspect public records, and 3. Provide reasonable facilities to make or furnish copies of the public records during usual business hours.

EFFECT

We could not gather sufficient documents to test all balances and transactions of CHS Yearbook funds in the Period. The Teacher did not have complete and accurate information available to review. Trust in government is decreased.

CAUSE

The reasons the Teacher self-admittedly 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 missing funds to be known. Additionally, it is unknown why certain documents were missing subsequent to our request to preserve any and all paper or electronic documents and any related evidence to this situation.

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.

MANAGEMENT RESPONSE

Corrective Action:

The District will enforce adherence to policies and procedures and address non-compliance with policies and procedures within the District's progressive discipline process.

Due Date of Completion: Immediate and ongoing

Responsible Party: Superintendent

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CARLSBAD MUNICIPAL SCHOOL DISTRICT
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2019-012F LACK OF ESTABLISHED PRACTICES FOR THE IDENTIFICATION, MITIGATION, AND MONITORING OF RISKS

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

New Mexico PED PSAB Supplement 2 - Internal Control Structure - CONTROL ACTIVITIES AND PROCEDURES.

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 ensuring their own accounting policies, procedures and practices adequately address activity funds risk and other financial reporting risks.

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.

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.

**EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-012F LACK OF ESTABLISHED PRACTICES FOR THE IDENTIFICATION, MITIGATION, AND MONITORING OF RISKS (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action:

The District will develop processes and practices for identifying, mitigating, and monitoring risks.

Due Date of Completion: December 31, 2019

Responsible Party: Superintendent and Finance Director

EXHIBIT 5
CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-013F LACK OF CONTROLS OVER COMPLIANCE WITH THE ANTI-DONATION CLAUSE OF THE NM STATE CONSTITUTION

CONDITION

The District has not designed and implemented controls to ensure the Anti-Donation Clause is not violated. This includes donating ads or yearbooks to individuals or private companies. It appears there was no accountability or independent review of the Teacher's work with Yearbook collections, balances, and fines.

CRITERIA

NM State Constitution Anti-Donation Clause
District Policy 519 Allowable and Unallowable Expenditures.

EFFECT

The District could unlawfully benefit individuals or organizations, show favoritism, or simply not collect what they should.

CAUSE

The Teacher admitted to helping a few individuals and there was a lack of accountability over District Yearbook finances.

RECOMMENDATION

We recommend the Board of Education, the Audit and Finance Committees, Administration, Principals, and other staff should design and implement controls, communicate them to all employees, and then monitor compliance.

MANAGEMENT RESPONSE

Corrective Action:

The District will develop and implement policies and practices to ensure compliance with the anti-donation clause of the NM State Constitution.

Due Date of Completion: December 31, 2019

Responsible Party: Superintendent and Finance Director

EXHIBIT 5
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SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019

2019-014F OTHER RISKS IDENTIFIED DURING THE FORENSIC PROCEDURES

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. Outside entities supporting the District must also be evaluated to determine if they are component units of the District (see GASB 61) and the Accounting Standards will be changing for FY20 over fiduciary funds (see GASB 84).
- Supplies and Equipment Inventory – We noted that there were limited controls over the supplies and equipment inventory – a lack of segregation of duties and no records to indicate what was received, what was issued, and what the balances were.
- Security of Records – Records were missing from the Teacher’s office and computers that should have been maintained.
- Supervision – We noted there was limited accountability from the CHS Secretaries A and B, CHS Principals, and Finance Directors. Fraud or errors are frequently discovered by an adequate level of management review of employee’s duties and activities.
- 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, at a minimum, employee(s) felt uncomfortable with the Teacher and thought something was wrong for a long period of time before this discovery.

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.

NM State Statutes, NM PED Cash Controls-PSAB Supplement, District Activity Fund Guidelines, and District Policy Manual.

District Policy 290 Reporting Illegal or Improper Conduct.

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 the District’s accounting policies and procedures.

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CARLSBAD MUNICIPAL SCHOOL DISTRICT
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JULY 17, 2019**

2019-014F OTHER RISKS IDENTIFIED DURING THE FORENSIC PROCEDURES (CONTINUED)

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.

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, and dual control of receipts 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:

The District will develop procedures and practices for the identification of risks affecting the District.

Due Date of Completion: December 31, 2019

Responsible Party: Superintendent and Finance Director