



"Learning Today for Living Tomorrow"

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

OCTOBER 16, 2017

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FORENSIC AUDIT CONSULTING PROCEDURES**

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REPORT OF INDEPENDENT ACCOUNTANT'S CONSULTING PROCEDURES

To the Board of Education, Audit Committee and
Dr. Arsenio Romero, Superintendent
Deming Public Schools
Deming, New Mexico
and
Mr. Tim Keller, New Mexico State Auditor

Subject: Deming Public Schools Forensic Audit of the Activity Funds of Deming High School

Dear Board of Education and Auditor Keller:

Thank you for the opportunity to work with you to complete this forensic audit consulting engagement for Deming Public Schools (the District or DPS). This report summarizes our procedures, findings, and recommendations as it relates to our assistance with your evaluation of accounting and bookkeeping irregularities at Deming High School (DHS).

We have performed the consulting procedures enumerated below, which were agreed to by the Deming Public Schools 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, the causes for unaccounted funds, the value of diverted funds, and the causes of fund diversion. The period subject to review was July 1, 2012 through June 30, 2016 (the Period).

This consulting engagement was conducted in accordance with the Audit Act 12-6-6 NMSA 1978, 2.2.2 NMAC Requirements for Contracting and Conducting audits of State Agencies and Standards for Consulting Services established by the American Institute of Certified Public Accountants. The scope of this engagement is outlined in the body of our report. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the consulting procedures described below either for the purpose for which this report has been requested or for any other purpose. The District remains responsible for their accounting records, activity funds, fraud prevention and detection, and for maintaining effective internal controls over the financial statements and compliance.

EXECUTIVE SUMMARY

On August 17, 2016, the former Assistant Superintendent reported to the Deming Police Department a \$20,000 embezzlement. OSA designated the District for a special audit in December of 2016. After procurement, the District's contract with JAG was executed with final approval on May 9, 2017. The purpose of this consulting engagement was to conduct a limited scope forensic examination of DHS's activity funds to determine whether the District had suffered from theft, fraud, or embezzlement by their former High School Head Secretary and to what extent, for the period covering approximately four years (July 1, 2012 through June 30, 2016).

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The engagement was designed to assist DPS in determining the potential: fraud risk and dollar value of funds unaccounted for, the causes for unaccounted funds, the value of diverted funds, and the causes of fund diversion. DPS 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.

Through our forensic testing, we identified an estimated \$256,000 in cash receipts that *should have been* collected and deposited, but there were only approximately \$110,000 in cash receipt tickets issued to people who submitted the money. From the limited information available to us and from only certain revenue/receipt sources, such as lab/class fees, computer fees, copy center receipts, parking fees, and student fines, there is a difference of approximately \$130,000 - \$145,000 unaccounted for over the 4 years in the Period. **(EXHIBIT 2)**.

Factors Leading to Discovery of High School Cash Receipts Irregularities

Rumors

According to several administrators, staff, and teachers, there were rumors that the former Head Secretary (hired July 26, 2012) was embezzling funds. The former CFO also said there were reports of her holding onto checks for months and not depositing them. One Administrator thought the former Head Secretary may have been getting free groceries from Peppers on the District's charge account. It was commented that she was commonly purchasing new items, giving very expensive gifts to co-workers, drove a newer model Mustang, and was "doing well" even though her husband was allegedly in jail for domestic violence and her salary was approximately \$25,000 (240 days/7.5-hour days).

Allegedly, the former Head Secretary had the AG Mechanics class build a trailer for her personally, but never paid for it. She claimed she deposited the funds into their class account, but this could not be verified.

No other employment is documented in her personnel file, which if existed, would be required to be disclosed by the New Mexico Governmental Conduct Act. However, one employee shared that the former Head Secretary did have a second job at the Juvenile Probation Office (JPO).

According to several interviews, no specific action was taken in response to the rumors and red flags until the Summer of 2016.

Walmart TVs

In February 2014, the former Head Secretary invited a District employee to go to Walmart to pick up some TVs for the High School. The District employee was surprised because she said they usually did not get along, but she agreed to go. The former Head Secretary picked out 3 TVs, saying one was for her home, and when it was time to check out, she asked the employee to go get some snacks for a Principal meeting later in the day. She used the District's p-card to buy all three. The two dropped off 1 TV at the former Head Secretary's home and the other 2 at the High School. She told the employee she would turn in the receipt herself (not the usual protocol).

From our interviews of employees and a Professional Incident Report (PIR) in the former Head Secretary's personnel file, we understand that on May 29, 2014, not feeling comfortable, the employee reported this incident to the DHS Principal. The former CFO investigated the serial numbers on the 2 TVs at the high school, along with the receipt and the DHS Principal questioned the former Head Secretary. The former Head Secretary then stated

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that Walmart had made a mistake and on the following Monday she produced a receipt and cash (an even \$600 even though the TV cost \$598 or so) for the third TV. Normally, according to their policy, Walmart would have credited the District's card for a return, not given cash back. Other than the PIR (not submitted to HR until August 2014), reminding her to not conduct personal business or purchases during work hours and to follow all policies and procedures, no disciplinary action was taken and the incident was not included in her annual evaluation. No additional oversight or monitoring was implemented over District assets (including purchases and receipts) the former Head Secretary had access to.

External Audits

2015 Audit: The former Assistant Superintendent reported to us that the former auditor for fiscal year ending June 30, 2015 reported in the exit conference, held on October 29, 2015, that they had concerns about fraud at the high school. He says that this drove him to look into efficiencies and consistency in procedures at all campuses, including cash receipts. The former CFO stated he was not in this meeting; however, the audit exit conference page lists him as attending. The Audit Committee was certain the auditor had not reported anything of this nature. The former auditor and his staff had no findings on activity funds and no recollection of reporting anything like this at the exit conference.

2016 Audit: During the subsequent audit firm's interim fieldwork in 2016, they interviewed the former CFO about fraud, as required by auditing standards. He did disclose the likely theft that was being investigated. The auditor prompted the former CFO to comply with *NM State Audit Rule 2.2.2.10 N. (2) Possible violations of criminal statutes in connection with financial affairs*, at which point the former CFO reported the incident to NM Office of the State Auditor, previously unaware this was required.

Former Head Secretary's Reports to Teachers

It was reported to us that teachers were complaining that the activity fund balances the former Head Secretary reported to them were incorrect, less than what they knew they should have been. Through our forensic testing, we see that certain activity/class funds have negative balances. (One example shown in **EXHIBIT 4**.) It appears that Central Office, in order to not show negative balances at year-end, would prepare journal entries to wipe out the negative balances and then reverse them on the first day of the next fiscal year. This is not allowable in agency/activity/fiduciary funds, which 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.

Our interviewees did describe not receiving balance reports and sometimes when they requested Purchase Orders for items to be purchased out of their classroom account, the POs would have the funds encumbered from another Department, such as Maintenance. When questioned, the former Head Secretary would just tell them not to worry about it and that she would correct it later. One teacher at the end of the 2015-16 school year went into the HS front office with a PO and someone on the office staff told him that he did not have enough money in his account to make the purchase, that he had a negative balance. This teacher knew this was incorrect and that something was wrong.

JMAC Printer / Receipt Tickets

It was a consistent theme throughout our interviews that the former Head Secretary had various excuses for not issuing receipt tickets for the funds she received from the teachers or staff or students. We see in emails that she requested numerous times for her JWALK Printer which connected to the District's accounting software (Traidic) to be fixed. However, it was reported that every time a tech would come to fix the printer it would be working.

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The Receptionist attempted to coordinate printing on a regular printer, but the former Head Secretary avoided assistance on a solution.

Several employees and administrators at various levels in the District, including her boss – DHS Principal, stated that the former Head Secretary was “mean and terse” and would scare off those who requested receipts. There was one instance reported of the former Head Secretary “gaslighting” an employee requesting a receipt by denying the reality that the employee had earlier turned in cash to her earlier that day.

Yet, this is contradictory to the two evaluations (April 13, 2015 and May 31, 2016) the DHS Principal completed and maintained in her personnel file. These evaluations rated her as “Meeting Expectations” in all ranking areas and referred to the former Head Secretary as having a “good attitude” and “cordial, works to keep relationship positive between all front office staff, works to be on the best of terms with all faculty and staff in the buildings, and always [h]as a smile on her face.” And “[she] makes everyone feel welcome and works to maintain a positive environment”. It appears the 2014-15 and 2015-16 school year, these Summary of Performance comments were exactly the same.

Other reasons teachers did not receive receipts include: not aware they needed to ask for one, not aware they should track their receipts/disbursements, being told she was too busy, being told to come back later for a receipt, being told her JMAC Triadic receipt printer was not working, and sometimes a student or student aide would come by and collect the deposits, submit them to the former Head Secretary, and return without a receipt.

Reportedly, the former Head Secretary was also telling individuals that receipts policies changed and they could only accept cash. Supposedly, one Science teacher did not collect lab fees for a certain class and the former Head Secretary became oddly angry at him for not collecting the fees. She was also going to other areas where cash was held (such as the Activities Office) and asking them to cash checks she had received from parents instead of just depositing them. She told these people that she needed to make change for the parent.

Collections for Donations

In May 2016, the DHS Receptionist discovered that a local community organization, Celebration of Life, which supports cancer patients, had not received the donations which had been collected at the high school during April. This collection was originally the Receptionist’s idea, so she had records of the collections (\$55 checks and \$110 cash) that she had turned over to the former DHS Head Secretary. When questioned about the donation a few weeks earlier, the former Head Secretary stated she needed an invoice in order to submit the donations to Celebration of Life. In June 2016, the Receptionist reported the incident to the DHS Principal, who reassured her they were covered because Central Office would submit a check to Celebration of Life. However, the Receptionist was still not comfortable and reported the incident to the former Assistant Superintendent.

Around this same time, the Executive Director of Celebration of Life asked the former Assistant Superintendent, who is the Board Chair of Celebration of Life, if the high school had raised any donations for the annual fundraiser. He replied that they had. The Executive Director was surprised because they had not received the funds. The former Assistant Superintendent followed up with the Principal, who questioned the former Head Secretary. Shortly after this contact, somewhere between \$350 and \$500 was submitted to Celebration of Life. The DHS Principal relayed to us that the money given to the former Head Secretary from sucker sales and donations during the annual fundraiser (in addition to the Receptionist’s records above) was not deposited until much later.

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Theft of collections is a common fraud scheme, since well-meaning individuals want to help causes and trust people to do the right thing in submitting their donations to organizations. Through our forensic work, we see evidence that the former Head Secretary was also collecting funds for individuals (initials only presented) such as (this is not an all-inclusive list): DS and her family to cover medical expenses, gas, meals, etc. while she was undergoing medical treatment – February 2013; Funeral expenses for the family of JT (taco plate fundraiser) – August 2013; Funeral expenses for PG (>\$600 plus Peppers gift cards) – January 2016; Funeral expenses for AA (possible relative of the former Head Secretary), parent of three children in the District – May 2016.

Additionally, one incident in particular was brought up by employees: Four high school students were involved in a very bad car accident and one student passed away. A fund was set up at DHS to collect monies for the four students. The former Head Secretary was in charge of collecting the money raised through the school. The monies were then supposed to be deposited into an account opened at Wells Fargo for the girls that were injured and to 1st National Bank for the boys that were injured/killed. Several people counted the money raised with the former Head Secretary. People who were supposed to receive the monies came to the high school and stated they had never received any monies from the donations. Someone looked online at the Wells Fargo and 1st National accounts and noticed that no deposits had been made at all. Staff did ask why there were no deposits five times after this, and each time the former Head Secretary's story changed. Her final statement was that she must have deposited all the monies into the Wildcat account. It is unknown if any of the families ever received any of the funds raised.

According to District Policy 248 (Soliciting and Selling by Employees): "The Deming Board of Education normally will not sanction district-wide charitable fundraising drives; however, application may be made to the Superintendent's office for Board approval of such a drive in special circumstances." We did not see applications or Board approvals of these solicitations. The dollar amounts not deposited or given to the recipients were not determined since the information provided to us was limited.

Lack of Assistance from Central Office Finance Department

According to Administrators we interviewed, when the cash receipts were being investigated internally, the former CFO and former Business Manager were unhelpful, which raised suspicions. Numerous comments were made about the non-responsiveness of requests to the Central Office and accounts remaining unreconciled. Unpaid bills were discovered in the former Head Secretary's desk. We did see in our forensic work that the former Head Secretary made multiple accounting requests of the former Business Manager to add or change activity fund GL accounts with no response (in the information we were provided).

Our review of the prior year audit 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 testing the bank deposits very difficult.

Computer Fees

The former DPS Head Secretary left the District for another job in August of 2016. However, a year before, in August of 2015, the District issued laptops to each student and charged a \$30 Electronic Resources ("ER" or "Computer" fee) to each student. After rumors that the funds were not properly deposited, the former Assistant Superintendent investigated this with the former Business Manager in or around September 2015. He inquired

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about deposits that would have been made in August 2015 for significant computer fees collected from students as they picked up their laptops for the school year. It was discovered that there were no large deposits in that month to coincide with the collection of these large amounts of cash. **(EXHIBIT 3)**. Reportedly, the former Assistant Superintendent stated he would bring these findings up with “cabinet”; however, no action was taken and almost one year later the former DHS Head Secretary resigned in July and was allowed to complete her contract into August of 2016.

Action Taken After the Discovery of Irregularities

At this point, the former DHS Head Secretary had been allowed to “catch up” on small deposits in the General Activities bank account which had been missing each month for years, her Walmart TV personal purchase had occurred in August 2014, the research with the former Business Manager on Computer Fees allegedly stolen had occurred in September 2015, and the Celebration of Life incident had occurred in May 2016, with no serious personnel action taken. The former Head Secretary submitted her letter of resignation on July 22, 2016. She stated her last day with DPS would be on August 19, 2016, the day her employment contract ended. She noted accepting a position out of district, which the former Assistant Superintendent noted to be in Silver City, New Mexico. The former Head Secretary’s personnel file states her separation due to resignation, signed on August 2, 2016.

After the advice from the fiscal year 2016 auditor noting this type of activity is required to be reported immediately and after the former DHS Head Secretary’s contract was finished, the former Assistant Superintendent called the Deming Police Department and made an incident report (Case # 160817020236) on August 17, 2016 of a \$20,000 embezzlement. The former CFO later reported the incident to the NM Office of the State Auditor on August 26, 2016. On August 29, 2016, the former Assistant Superintendent shared with an Officer that the school’s auditor made him aware that there were some discrepancies [at the exit conference, held on October 29, 2015] with some of the funds at the high school, but couldn’t pinpoint where it was. He said that this led him to investigate the issue himself.

The Deming Police Department determined a forensic accountant would be necessary. On October 17, 2016, an Officer delivered to the NM Office of the State Auditor (OSA) the documentation the Activities Office had summarized from the former Head Secretary’s computer files and receipts they knew of. These two binders show negative balances for individual activity accounts, such as teacher classrooms (lab fees). OSA designated a special audit in December of 2016. On March 30, 2017, the Officer contacted OSA and found out they were working with the District to hire a forensic accountant. After procurement, the District’s contract with JAG was executed with final approval on May 9, 2017.

During this time, the former Business Manager, former CFO and Superintendent retired. The new Business Manager and Superintendent began their new positions. Over the summer months, teachers and staff were not in school to provide information for the forensic consulting procedures. The audit firm for fiscal year 2016 declined to serve the District for the 2017 audit due to the high-risk nature of the audit. JAG updated the Audit Committee on July 27, 2017 and continued to gather data.

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Procedure Results Concerning Accounting/Records

In August 2017, JAG discovered that the former Head Secretary had access to deposit funds into a second bank account (Gate Receipts) in addition to the normal bank account (General Activities), which had been reported to us as the only account she touched, tracked in just one accounting fund. Furthermore, since the former CFO could not explain how the receipts were flowing through the various accounts and general ledger funds/accounts in Triadic, JAG reconciled all four years and discovered that the cash receipts for the 4 years in the Period have been commingled within the 2 bank accounts and reported in Triadic in 3 accounting funds (Activity, Athletics, and Non-Instructional). We calculated this at a summary level, comparing the general ledger (GL) to the audited financial statements (FS) to the bank statement analysis. (**EXHIBIT 5**).

Individual activity/class accounts have negative balances and Central Office recorded journal entries each year-end (6/30) to move funds around in the general ledger and then reversed them the next day (7/1). From our testing, we see that the former Head Secretary would report balances to teachers and other employees that did not exist in the bank and general ledger and/or were inaccurate balances. (One example is illustrated at **EXHIBIT 4**.) Our interviewees complained that they could never get balance reports from Central Office. According to the former CFO, the former Business Manager was always behind on her work due to personal problems.

Based on the information available, our procedures determined that during the Period, for ONLY certain funds the former Head Secretary should have been collecting according to District Administration, approximately \$256,000 in cash receipts (checks and cash) should have been deposited into the General Activities bank account; however, these could not be traced into the bank statements due to a severe lack of audit trail and records. Transactions are extremely convoluted as explained in the first paragraph of this section and the accounting is impacted negatively by the Triadic accounting software the District uses. Ending balances from one year do not agree to the beginning balances in the next year and the years do not accurately roll forward in the accounting system.

In relation to the estimated \$256,000 in cash receipts that from our forensic work calculated *should have been* collected and deposited, there were only approximately \$110,000 in cash receipt tickets issued to people who submitted the money. Certain receipt books, however, for an unknown reason, were shredded the day before our fieldwork at the high school. From the limited information available to us from limited revenue sources, there is a difference of approximately \$130,000 - \$145,000 unaccounted for over the 4 years in the Period. (**EXHIBIT 2**).

Although the former Head Secretary did not have the ability to prepare or sign checks, and all PO requests went through Central Office for approvals, it was reported to us that she was using accounts with funds remaining to cover expenditure requests from teachers, who had negative balances in their activity accounts partially due to the potential skimming fraud scheme.

The District does not maintain proper controls over documents (collection, organization, storage, retention, and destruction); therefore, the former Head Secretary's emails were not retrievable from Microsoft Office 365, as the IT Department had deleted her user account on August 18, 2016. At the time of our testing, there were fewer files on the former Head Secretary's desktop than we expected, and it was reported to us that her sister, working in the District's IT Department, wiped her computer clean after she quit. Our procedures identified a request from the DHS Principal to IT on August 19, 2016 to delete all the former Head Secretary's user accounts, which effectively destroyed the audit trail and history of her activities in those systems. The District does not have a

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backup system in place for these software programs or for local computer drives. We were only able to obtain emails currently undeleted from other current user accounts that were from the former Head Secretary.

According to the Director of Technology, the District does not have a Records Custodian or policies and procedures over record retention. From our testing, it does not appear the District could maintain controls and compliance over 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 the public.

In the 2016 audit, there were material findings over cash and general ledger balances not rolling forward. It is critical to follow through on corrective actions on each item identified. Additionally, it does not appear from our testing that the former Superintendent provided the Board of Education a report of expenditures of student activity funds as required by 6.20.2.10 NMAC for their review and approval. Since Board of Education members are close to the students and the public, their review, if they had been provided the information as required, may have identified red flags earlier. These are important reports to provide monthly to the Board and the Audit Committee along with corrective action steps on findings.

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, we are not aware of the personal pressures of the employees of the District; however, in the case of adjusting the activity funds, there may have been pressure of the negative balances and accounting software issues becoming public.

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

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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 former DHS Head Secretary had the opportunity to skim activity funds from DHS and the Former Business Manager was able to record journal entries to adjust the activity funds, as described above and in **EXHIBIT 7 – SCHEDULE OF FINDINGS AND RESPONSES** of this report. Inadequacy of controls can lead to the method by which one can abuse their position of trust to solve his or her financial problem with a low perceived risk of getting caught.

No one in the supervisory capacity held the former DHS Head Secretary accountable for her actions, or put into place additional internal controls to monitor her performance, 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”.

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.”

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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.

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

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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.

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."

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 7 – 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 DPS and has already taken some corrective action and implemented some of the recommendations to prevent future theft, fraud or embezzlement.

To the Board of Education, Audit Committee and
Dr. Arsenio Romero, Superintendent
Deming Public Schools
and
Mr. Tim Keller, New Mexico State Auditor

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 DHS for handling cash during the Period (July 1, 2012 through June 30, 2016).
2. Identify all the High School revenue sources during the Period.
3. Identify and analyze all activity fund transactions, including class and lab fees, handled by the High School Administrator [former DHS Head Secretary] during the Period.
4. Identify and analyze all high school charge accounts, including local vendors, for purchases handled by the High School Administrator [former DHS Head Secretary] during the Period.
5. Document all records supporting revenues during the Period including:
 - a. Receipts and receipt books, from the administrator and teachers.
 - b. Documents used for tracking changes in the custody of cash.
 - c. Bank records and reconciliations.
6. Identify fraud risks at DHS for the Period.

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, June 1, 2012 through January 31, 2016:

1. Processes and Procedures

- ✓ We interviewed those who were involved in the process for the DHS activity funds, including: DPS former Assistant Superintendent, former DHS Principal, the former Business Manager and former CFO (past and current), Staff, High School Receptionist, Teachers, the former auditors, and many others. See also **EXHIBIT 1 – DISTRICT ORGANIZATION CHART (RELEVANT POSITIONS)**.
- ✓ We reviewed the DPS 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 7 – 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 DPS Finance Department, City of Deming law enforcement, and the State Auditor had already collected on this matter.
- ✓ Since the former DHS Head Secretary was no longer an employee at the time of our procedures, the District did not believe it to be appropriate for us to interview her. Therefore, our procedures did not include interviewing her.

To the Board of Education, Audit Committee and
Dr. Arsenio Romero, Superintendent
Deming Public Schools
and
Mr. Tim Keller, New Mexico State Auditor

2. Identify Revenue Sources

- ✓ We identified revenue sources in the District's annual audit and activity fund disclosures.
- ✓ Interviews assisted us in determining what the revenue sources should be.
- ✓ To the extent that information was available, we identified the fees and other types of activities that should have gone through this activity fund during the time period requested.
- ✓ We reviewed District provided rosters, fees, emails, cash receipt tickets, and the two binders of information compiled by the Activities Office to ensure we had a complete listing of revenue sources (activities) during the period.
- ✓ See **EXHIBIT 2 – COMPARISON OF FUNDS THAT SHOULD HAVE BEEN COLLECTED VS. WHAT WAS ACTUALLY RECEIPTED** included in this report.

3. Identify and Scrutinize Transactions

- ✓ We applied forensic auditing procedures to the transactions handled by the former Head Secretary during the period requested. In general, the information provided to us, the former Head Secretary's and Central Office's records, were incomplete and inaccurate. We relied substantially on records from the remaining cash receipt books and bank deposit slips within the bank statements to complete our engagement.
- ✓ See **EXHIBIT 2 – COMPARISON OF FUNDS THAT SHOULD HAVE BEEN COLLECTED VS. WHAT WAS ACTUALLY RECEIPTED** included in this report.

4. Identify and Analyze High School Charge Accounts

- ✓ Through our interviews, it was disclosed to us that the former DHS Head Secretary was able to request Purchase Orders, but not generate them. Additionally, she could not prepare or sign checks paying on vendor accounts and may have only had access to the Peppers charge account.
- ✓ We were unable to test the details of the charge accounts without details from the vendors. Even with the charge account detail, it would not be feasible to determine who charged and what the groceries were for since there were no tracking mechanisms in place other than the purchase orders.
- ✓ It is likely that purchase orders were coded incorrectly, as reported to us by employees. See also **EXHIBIT 7 – SCHEDULE OF FINDINGS AND RESPONSES** of this report.

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 former DHS Head Secretary's office, information provided to us in interviews, reports from CO, audited financial statements, check stubs and images, various deposit listings, electronic records, Triadic reports and the former DHS Head Secretary's personnel file.
- ✓ 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 7 – 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

To the Board of Education, Audit Committee and
Dr. Arsenio Romero, Superintendent
Deming Public Schools
and
Mr. Tim Keller, New Mexico State Auditor

- ✓ Certified Public Accountants (CPAs), one Certified Fraud Examiner (CFE), one Certified Governmental Finance Manager (CGFM), and various staff with two years or greater experience in governmental and auditing and consulting.
- ✓ Regarding potential collusion, we believe the lack of controls and results of our analysis of the bank accounts and funds, showing large variances, increases the District's risk of collusion.
- ✓ We identified risks and our recommendations for strengthening controls to help you prevent and detect fraud in the future are within **EXHIBIT 7 – SCHEDULE OF FINDINGS AND RESPONSES** of this report.

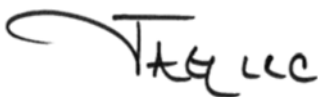
CORRECTIVE ACTIONS TO DATE

- ✓ Employees have disclosed the alleged embezzlement to the New Mexico Office of the State Auditor (OSA) (August 26, 2016) and the City of Deming Police Department (August 17, 2016).
- ✓ All DHS funds are now deposited through the Activities Office.
- ✓ The District turned over two binders of information showing negative balances by class/activity fund to the Police Department.
- ✓ The District engaged an external independent auditor, Jaramillo Accounting Group LLC (JAG), to perform these forensic procedures.
- ✓ A new Principal was hired at DHS for the 2017-18 school year.
- ✓ A new Superintendent and former CFO have been hired.

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.



Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
October 16, 2017

**DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
EXIT CONFERENCE & DISCLAIMER**

The contents of this report were discussed on October 13, 2017, in a closed session. The following individuals were in attendance:

Deming Public Schools – Board of Education

Matt Robinson, President
Bayne Anderson, Secretary
Ron Wolfe, Member
William “Billy” Ruiz, Member

Deming Public Schools – Audit Committee

Matt Robinson, Board of Education
Bayne Anderson, Board of Education
Lloyd Valentine, Community Member
Theresa Hutts, Community Member
Dr. Arsenio Romero, Superintendent (Ex-Officio)
Lesley Doyle, CFO (Ex-Officio)

Deming Public Schools – Management

Dr. Arsenio Romero, Superintendent
Lesley Doyle, CFO

Jaramillo Accounting Group LLC (JAG)

Audrey J. Jaramillo, CPA, CFE, Managing Partner
William T. Huntsman, CPA, Audit Manager
Matthew Trawinski, Audit Staff

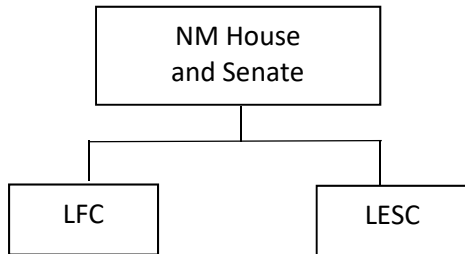
DISCLAIMER

We are not lawyers and are not a law enforcement agency or prosecuting officer. We do not have power to subpoena records or power to subpoena witnesses to testify under oath. We are private accounting firm conducting a specified forensic consulting services based on information voluntarily provided by the subject of the engagement. Here, the subject of the consulting procedures had incomplete information due to inadequate controls and documentation at DHS. 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.

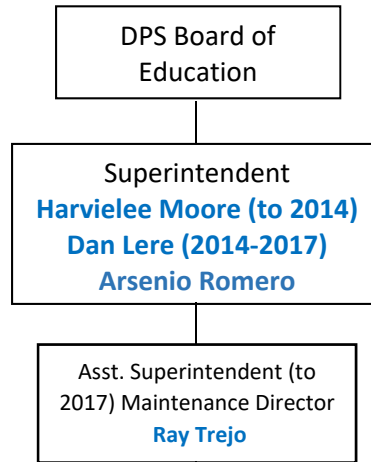
We cannot conclude on the guilt or innocence of any party. We cannot and do not purport to be in a position to establish beyond reasonable doubt whether such violations occurred. Importantly, these allegations of potential fraud, waste, or abuse and/or potential violations of criminal statute in connection 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
DEMING PUBLIC SCHOOLS
ORGANIZATION CHART (RELEVANT POSITIONS)
JUNE 2017**

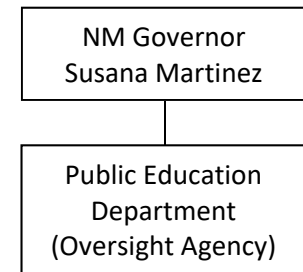
**LEGISLATIVE
STATE STATUTES**



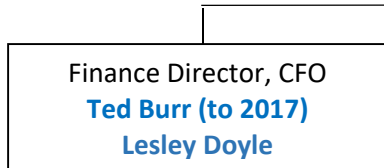
**LOCAL GOVERNMENT
POLICIES AND PROCEDURES**



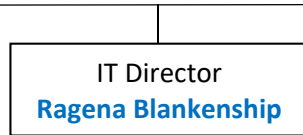
**EXECUTIVE
REGULATIONS**



**FINANCE
DEPARTMENT**



**IT
DEPARTMENT**



**DEMING HIGH
SCHOOL**

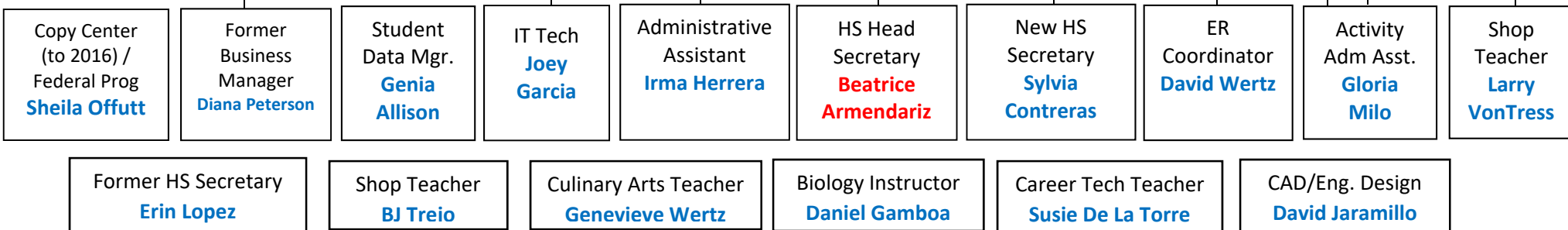
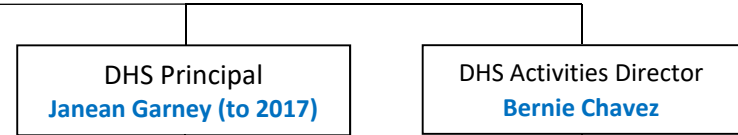


EXHIBIT 2
DEMING PUBLIC SCHOOLS
Deming High School Activity Funds
Comparison of What Should Have Been Collected vs.
What was Actually Received vs.
Amount Received per General Ledger
SCHOOL YEARS 2012-2016

School Year	Source of Fees / Fines	Amount That Should Have Been Collected, Net of Amounts Forgiven	Amount Confirmed as Collected (Receipted) per Receipt Books Provided to JAG	Difference Between What Should Have Been and What was Actually Received	Amount Entered as Received into the General Ledger	Difference Between What Should Have Been and What was Received per G/L
2012-2013						
	Lab/Class Fees (A)	\$ 25,160	\$ 984	\$ 24,176	\$ 8,482	\$ 16,678
	Parking Fees (B)	1,670	-	1,670	160	1,510
	Student Fines (C)	8,441	-	8,441	-	8,441
	Copy Center (D)	21,522	21,499	23	21,667	(146)
	Subtotal (2012-2013):	<u>56,793</u>	<u>22,483</u>	<u>34,310</u>	<u>30,309</u>	<u>26,483</u>
2013-2014						
	Lab/Class Fees	24,710	3,166	21,544	1,860	22,850
	Parking Fees	1,670	-	1,670	-	1,670
	Student Fines	8,441	-	8,441	-	8,441
	Copy Center	22,258	19,504	2,754	21,023	1,234
	Subtotal (2013-2014):	<u>57,079</u>	<u>22,670</u>	<u>34,409</u>	<u>22,883</u>	<u>34,195</u>
2014-2015						
	Lab/Class Fees	26,465	3,874	22,591	5,494	20,971
	Parking Fees	1,670	1,260	410	351	1,319
	Student Fines	8,441	-	8,441	-	8,441
	Copy Center	18,301	7,444	10,858	17,827	474
	Subtotal (2014-2015):	<u>54,877</u>	<u>12,578</u>	<u>42,300</u>	<u>23,672</u>	<u>31,205</u>
2015-2016						
	Lab/Class Fees	18,045	8,877	9,168	8,386	9,659
	Computer Fees (E)	40,410	37,302	3,109	22,762	17,648
	Student Fines	8,441	-	8,441	-	8,441
	Copy Center	18,989	6,383	12,606	15,446	3,543
	Subtotal (2015-2016):	<u>85,885</u>	<u>52,562</u>	<u>33,323</u>	<u>46,594</u>	<u>39,291</u>
Total (2012-2016):		\$ 254,634	\$ 110,291	\$ 144,342	\$ 123,459	\$ 131,175

(A) Per practice, lab fees, class fees, computer fees, parking fees, and student fines were deposited into the "General Activities" bank account and copy center revenues were deposited to the "Gate Receipts" bank account.

(B) Parking fees were confirmed as collected in school years 2012-2013 and 2013-2014; however, the receipt books were shredded just prior to JAG's arrival for field work. The amount collected for 2014-2015 was used for school years 2012-2013 and 2013-2014 as student enrollment did not fluctuate much.

(C) Student fines were confirmed as collected in all school years above; however, the receipt books were shredded just prior to JAG's arrival for field work. The amount collected for 2015-2016 was used for the other school years as student enrollment did not fluctuate much. We used the conservative amount that was in the G/L for 2015-2016 even though it was reported to us that Student Fees collected were typically \$40,000 per year since Seniors had to pay their accounts to graduate.

(D) Copy Center deposits were traced directly to the corresponding bank statement for which the deposit was to have occurred. Amount appearing in "Should Have Been Collected" column is the amount collected for deposit according to records kept by the Director of the Copy Center and Student Store. Amount appearing in the "Confirmed as Collected" column is the amount of directly traced deposits. Unaccounted for deposits in Copy Center deposits increased significantly after they began to be submitted to the former DHS Head Secretary, beginning in fiscal year 2014-2015.

(E) Computer Fees were implemented in August of 2015 when the District purchased a laptop for each student. This was a one-time fee charged to each student that covered them the entire time they were in high school. Students were also charged replacement fees for power cords, which we did not summarize. This amount was calculated by multiplying the number of computers issued times the \$30 fee, less the fees forgiven.

EXHIBIT 3
DEMING PUBLIC SCHOOLS
Deming High School Activity Funds
Transactional Analysis
Example - Month of August 2015

Carbon Copy Receipt Book (Cash/Checks Collected and Receipts Issued) vs. Bank Deposits

Computer Fees	\$	35,030
Parking Fees		280
Wildcat Recognition		-
PAC/PTO		-
Lab/Class Fees:		
Ag Mechanics	\$ 100	
Art - R	680	
Business Lab Fees	193	
Home Economics	1,020	
EMT/Anatomy	674	
Art - G	416	
Home Ec Lab Fees	680	
Keyboarding	170	
Arts & Crafts - K	540	
Home Ec - P	390	
		4,863
Total Receipted Cash/Check Collections:		40,173
Actual Deposits to General Activities Bank Account:		(23,785)
 <i>Example - Month of August 2015</i>		
Monies Deemed to be Collected/Receipted but Not Deposited:	\$	16,388

EXHIBIT 4
DEMING PUBLIC SCHOOLS
Deming High School (DHS) Activity Funds
Reported Balances Comparison
Example - Month of June 2016

This Exhibit compares accounting records to what the former DHS Secretary reported to people their balances were.
Balances she reported did not agree to teachers' records or to the accounting records.

EXAMPLE Comparisons of former DHS Head Secretary's Email Reports to DHS Staff vs. DHS General Ledger Balances

Class / Activity Account Title	General Ledger	Former DHS Secretary's	EXAMPLE -
	Accounting Balance as of June 30, 2016	Email Report to DHS Staff on August 15, 2016 (A)	Difference between General Ledger Balances and Secretary's Report
Electronic Resources	\$ 9,634	\$ 1,816	\$ 7,818
Agricultural Mechanics	(678)	87	(765)
Arts & Crafts	584	184	400
Business	(168)	237	(405)
Emergency Medical Training	1,414	1,414	-
Art (Hofacket Campus)	350	215	135
Home Economics (Hofacket Campus)	(2,414)	733	(3,147)
Keyboarding (Hofacket Campus)	1,029	1,029	(0)
Jewelry	(237)	656	(892)
Home Economics (Main Campus)	(1,107)	2,922	(4,030)
Parental Advisory Committee/Parent Teacher Organization	(1,749)	106	(1,855)
Technology Lab	(401)	326	(728)
Summer School	-	1,600	(1,600)
	\$ 6,494	\$ 9,071	\$ (2,577)

(A) Former DHS Secretary did not report balances as of June 30, 2016; therefore, her next report to DHS Staff is presented here. Being summertime, there was likely very little account activity from June 30, 2016 to August 15, 2016.

	Copy Center Records June 2, 2015 (closed for summer)	Former DHS Secretary's Email April 25, 2016	General Ledger Balance in Triadic (Location 44, Object 314) June 30, 2015	Difference Between Accurate Balance and G/L Balance
Copy Center - June 30, 2015	\$ 5,436	\$ 6,885	\$ -	\$ (5,436)
	Copy Center Records April 21, 2016	Former DHS Secretary's Email April 25, 2016	General Ledger Balance in Triadic June 30, 2016	Difference Between Accurate Balance and G/L Balance
Copy Center - April 21, 2016	\$ 5,063	\$ 4,188	\$ (583)	\$ (5,646)
	ER Teacher Records June 30, 2017 (B)	Former DHS Secretary's Email April 26, 2016	General Ledger Balance in Triadic (Location 44, Object 141) June 30, 2015	Difference Between Reported Balance and G/L Balance
ER Room (Computer Fees)	\$ 11,673	\$ 19,734	\$ 316	\$ (19,418)
	ER Teacher Records June 30, 2017 (B)	Balance at June 30, 2017 with above beginning balance included	General Ledger Balance in Triadic (Location 44, Object 141) June 30, 2017	Difference Between Reported Balance and G/L Balance
ER Room (Computer Fees)	\$ 11,673	\$ 31,407	\$ (8,723)	\$ (40,130)

(B) Employee assumed a \$0 beginning balance at July 1, 2016, which is not accurate.

EXHIBIT 5
DEMING PUBLIC SCHOOLS
Deming High School Fund Balance Summary
Summary Level Funds Comparison - Financial Statements to General Ledger to Bank Statements
SCHOOL YEARS 2012-2016

Financial Statement to General Ledger Analysis					
	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016
<u>Per Audited Financial Statements</u>					
Activity Fund	\$ 135,163	\$ 133,724	\$ 132,460	\$ 167,465	\$ 194,879
Athletics Fund	837	11,712	-	393	548
Instructional Fund	485,974	478,526	423,211	356,724	350,221
Total Per Financial Statements	<u>621,974</u>	<u>623,962</u>	<u>555,671</u>	<u>524,582</u>	<u>545,648</u>
<u>Amount per General Ledger</u>	625,307	627,958	560,061	524,581	545,133
Difference	<u>\$ (3,333)</u>	<u>\$ (3,996)</u>	<u>\$ (4,390)</u>	<u>\$ 1</u>	<u>\$ 515</u>

Bank Statement Analysis (Compared to F/S and G/L)					
	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016
Gate Receipts	\$ 495,069	\$ 507,417	\$ 432,605	\$ 375,735	\$ 318,330
General Fund	148,807	142,881	139,575	174,391	206,652
	<u>\$ 643,876</u>	<u>\$ 650,298</u>	<u>\$ 572,180</u>	<u>\$ 550,126</u>	<u>\$ 524,982</u>
Difference from financial Statements	\$ 21,902	\$ 26,336	\$ 16,509	\$ 25,544	\$ (20,666) (A)
Difference from General Ledger	\$ 18,569	\$ 22,340	\$ 12,119	\$ 25,545	\$ (20,151) (A)

Activity Fund Analysis (General Ledger Fund 90000)					
	6/30/2012*	6/30/2013	6/30/2014	6/30/2015	6/30/2016
Activity fund beginning		\$ 135,163	\$ 128,369	\$ 73,448	\$ 4,052
Activity fund in		183,100	218,804	178,548	213,452
Activity fund out		(189,894)	(273,725)	(247,944)	(219,955)
Activity end	\$ 135,163	<u>\$ 128,369</u>	<u>\$ 73,448</u>	<u>\$ 4,052</u>	<u>\$ (2,451)</u>

Non-Instructional Fund Analysis (General Ledger Fund 23000)					
	6/30/2012*	6/30/2013	6/30/2014	6/30/2015	6/30/2016
Non-instructional beginning		\$ 485,974	\$ 484,545	\$ 483,281	\$ 518,286
Non-instructional in		358,257	340,301	386,114	473,511
Non-instructional out		(359,686)	(341,565)	(351,109)	(446,097)
Non-instructional ending	\$ 485,974	<u>\$ 484,545</u>	<u>\$ 483,281</u>	<u>\$ 518,286</u>	<u>\$ 545,700</u>

* 6/30/2012 ending balances were assumed to be correct for purposes of this analysis and were not tested.

Explanation to Letter Note (A)	
Change from 2015 to 2016 (Financial Statements to Bank Differences)	\$ 46,210
Stale dated Checks voided in July 2015 to May 2016 (carried from previous years in GL)	6,604
Stale dated Checks voided in June 2016 (carried from previous years in GL)	17,551
JE to fund 21000 from DPS - did not occur before year end	<u>24,000</u>
Change from 2015 to 2016 (Financial Statements to Bank Differences) explained	48,155
Unexplained	<u>(1,945)</u>
	<u>\$ 46,210</u>

Bank Statement Analysis (Compared to F/S and G/L) After \$24,000 reimbursement to Fund 21000	
	6/30/2016
Gate Receipts (Adjusted for \$24,000 noted above)	\$ 342,330
General Fund	206,652
	<u>\$ 548,982</u>
Difference from financial Statements (Bank higher than GL)	\$ 3,334
Difference from General Ledger	\$ 3,849
Accountant expectation - Bank would be higher than FS/GL at June 30, 2016 due to uncleared checks	

EXHIBIT 6
DEMING PUBLIC SCHOOLS
Deming High School Laptop Fees Collected
Analysis of Cash Receipts and Check Receipts vs. Deposits
Example - Month of August 2015

Cash Receipts Analysis

Received Per Receipts Issued	Deposited Per Deposit Slips	Amount Not Deposited
\$ 7,447	\$ 2,637	\$ 4,810
5,574	2,045	3,529
6,462	4,062	2,400
1,563	1,102	461
2,719	1,299	1,420
2,493	1,474	1,019
2,387	1,604	783
575	85	490
\$ 29,220	\$ 14,308	\$ 14,912

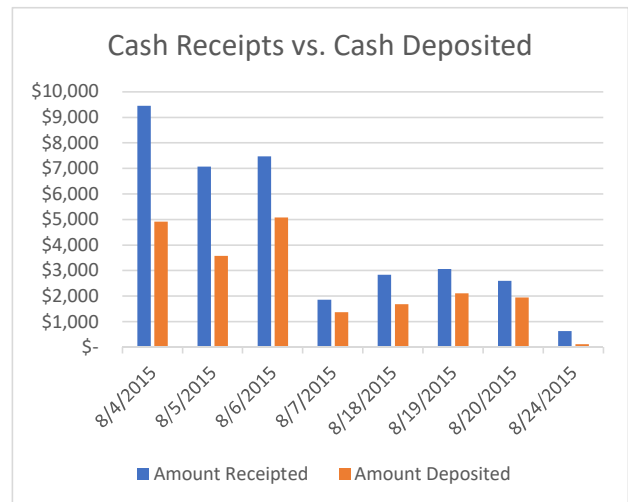
Check Receipts Analysis

Received Per Receipts Issued	Deposited Per Deposit Slips	Amount Not Deposited (A)
\$ 2,010	\$ 2,290	\$ (280)
1,500	1,530	(30)
1,020	1,020	-
300	270	30
120	390	(270)
570	640	(70)
220	350	(130)
60	30	30
\$ 5,800	\$ 6,520	\$ (720)

Combined Receipts Analysis

August 4, 2015 through August 24, 2015

Deposit Slip Date	Amount Received	Amount Deposited	Difference
8/4/2015	\$ 9,457	\$ 4,927	\$ 4,530
8/5/2015	7,074	3,575	3,499
8/6/2015	7,482	5,082	2,400
8/7/2015	1,863	1,372	491
8/18/2015	2,839	1,689	1,150
8/19/2015	3,063	2,114	949
8/20/2015	2,607	1,954	653
8/24/2015	635	115	520
\$	35,020	\$ 20,828	\$ 14,192



(A) It is assumed all checks were deposited even though it shows a negative balance of \$720. This is due to coding errors on the receipts (i.e., a check receipt was accidentally recorded as a cash receipt.)

**EXHIBIT 7
 DEMING PUBLIC SCHOOLS
 FORENSIC AUDIT CONSULTING PROCEDURES
 SCHEDULE OF FINDINGS AND RESPONSES
 OCTOBER 16, 2017**

Finding #	Finding Description (Material Weaknesses)
2017-001F	Potential Fraud, Forgery, Embezzlement and Non-Compliance
2017-002F	Administration's Failure to Report Missing Deposits and Take Personnel Action Timely
2017-003F	Potential Financial Statement Fraud and Lack of Controls over Journal Entries
2017-004F	Unknown, Unallocated, and Negative Activity Funds' Balances
2017-005F	Potential Larceny of Donations for Charitable Causes
2017-006F	Lack of Segregation of Duties over Activity Funds
2017-007F	Incomplete and Untimely Activity Fund Bank Reconciliations and Commingling with Gate Receipts
2017-008F	Failure to Reconcile Activity Funds and Report Accurate Balances to Sponsors and Teachers
2017-009F	Inadequate Controls over Activity Fund's Cash Receipts and Collections
2017-010F	Irregular Cash Receipts for Money Collected, Form of Receipts, Lack of Controls over Receipt Books
2017-011F	Inadequate Internal Controls over Activity Fund's Cash Disbursements, Purchases, and Accounts Payable
2017-012F	Account Balances Not Rolling Forward / District's General Ledger Software
2017-013F	District's Finance and Audit Committees of the Board of Education - Monitoring and Corrective Actions
2017-014F	District's Central Office Superintendent and Finance Department - Monitoring, Risk Assessment and Corrective Actions
2017-015F	District's School Principals - Monitoring and Corrective Actions, Principal Turnover, and Staff Evaluations
2017-016F	Insufficient Accounting Records, Document Retention, Inspection of Public Records Act
2017-017F	Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks
2017-018F	Lack of Controls over Compliance with the Anti-Donation Clause of the NM State Constitution
2017-019F	Other Risks Identified during the Forensic Procedures

EXHIBIT 7
DEMING PUBLIC SCHOOLS
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SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
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Jaramillo Accounting Group LLC (JAG) does not conclude on the guilt or innocence of any party. This potential fraud, forgery, embezzlement, abuse and/or potential violations of criminal statute in connection with financial affairs will require further investigation by the relevant offices and authorities. We also realize that the next step that follows this letter is a 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 Office), yielding their conclusions on these matters. We raise these matters for future consideration and draw no legal conclusions nor reach ultimate findings.

2017-001F Potential Fraud, Forgery, Embezzlement and Non-Compliance

CONDITION

In summary, from the information the District provided and interviews we performed, it appears that the Deming High School (DHS) former Head Secretary may have committed fraud by misappropriation, larceny, forgery, and embezzlement of District activity funds (potentially misappropriating with a skimming scheme approximately \$130,000 during the four-year time period we were engaged to examine, calculated from the information available only on certain revenue streams 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, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. Additionally, the external auditor's consideration of fraud in a financial statement audit includes reporting to management and/or governance any evidence that fraud may exist.

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

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

NMSA 1978 30-16-1. *Larceny* consists of stealing anything of value that belongs to another.

EXHIBIT 7
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SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
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2017-001F 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 Section 30-23-3. Making or permitting *false public voucher* consists of knowingly, intentionally or willfully making, causing to be made or permitting to be made, a false material statement or forged signature upon any public voucher, or invoice supporting a public voucher, with intent that the voucher or invoice shall be relied upon for the expenditure of public money. Whoever commits making or permitting false public voucher is guilty of a fourth-degree felony.

NMSA 1978 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 203-1 Standards of Professional Conduct. The Deming Board of Education acknowledges that ethical values among students cannot exist without moral values among educators. The Board of Education is therefore committed to a code of professional conduct and understands that it provides minimally accepted standards of professional conduct in education. Duty to the Profession; The educational profession has been vested by the public with an awesome trust and responsibility therefore all educators within the Deming Public Schools: I. Shall avoid conduct connected with official duties that is unfair or is improper, illegal or gives the appearance of being improper or illegal.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-001F Potential Fraud, Forgery, Embezzlement and Non-Compliance (Continued)

District Policy 202-1 Educator Code of Ethics. The Deming Public Schools Board of Education expects all staff to instill the highest ethical standards in the students and, therefore, expects employees to model the highest ethical standards. Members of the instructional and administrative staffs of the Deming Public Schools are expected to conduct themselves according to the professional standards established in the...Code of Ethics for the educational profession.

District Policy 500 Business Policy Statement. The Deming Schools' Board of Education recognizes that resources and resource management comprise the foundational support of the school system and its educational programs. The Board of Education expects the operation and maintenance of school facilities and equipment to set high standards of safety, to promote the health of pupils and staff, to reflect the aspirations of the community, and to support the efforts of the staff to provide sound educational opportunities. To make that support as effective as possible, the Board will:

1. encourage advance planning;
2. explore all practical sources of dollar income;
3. guide the expenditure of funds in order to extract the greatest educational returns; and
4. expect quality accounting and reporting procedures.

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 Schools, 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.

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 noncompliance.

MANAGEMENT RESPONSE

Corrective Action(s): The Finance department, in conjunction with the audit committee, will conduct periodic audits of the District's activity funds. These audits will include examination of deposits to determine compliance with state statute and Board policy as well as interviews with the activity sponsors to determine that both deposits and expenditures are accounted for appropriately.

The Finance department will conduct annual financial trainings with directors, principals and secretaries. The Finance department will also work with the Superintendent to implement policies on internal control and cash handling of activity funds in FY18.

**EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017**

2017-001F Potential Fraud, Forgery, Embezzlement and Non-Compliance (Continued)

Additionally, both the Finance department and the Superintendent's office will work to develop a culture of compliance with the law and a high ethical standard.

Responsible Party: Executive Director of Finance and Superintendent

Due Date of Completion: Training with principals and directors has been ongoing beginning August 2017. A process for regular monitoring deposits has been implemented to ensure compliance with state statute and board policy. In the event the individual is not in compliance, the appropriate individuals are notified if a deposit is not made within 24 hours. If the problem persists, the Superintendent will be notified to determine if disciplinary action is necessary. Additionally, two people are required to be present when any money is being counted.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-002F Administration’s Failure to Report Missing Deposits and Take Personnel Action Timely

CONDITION

Our procedures uncovered that the former Administration (including the former: DHS Principal, Business Manager, CFO, and Assistant Superintendent) reportedly knew about missing deposits over the years and did not take timely personnel action or report the illegal activities, during which time the former DHS Head Secretary allegedly skimmed more funds from the high school. The former Head Secretary was allowed to “catch up” on small deposits when she “got behind” each month. Ultimately, she resigned in July 2016 for another position, allowed to complete her contract through August 2016, even though the theft of Computer Fees alone (estimated loss to be in the range of \$16,000 - \$25,000) was reportedly discovered and known by the former Assistant Superintendent and the former Business Manager in or around September 2015. During our interviews of the former CFO and Assistant Superintendent, they did not accurately answer when they first knew about the fraud.

The “catching up” allowed over the years was only for the small deposits which she had actually recorded into the District’s accounting system (“G/L” or “Triadic”) and had not deposited into the bank. Most missing funds she did not record into Triadic and would not have been held accountable to reimburse. It was reported to us that the way she could do this was by telling people to come back for receipts later or that Triadic was down. In at least one instance, she denied receiving the funds at all from an employee and refused to issue a receipt. Balance reports she issued to teachers/sponsors were inaccurate, more like a “second set of books”, and did not reflect what had been recorded into the G/L or deposited into the bank account.

Former Administration did not inform the Audit Committee, the Board of Education, the NM State Auditor’s Office (OSA), or law enforcement timely. It is our understanding that the situation was only reported after the former audit firm communicated to the former CFO that this alleged fraud must be reported. The former Assistant Superintendent reported the instance to OSA on August 26, 2016, but was reported to have known of material missing deposits since in or around September 2015.

CRITERIA

NM State Audit Rule 2.2.2.10 (K)(2).

NMSA 1978 Section 10-16-3(A)

District Policy 203-1 Standards of Professional Conduct.

District Policy 202-1 Educator Code of Ethics.

District Policy 290 Reporting Illegal or Improper Conduct. The Deming Board of Education affirms its commitment to adherence to proper and legal conduct by all employees of the Deming Public Schools. As part of this commitment, the Board requires that an employee who has reliable information that another employee is engaging in illegal or improper conduct shall report such information to an appropriate supervisor or administrator. The district shall hold the employee making the report safe from any retaliation, unless the employee acted in bad faith or with malicious purpose. Any employee who retaliates against an employee who makes a proper report of illegal or improper conduct shall be subject to discipline. It is the duty of appropriate administrative officials to investigate any report of illegal or improper conduct by an employee. The employee making the report has not duty to investigate, but shall cooperate with the investigating administrator(s). During the investigation, the originating report shall be held confidential, consistent with the requirements of an effective

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-002F Administration's Failure to Report Missing Deposits and Take Personnel Action Timely (Continued)

investigation. Upon the conclusion of the investigation, a determination shall be issued. If the charge(s) of illegal or improper conduct is supported by the investigation, appropriate disciplinary action shall be taken including, but not limited to, warning or reprimand, suspension, termination or discharge, subject to any applicable procedural requirements.

EFFECT

There were additional funds allegedly misappropriated after the time Central Office and DHS Principal reportedly knew of the irregularities and red flags.

CAUSE

It was reported multiple times to us that the former DHS Head Secretary was always "protected" by the former DHS Principal and that the former DHS Head Secretary's sister was the Secretary to the former Assistant Superintendent. Administration ostensibly did not act ethically with accountability timely upon discovery of missing deposits.

RECOMMENDATION

We recommend the Board of Education, the Audit and Finance Committees, Administration, Principals, and other staff should assess risk and put into place strong controls and accountability to prevent and detect any future fraud or noncompliance. It is vital that the culture reported to us of "sweeping things under the rug" is changed and that high ethical standards are expected and monitored with timely and strong staff evaluations.

MANAGEMENT RESPONSE

Corrective Action(s): A process to regularly monitor timeliness of deposits has already been implemented. The finance department regularly monitors deposits for compliance with state statute and board policy. The appropriate individuals are notified if a deposit is not made within 24 hours. If the problem persists, the Superintendent will be notified to determine if disciplinary action is necessary. Additionally, the Finance Department will work with the Superintendent to determine when and if individuals will lose the ability to do certain things (collect/deposit cash, create purchase requisitions, etc.) The activity sponsors will receive reports showing activity so they can confirm all money was deposited and expenditures are correct.

The Finance department and the Superintendent's office will work to develop a culture of compliance with the law and a high ethical standard.

Responsible Party: Executive Director of Finance and Superintendent

Due Date of Completion: The process to monitor timeliness of deposits was implemented in October 2017.

**EXHIBIT 7
 DEMING PUBLIC SCHOOLS
 FORENSIC AUDIT CONSULTING PROCEDURES
 SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
 OCTOBER 16, 2017**

2017-003F Potential Financial Statement Fraud and Lack of Controls over Journal Entries

CONDITION

During the course of our engagement, we also discovered potential financial statement fraud. The former CFO and Business Manager would post journal entries at each year-end to “correct” the negative balances in the activity funds so the auditors would not give them a finding, and then reverse the entries after year-end. The negative balances were never addressed and the journal entries were not valid. There were also times that actual funds (not just journal entries) were moved using District checks from one bank account to another to cover negative balances. These transfers were not authorized by the teachers, students, or sponsors who had raised the funds for the original purposes.

The following are example journal entries by Class made to correct negative balances during various years in our scope:

<u>Account</u>	<u>Adjustment</u>
Wildcat Recognition	\$ 6,287
PAC/PTO	1,749
Ag Mechanics	1,548
HS Business Lab Fees	665
Tech Lab Fees	948
HS Home Ec Lab Fees	3,305
Arts & Crafts - K	237
Home Ec - P	1,107

Our procedures indicate these accounts (among others) became negative as a result of being allowed to spend more than the revenue for that class/account.

The following are example journal entries and transfers made in Total to correct negative balances:

6/30/2014; General Ledger Fund 22000; Journal Entry to “Supplies” for \$21,751 and a corresponding cash deposit into the Gate Receipts bank account for the same amount on 6/27/2014.

6/30/2015; General Ledger Fund 22000; Journal Entry to “R/E J Leupold” (Athletic Trainer 50% salary) for \$18,000 and a corresponding cash deposit into the Gate Receipts bank account for the same amount on 6/29/2015.

6/30/2016; General Ledger Fund 22000; Journal Entry to “R/E J Leupold” (Athletic Trainer 50% salary) for \$24,000; however, a corresponding cash deposit into the Gate Receipts bank account was not made, leaving the account short.

CRITERIA

Financial statements or financial reports are considered tools upon which users can rely when making decisions. Hence, financial statements should be free from any misleading information, and must be of high quality and reliable in order to safeguard the interests of the public. Fraud may be committed in many ways, including by false representation, failing to disclose information, or abuse of position.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-003F Potential Financial Statement Fraud and Lack of Controls over Journal Entries (Continued)

NM State Audit Rule 2.2.2.10 (K)(2).

NMSA 1978 Section 10-16-3(A).

NMSA 1978 30-16-6.

NMSA 1978 Section 30-16-10.

NMSA 1978 30-26-1.

District Policy 203-1 Standards of Professional Conduct.

District Policy 202-1 Educator Code of Ethics.

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 Schools, 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

Reportedly, the former CFO and Business Manager wanted to avoid an audit finding.

RECOMMENDATION

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

MANAGEMENT RESPONSE

Corrective Action(s): Prior administrations posted journal entries eliminating negative balances of the activity funds which misrepresented the activity fund balances to the financial statement users as well as the board. An approval process for posting journal entries has already been implemented. This process includes the signature of the preparer and reviewer (must be either executive director of finance or controller) and all appropriate backup as well as an explanation of the journal entry. The finance department is now confirming funds are available prior to approval of purchase requisition.

Responsible Party: Executive Director of Finance and Controller

Due Date of Completion: An approval process for posting journal entries was implemented in July 2017.

**EXHIBIT 7
 DEMING PUBLIC SCHOOLS
 FORENSIC AUDIT CONSULTING PROCEDURES
 SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
 OCTOBER 16, 2017**

2017-004F Unknown, Unallocated, and Negative Activity Funds' Balances

CONDITION

During our testing, we noted that as of June 30, 2016, there was \$(167,465) of unallocated negative cash that could not be identified to specific classes or activities in the audited financial statements.

During our testing of G/L reports, there were unknown differences in the "roll forward" of balances from the end of one fiscal year to the beginning of the next fiscal year. This is described more in Finding 2017-012F below.

Reports pulled from the G/L show significant negative cash balances such as:

<u>Fund 23000 - Some Negative Balances as of June 30, 2017</u>	
CO Carl Perkins; now Building Trades	\$ 32,012
Bataan Student Council	6,879
Cheerleaders	6,597
CO title I	5,733
THOMAS MAINE ESTATE DONATION	5,356
WILDCAT PRIDE	4,060
Enrichment	3,985
Columbus Activity	3,923
TRACK	1,694
Girls Soccer	1,201
Copy Center	583
OFFICE FUND	510
DHS Summer School - DANA	388
Jr High Office	249
DMS TEAMS	103
Honor Society	100
	\$ 73,373

Reports from Triadic for Fund 90000 also show a negative difference of \$(132,861) from what the June 30, 2017 ending balance is in the G/L compared to the calculated balances rolling beginning balances from the prior year plus cash receipts less cash disbursements.

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.

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DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-004F Unknown, Unallocated, and Negative Activity Funds' Balances (Continued)

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 are not the funds available to make each class and activity whole. It is not allowable to provide operational public funds to outside individuals or entities; therefore, it is unknown how the balances will be restored.

CAUSE

It was practice for many years to reclassify certain cash balances with journal entries which removed certain negative cash balances; however, the individual classes or activities were not told their cash balances were negative.

RECOMMENDATION

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

MANAGEMENT RESPONSE

Corrective Action(s): The current administration is working diligently with principals and the activities office to determine appropriateness of balances and ensure that all deposits and expenditures are accounted for appropriately and that deficit balances in the activity funds to not occur. The finance department is also collecting data on the purpose of each of the accounts to ensure proper classification of revenue and expenditures.

Responsible Party: Executive Director of Finance and Controller

Due Date of Completion: This process has already been implemented and is ongoing.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-005F Potential Larceny of Donations for Charitable Causes

CONDITION

Through our forensic work, we saw evidence and it was reported to us that the former DHS Head Secretary was collecting funds for individuals and organizations and these funds were not always properly donated to the intended recipients. More details are presented in the Report of Consulting Procedures, which precedes this Exhibit. The District has a policy that all charitable fundraisers must be approved by the Board of Education via application through the Superintendent. However, this policy was not enforced and the funds were reportedly never submitted to the recipients in several instances. DHS staff did not have the required permission from the Board to solicit these donations. Additionally, the former DHS Head Secretary and the former DHS Principal stated that she deposited the funds into the District's bank account and then a District check would be issued; however, this allegedly did not occur in several instances. The amounts not deposited or given to the recipients were not determined, as information provided to us was limited.

CRITERIA

District Policy 248 Soliciting and Selling by Employees. The Deming Board of Education will not sanction district-wide charitable fund-raising drives; however, application may be made to the Superintendent's office for Board approval of such a drive in special circumstances.

District Policy 519 Allowable and Unallowable Expenditures. Charitable contributions to individuals and organizations, including non-profits, are generally prohibited. The contributions may be allowable if they fall within one of the exceptions of the so-called Anti-Donation Clause in Article IX, Section 14 of the New Mexico Constitution. Under the Anti-Donation Clause, the District is generally prohibited from making charitable contributions to non-state entities.

EFFECT

The intended recipients of donations from DPS employees may not have received them.

CAUSE

Theft of collections is a common fraud scheme, since well-meaning individuals want to help causes and trust people to do the right thing in submitting their donations to organizations.

RECOMMENDATION

We recommend the Board of Education, the Audit and Finance Committees, Administration, Principals, and other staff should reiterate the policy to all employees and then monitor compliance.

MANAGEMENT RESPONSE

Corrective Action(s): The Finance department will reiterate District Policies *248 – Soliciting and Selling by Employees* and *519 - Allowable and Unallowable Expenditures* at the annual finance training. The finance department will monitor for compliance by reviewing deposits and expenditures of activity funds.

Responsible Party: Executive Director of Finance and Controller

Due Date of Completion: These policies will be reiterated at the annual finance training.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-006F Lack of Segregation of Duties over Activity Funds

CONDITION

While reviewing the policies, procedures and internal controls processes in place at DHS, we ascertained that the same person (former DHS Head Secretary) who received the cash receipts also made the deposits into the bank accounts. The same person that received the goods or services purchased or delivered, initiated POs and obtained the Principal's signature. There is a lack of controls in place to ensure separation of duties at DHS. This lack of checks and balances allowed the former DHS Head Secretary to maintain a "second set of books" and seemingly mislead her co-workers, superiors, students, and sponsors.

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.

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

EFFECT

Potential theft and errors remained undetected since proper controls are not in place over cash receipts.

CAUSE

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

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-006F Lack of Segregation of Duties over Activity Funds (Continued)

RECOMMENDATION

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

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

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

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

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

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

MANAGEMENT RESPONSE

Corrective Action(s): The finance department will continue to conduct financial trainings with directors, principals and secretaries. The district will also implement a policy regarding internal controls and handling of activity fund cash.

Responsible Party: Executive Director of Finance

Due Date of Completion: Financial training was conducted in August 2017 and will continue throughout the year. Training will also be conducted on an individual basis as deemed necessary.

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DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-007F Incomplete and Untimely General Activity Fund Bank Reconciliations and Commingling with Gate Receipts

Condition

The District could not provide a complete listing of “cash receipts” (an accounting term which includes all forms of payments) or documentation to support review and approval of DHS revenues. Very few cash receipts tickets could be matched to bank statement deposits. Many cash receipts (funds collected) were never captured as deposits and never recorded as revenue in the activity fund reconciliations prepared for audit. The Central Office and DHS Principal did not compare revenues to fundraisers, fees, and events. When certain teachers or sponsors compared their expected revenues, they were reasonable because the former DHS Head Secretary provided them with a “second set of books” showing them balances they expected. These spreadsheets did not agree to the activity fund receipts submitted to Central Office through Triadic.

Cash receipts were not properly reconciled to the general ledger. Activity funds were commingled in three accounting “funds” (22000, 23000, and 90000), three bank accounts (“General Activities” and “Gate Receipts” and “Operational”), and hundreds of Object and Class codes in Triadic. We were unable to trace cash receipts from the point of collection through the accounting records (cash receipts tickets to G/L to Bank), but were able to reconcile these funds in total in **Exhibit 5**.

CRITERIA

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

NMSA 1978 Section 6-10-2

District Policy 248 Soliciting and Selling by Employees.

District Policy 290 Reporting Illegal or Improper Conduct.

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

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

EXHIBIT 7
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SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
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2017-007F Incomplete and Untimely General Activity Fund Bank Reconciliations and Commingling with Gate Receipts (Continued)

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

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

CAUSE

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

RECOMMENDATION

The District must develop and implement strong policies and procedures to ensure that receipts are processed completely, recorded accurately, and approved. Cash receipts are to be deposited intact (in the same form received) promptly or stored in a secure location until the daily deposit is made. No petty cash should be used or change made from the receipts. We recommend discontinuing use of the DHS "safe" since was left open and no one knows the combination. 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 that procedures for transaction initiation and processing be formally documented as soon as possible. Written procedures, instructions, and assignments of duties will also prevent or reduce the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

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

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-007F Incomplete and Untimely General Activity Fund Bank Reconciliations and Commingling with Gate Receipts (Continued)

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

- Communicate from the top down the expectation that employees elevate instances such as this up the chain of command or even to an anonymous hotline. This situation may have been alleviated if those who observed red flags had brought the urgency to Central Office or another agency, who could have interceded in the process and initiated discussions with the employee sooner. Employees should be trained to report any red flags or hunches that something is not right.
- Quality control procedures, perhaps with a checklist, should be created for those preparing and reviewing former DHS Head Secretary's work. The person performing the quality control review (someone other than the preparer or approver, independent of the process) will carefully check details such as dollar amounts agree to the bank statements, dates, fundraisers, copies of receipts, and other items.
- There should be consequences for not following deadlines, job requirements, and corrective action plans.
- Some of the most important steps are to track the pre-numbered receipts and 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 former DHS Head 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: Business Manager) and should include the following:
 - ✓ Activity Fund Cover Sheet
 - ✓ Account Summary
 - ✓ Check Register
 - ✓ Receipt Register
 - ✓ Outstanding Check List
 - ✓ Bank Statement
 - ✓ Balance Sheet

(If for any reason you cannot meet this deadline, please notify the finance department.)

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-007F Incomplete and Untimely General Activity Fund Bank Reconciliations and Commingling with Gate Receipts (Continued)

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.

MANAGEMENT RESPONSE

Corrective Action(s): Bank reconciliations are required to be completed on a monthly basis. Part of the reconciliation process includes signature and review of the reconciliation by the Executive Director of Finance. The Finance department will prepare and distribute written procedures, instructions and assignment of duties to individuals who handle cash.

Responsible Party: Executive Director of Finance and Controller

Due Date of Completion: The bank reconciliation process has already been implemented and is ongoing. The written procedures will be completed and distributed in FY18.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-008F Failure to Reconcile Activity Funds and Report Accurate Balances to Sponsors and Teachers

CONDITION

The former Business Manager and CFO did not ensure the General Activities account was properly reconciled. The former Business Manager stated that the former DHS Head Secretary's deposits would never balance and she became tired of reporting this to the former CFO and the DHS Principal and then being accused of treating the Secretary badly and unfairly. For this reason, she would reconcile with the Activities Office monthly, but fees collected in the DHS Office went unreconciled.

During our fieldwork, employees expressed frustration with the lack of responsiveness from the former DHS Head Secretary and Central Office on their requests for information on their balances. As we have shown in **Exhibit 4**, the amounts the former DHS Head Secretary reported were not accurate (included skimmed receipts that were never deposited) and were not reconciled to Triadic.

CRITERIA

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 Schools.

CAUSE

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

RECOMMENDATION

The District must develop and implement strong policies and procedures to ensure that receipts are processed completely, recorded accurately, and approved. 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. 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.

MANAGEMENT RESPONSE

Corrective Action(s): The finance department is currently working on reconciling the activity funds and will have the reconciliation complete by January 2018. Once the reconciliation is complete, a report will be sent to the appropriate individuals on a monthly basis showing activity and available funds.

Responsible Party: Executive Director of Finance and Controller

Due Date of Completion: Activity funds will be reconciled by January 2018 and reports sent to appropriate individuals by February 2018.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-009F Inadequate Controls over Activity Funds' Cash Receipts and Collections

CONDITION

There were inadequate controls over receipts to safeguard the District's assets and collections for charitable causes. This resulted in potential fraud as described in more detail in the findings above. Employees frequently accepted the former DHS Secretary's excuses and did not get receipts for funds they turned over to her. The safe in DHS's office was in an unlocked closet and was not locked since no one knew the combination. When questioned about the missing deposits, she stated the monies were in this safe in the DHS office, but they were not found there. Dual control of receipts did not exist and the same person receipting deposits also entered the deposits into Triadic and brought them to the bank. There was no final check that what was received was recorded and deposited properly.

It was reported to us that the former DHS Secretary also maintained a separate receipt ticket book (non-District issued). Receipt books were not properly issued and tracked by Central Office for the instances when Triadic was not working. We saw evidence of frustration with the former DHS Head Secretary's claims that her Triadic receipting system was not working and several attempts by other employees and the company to "fix" this printer when it was working fine and to provide other means to print receipts, such as on the office printer. The DHS Principal did not adequately address complaints and performance issues with her and remained trustful of her, discounting reports made by other employees.

CRITERIA

District Policy 476-1 Use of District Computers. The Deming 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 Schools.

CAUSE

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

**EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017**

2017-009F 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. Teachers must keep independent records of their classes and amounts collected. 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.

MANAGEMENT RESPONSE

Corrective Action(s): An internal control policy will be implemented by the board. Financial training was conducted in August 2017 and will continue throughout the year. Training will also be conducted on an individual basis as deemed necessary. The finance department, in conjunction with the audit committee will conduct periodic audits of the District's activity funds. Additional controls and training for manual receipts will be put in place.

Responsible Party: Executive Director of Finance

Due Date of Completion: An internal control policy will be implemented by February 2018. Training for appropriate staff will be on going.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-010F Irregular Cash Receipts for Money Collected, Form of Receipts, Lack of Controls over Receipt Books

CONDITION

The former DHS Head Secretary did not retain evidence that receipts are issued for all monies collected. Central Office did not specifically track the issuance, use, completion, and inventory of pre-numbered receipt books, along with the Triadic receipts, and reconcile those to the Activity Fund reconciliations turned in by the Schools. Additionally, the receipts were not kept in-tact as required. Using receipts as a petty cash fund is not allowed, but was reported by other employees as common practice in the DHS office. It was also reported that the former DHS Head Secretary insisted on cash payments in certain cases, refused to issue valid refunds to students, and became angry when teachers did not collect lab fees. It was also reported that at least one teacher refused to turn in receipts to her and would only turn them into the Activities Office. This class's activity account somehow became in the negative, approximately \$32,000.

CRITERIA

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

District Policy 520 Fiscal Control. The Deming 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 Deming 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.

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 former DHS Secretary without verification.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-010F Irregular Cash Receipts for Money Collected, Form of Receipts, Lack of Controls over Receipt Books (Continued)

RECOMMENDATION

The District should maintain tight controls over receipts for money collected and track the pre-numbered receipt books. These should also be reconciled to the monthly reports former DHS Head Secretary's submit and to the Fundraisers the Superintendent approves. 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
 - 2nd Copy – stays in receipt book
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 DHS 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. **(Former DHS Head Secretary will attach copies of checks to the cash slip.)**
 - Description of how money was raised
 - Signature of **both**, the sponsor and the former DHS Head Secretary

Former DHS Head Secretary will verify cash, checks, etc. while sponsor is present.
Former DHS Head Secretary will sign off on cash slip and issue a receipt after verification is complete.
Reminder: Bank interest must be receipted.
4. Issue a separate receipt for each deposit.
5. Deposits must be made within 24 hours after issuance of the receipt.
6. Attach bank receipts to the deposit slip for reference.
(Amount on bank receipt and deposit slip must match)

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-010F Irregular Cash Receipts for Money Collected, Form of Receipts, Lack of Controls over Receipt Books (Continued)

7. Backup documentation should include the following:

- Bank Receipt
- Copy of School Receipt
- Copy of Cash Slip
- Copy of Checks

8. Transfers

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

MANAGEMENT RESPONSE

Corrective Action(s): A process for consistently receipting and depositing funds will be implemented in FY18. The finance department will monitor this process. Training will be conducted on the new process at least annually and as needed.

Responsible Party: Executive Director of Finance

Due Date of Completion: A new process will be implemented in FY18.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-011F Inadequate Internal Controls over Activity Fund’s Cash Disbursements, Purchases, and Accounts Payable

CONDITION

During forensic testing, we found that DHS did not always have requisitions and invoices to support activity fund expenditures or liabilities (vendor accounts) and it was reported to us that the former DHS Head Secretary would code Purchase Orders to incorrect classes. It was reported to us that she forged the signature on at least one Purchase Order. Due to the lack of documentation, we could not document that purchases on vendor accounts went through a review and approval process and we could not test the validity of certain payments or amounts due to vendors.

Generally, we noted that amounts purchased on credit were not tracked well. For example, employees were allowed to go to Peppers Grocery Store and pick up items on credit, then these items were not tracked as to their intended and proper use. There were reports of the former DHS Head Secretary purchasing large amounts of paint when no painting was occurring in the District. There was also the instance where she purchased a TV with District funds and reimbursed the District after being questioned about this.

Although outside the scope of our engagement, we also noted the District is also using credit cards, debit cards, prepaid Walmart cards, and an Amazon account without strict accountability.

CRITERIA

District Policy 519 Allowable and Unallowable Expenditures.

District Policy 526 Adherence to Purchasing Procedures. It is the policy of the Deming Schools’ Board of Education that 4 all employees comply 5 with Board policies as a condition of their employment meeting all standards of behavior 6 and performance. It is the policy of the Deming Board of Education that for the purchase and/or acquisition of materials, property, services, and supplies, all employees must comply with Board policies, rules, and regulations; Public Education Department regulations; New Mexico Statutes including all provisions of the New Mexico Procurement Code; and any applicable federal laws. Violation of these requirements will subject the employee to appropriate disciplinary action up to and including discharge or termination of employment.

EFFECT

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

CAUSE

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

RECOMMENDATION

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

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

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-011F Inadequate Internal Controls over Activity Fund's Cash Disbursements, Purchases, and Accounts Payable (Continued)

should be issued after an approved Requisition and before the commitment to purchase. All documents should be on file and support the purchase. Below are example procedures that Districts use:

Disbursements/Expenditures

1. The individual issuing checks must have a signed copy of a purchase order and invoice before issuing any checks.
2. Checks must be pre-numbered, in duplicate, require two signatures and have corresponding check stubs with running balance.
3. All check numbers must be accounted for, including voided checks. Notify Central Office immediately if a check is lost or stolen.
4. Prepayments/advances/reimbursements: for any reason must be justified by the principal and noted on the requisition and on the purchase order. If the principal, former DHS Head Secretary or any other "authorized signer" on the account is requesting a reimbursement or purchase, it must be approved by the Business Manager at Central Office. The Business Manager will approve these reimbursements and/or purchases and will co-sign the check.
 - All receipts or invoices must be turned in to the former DHS Head Secretary and attached to the voucher/purchase order within 24 hours of purchase.
5. **Under no circumstances should expenditure or a purchase order be allowed if a school/class is short of funds, in the red, or have a zero balance.**
6. No checks will be allowed to be made out to "cash".
7. No post-dated checks will be allowed.

Outstanding Checks

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

Requisitions/Purchase Orders

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

MANAGEMENT RESPONSE

Corrective Action(s): The procurement process for activity funds was changed in July 2017. A purchase requisition with appropriate approvals is required before a purchase order will be created. The purchase order must be in place prior to the purchase taking place.

Outstanding checks are monitored on a monthly basis and followed up on if necessary. All stale dated checks are voided after one year.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-011F Inadequate Internal Controls over Activity Fund's Cash Disbursements, Purchases, and Accounts Payable (Continued)

The District will be transitioning from using credit cards to the procurement card which can be controlled and monitored more closely.

Responsible Party: Administrative Staff, Secretaries, Chief Procurement Officer, Controller, Executive Director of Finance

Due Date of Completion: The procurement process for activity funds was changed in July 2017. All stale stated checks were voided at June 30, 2017. The transition from credit cards to the procurement card will take place FY18.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-012F Account Balances Not Rolling Forward / District's General Ledger Software

CONDITION

During our review of the District's prior year audit findings, we noted that material balances were not rolling forward properly in Triadic, the District's general ledger software. This was corroborated through our interviews and our testing on activity funds' balances. For example, in Fund 23000, account 9138-529's June 30, 2015 ending balance in Triadic was negative \$(17,501) but the beginning balance at July 1, 2015 was \$0. Additionally, for this account, when management added together from the account's beginning balance plus all the net activity over the years, the June 30, 2017 ending balance would have been negative \$(185,040), but it was only negative \$(16,597).

In the prior year, the former CFO worked with Triadic to resolve these issues when the new auditor had discovered them. However, according to the former Business Manager, it was not resolved.

It appears there was great difficulty in uploading the Triadic receipts from the Schools by each date received, as the G/L only showed deposits all dated as of month-end.

CRITERIA

District Policy 519 Allowable and Unallowable Expenditures.

EFFECT

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

CAUSE

The former Central Office Administration did not properly close out each fiscal year and reconcile Triadic account balances.

RECOMMENDATION

We recommend that the District formally monitor policies and procedures over the financial close and reporting process. It is critical that balances roll forward from the audited financials to the next year.

MANAGEMENT RESPONSE

Corrective Action(s): The District will be implementing a new software for FY19.

Responsible Party: Executive Director of Finance, Executive Director of Human Resources, Director of Technology and Superintendent

Due Date of Completion: Software will be implemented July 1, 2018.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-013F 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.

CRITERIA

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; 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.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-013F District's Finance and Audit Committees of the Board of Education – Monitoring and Corrective Actions (Continued)

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 are not occurring as completely as they should. This leaves the District susceptible to fraud, waste, abuse, and errors.

CAUSE

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

RECOMMENDATION

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

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

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-013F District’s Finance and Audit Committees of the Board of Education – Monitoring and Corrective Actions (Continued)

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

MANAGEMENT RESPONSE

Corrective Action(s): The Board will approve an Audit Committee charter that will document purposes, responsibilities, functions and procedures to assess risks and monitor corrective actions. The Audit Committee will remain active throughout the year in order to increase their effectiveness.

Responsible Party: Board of Education and Audit Committee

Due Date of Completion: The Audit Committee charter will be approved in FY18 and the committee will work with the Finance department and Superintendent to remain active throughout the year.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-014F District's Central Office Superintendent and Finance Department – Monitoring, Risk Assessment and Corrective Actions

CONDITION

During the forensic engagement, we noted that 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 logs, document retention, and fundraising/fee reconciliations. There was no indication that Central Office was actively assessing risks, tightening up internal controls over activity funds in response to their internal findings, and monitoring the thorough correction of the findings with accountability. Multiple complaints and rumors in a particular area are red flags for administration and governance to analyze the causes and implement strong controls to prevent the errors from occurring in the future.

CRITERIA

District Policy 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

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. We recommend strong procedures and monitoring to ensure compliance with the Governmental Conduct Act.

MANAGEMENT RESPONSE

Corrective Action(s): The Finance department, the Superintendent's office and the Audit Committee will work closely to ensure that all audit findings are resolved promptly. A policy on handling of activity cash funds will be approved by the Board. The Finance department and Superintendent's office will continue to require accountability from staff to ensure compliance with all policies and the Governmental Conduct Act.

Responsible Party: Executive Director of Finance, Superintendent and the Audit Committee

Due Date of Completion: A policy on handling of activity cash funds will be implemented in FY18. The Audit Committee will work to address all findings in both the external audit and the forensic audit in a timely manner.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-015F District's School Principals – Monitoring and Corrective Actions, Principal Turnover, and Staff Evaluations

CONDITION

Because errors with the activity funds at DHS have been occurring for many years, the Principal may not have been monitoring activity fund records and holding their staff accountable for corrective action on findings, complaints, and rumors and implementing strong internal controls.

We reviewed the evaluations of the former DHS Head Secretary. These evaluations did not reflect her performance or the numerous complaints brought to the former DHS Principal's and Administration's attention.

CRITERIA

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

District Policy 215 Evaluation of Employees.

EFFECT

The District's finances and operations do not have the proper monitoring and oversight. Internal audit procedures and corrective action on internal findings are not 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(s): The Finance department, the Superintendent's office and the Audit Committee will work closely to ensure that all audit findings are resolved promptly. A policy on handling of activity cash funds will be approved by the Board. Evaluations will be done annually based on the Professional Development Plan (PDP). The Finance department and Superintendent's office will continue to require accountability from staff to ensure compliance with all policies and governmental regulations.

Responsible Party: Executive Director of Finance, Superintendent and the Audit Committee

Due Date of Completion: A policy on handling of activity cash funds will be implemented in FY18. The Audit Committee will work to address all findings in both the external audit and the forensic audit in a timely manner.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-016F Insufficient Accounting Records, Document Retention, Inspection of Public Records Act

CONDITION

The former DHS Head Secretary did not maintain the required appropriate accounting records for activity funds' 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 area/class, invoices, approvals, POs, activity fund reconciliations, fee and forgiveness of fees records, DHS deposit slips, and bank deposit receipts.

The District deleted the former DHS Head Secretary's email user account with Microsoft upon her termination and her emails were not retrievable. Her hard-drive had been cleaned and there were claims that her sister may have removed electronic records for her. The District did not back up her hard drive or network drive. The District does not have policies or procedures to ensure compliance with IPRA.

During our first conference call with the former Administrative team, we instructed both the former Assistant Superintendent and the former CFO to properly secure and preserve any and all documents related to this case (including electronic backups). Unfortunately, certain receipt books and other documents were removed from the DHS Office and reportedly shredded the day before our fieldwork.

CRITERIA

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

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

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.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-016F Insufficient Accounting Records, Document Retention, 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 Deming 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 support the balances and transactions of DHS activity funds. Complete information is not available to review. Trust in government is decreased.

CAUSE

The reasons the former DHS Secretary 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 destroyed 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(s): The Finance department will provide training on document retention to employees. Retention procedures will be updated and reviewed with the Technology Department as needed. Procedures have already been implemented on maintaining supporting documentation. Additionally, the software that will be implemented FY19 will assist with maintaining supporting documentation.

The Finance department will inspect documentation during periodic audits.

Responsible Party: Executive Director of Finance and Director of Technology

Due Date of Completion: Finance will provide training on document retention to employees at the annual finance training. Technology department procedures will be reviewed and updated if necessary in FY18. New software will be implemented July 1, 2018.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-017F 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

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 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017**

2017-017F Lack of Established Practices for the Identification, Mitigation and Monitoring of Risks (Continued)

MANAGEMENT RESPONSE

Corrective Action(s): Funds will be allocated for training regarding identification of fraud for all administrative staff.

Responsible Party: Executive Director of Finance, Superintendent

Due Date of Completion: Training for new procedures has already occurred. Additional training will be done as identified.

**EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017**

2017-018F 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 the use of “coke money” and other activity funds used to purchase gift cards, food, etc. Also, it remains unknown how the negative balances in certain activity funds will be reimbursed.

CRITERIA

District Policy 519 Allowable and Unallowable Expenditures.

EFFECT

The District could unlawfully benefit individuals or organizations.

CAUSE

This is likely a lack of knowledge and lack of accountability over 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(s): The Finance department will provide training on the Anti-Donation Clause to employees.

Responsible Party: Executive Director of Finance

Due Date of Completion: Finance will provide training on the Anti-Donation Clause to employees at the annual finance training.

EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017

2017-019F 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. As well, outside entities supporting the District must also be evaluated to determine if they are component units of the District (see GASB 61).
- Timesheet Fraud – Many employees reported to us that the former DHS Head Secretary was frequently absent from work for a variety of personal reasons. There were complaints that she may not have been truthful about the reasons for her absences that interfered with her duties. There was also some documentation that she was not managing substitutes’ time accurately.
- Unreported Leave – There were reports that the former DHS Head Secretary’s took leave but never submitted this to Central Office. Therefore, although they may have been approved by the Principal, the leave taken may not have been subtracted from balances in the timekeeping system.
- Supplies Inventory – We noted that there were no controls over the supplies inventory – a lack of segregation of duties and no records to indicate what was received, what was issued, and what the balances were.
- Security of Records – Records were missing from the former DHS Head Secretary’s office that should have been maintained.
- Cross Training – We noted there were no dedicated fill-ins to ensure that when the former DHS Head Secretary was on leave or assigned to other projects that the former DHS Head Secretary’s tasks and responsibilities were not delayed or missed. Fraud or errors are sometimes discovered earlier when the employee is on leave and the fill-in person is performing the duties.
- Fraud, Waste, and Abuse Hotline – It is critical that a hotline number is posted throughout the District and perhaps on other paperwork and in trainings. The New Mexico Office of the State Auditor has one on their website that is free and very effective. Employees should be encouraged to report any red flags or concerns without fear of retaliation. In this situation, several employees felt uncomfortable with the former DHS Head Secretary and thought something was wrong for a long period of time before her termination.

CRITERIA

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

New Mexico PED PSAB Supplement 18 – Student Activity and Athletics.

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.

**EXHIBIT 7
DEMING PUBLIC SCHOOLS
FORENSIC AUDIT CONSULTING PROCEDURES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
OCTOBER 16, 2017**

2017-019F Other Risks Identified during the Forensic Procedures (Continued)

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.

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, in areas which cash is collected and counted.

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

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

MANAGEMENT RESPONSE

Corrective Action(s): Funds will be allocated for training regarding identification of fraud for all administrative staff.

The District will do an analysis on office and copier access and look at the option of adding pin numbers to employee copies. The Technology department will analyze placement of security cameras and backup recordings to determine if changes to current procedures are necessary.

Responsible Party: Executive Director of Finance and Director of Technology

Due Date of Completion: Training will be done as identified. Technology department procedures will be reviewed and updated if necessary in FY18.