

# OFFICE OF THE STATE AUDITOR



**Dora Consolidated Schools**

**Consulting Services Report**

**For the Period of June 1, 2013 through December 31, 2016**

**Dora Consolidated Schools**

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## **Dora Consolidated Schools**

### **OFFICIAL ROSTER**

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#### **SCHOOL BOARD**

Kenneth Cox	Board President
John Mohon	Board Member
Gary Simpson	Board Member
Jana Roberts	Board Member
Bill Prater	Board Member

#### **SCHOOL OFFICIALS**

Steve Barron	Superintendent
Brandon Hays	Principal
Arnold Peralez	Assistant Principal
Gowan Hays	Business Manager

## **I. EXECUTIVE SUMMARY**

In the fall of 2016, the Office of the State Auditor (“OSA”) received multiple communications through our special investigations intake process from concerned individuals in the community. After receiving these communications and conducting fact-finding, OSA determined that the matters raised were appropriate for more in-depth review.

On December 2, 2016, the OSA formally designated Dora Consolidated Schools (“School”) for a special audit. On February 13, 2017, the OSA entered into an agreement with the School to provide audit consulting services in accordance with American Institute of Certified Public Accountants (“AICPA”) Statement on Standards for Consulting Services. Pursuant to NMSA 1978, Section 12-6-3(C) (“Audit Act”) the State Auditor “may cause the financial affairs and transactions of an agency to be audited in whole or in part.” Additionally, in accordance with 2.2.2.15 NMAC (“Audit Rule”), the State Auditor may initiate a special audit regarding the financial affairs and transactions of an agency or local public body based on information it receives.

The purpose of the consulting services engagement was to address concerns regarding procurement, receipts, disbursements, asset acquisition, asset disposition, accounts receivable, accounts payable, and compliance with statutes, regulations, and policies and procedures. The OSA is grateful to School personnel for their cooperation.

The OSA identified multiple probable violations of the State Procurement Code, Anti-Donation Clause, Public Money Act, and Governmental Conduct Act, among others. Additionally, the School did not: maintain adequate supporting documentation to support all disbursements and revenues of the School; take appropriate actions regarding related party transactions and the appearance of conflicts of interest; safeguard School inventory and assets; and comply with federal law regarding the issuance of 1099s to vendors for services provided to the School in excess of \$600.

The School entered into approximately \$41,300 in related party contracts, did not follow appropriate procurement rules with respect to \$62,000 in purchases, and may have been deprived of some portion of \$34,012 in recycling revenue paid in cash to the head of the maintenance department by local businesses. This report highlights various internal control, policy, and general oversight deficiencies, which make the School susceptible to fraud, waste and abuse, if left unaddressed.

In summary, the OSA’s findings focus on the need to improve internal controls related to the School’s daily operations to safeguard public funds and ensure compliance with applicable laws and regulations. Once these are developed and implemented, training will be key to ensuring that they are followed by staff and monitored by management. With regards to related parties, often in small towns, there are family or other very close relationships which may be unavoidable; however, those relationships need to be properly disclosed and applicable legal procedures followed. While the findings in this audit may appear to be isolated, the failure to address the findings and improve controls would create an environment susceptible to fraud, waste, and abuse. Furthermore, the OSA acknowledges that transactions among people with personal and professional relationships may seem like an easy way to conduct business and may in fact save time and money. However, it is precisely these transactions that should be well documented and subject to strict control procedures to avoid any appearance of impropriety.

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The following table summarizes the OSA’s findings:

<b>Finding #</b>	<b>Description</b>
2017-001	Recycling Transactions
2017-002	Maintenance/Janitorial Supplies and Service Bids
2017-003	Disposition of Capital Assets
2017-004	Propane Transactions
2017-005	Procurement
2017-006	Purchase of Vehicle Parts for Non-School Vehicles
2017-007	Additional Concrete Work
2017-008	Management Could not Provide all Requested Information
2017-009	Vendor Controls and Required IRS Forms
2017-010	Personal Use of School Vehicle
2017-011	Non-School Employee Driving School Vehicle
2017-012	Overpaid Landscaping Company
2017-013	Required Documents Not Posted to the School's Website

In response to the findings, the OSA recommends that the School take the following actions:

- The School should ensure that personnel receive training regarding compliance with applicable state laws, including, but not limited to, the State Procurement Code, Anti-Donation Clause, Governmental Conduct Act, Public Money Act, with School policies and procedures, and Federal 1099 tax requirements.
- School employees should be required to take leave when conducting personal business during working hours.
- The School should develop and implement adequate internal controls and documentation standards to support financial transactions, including the cash receipts process, disbursements, vendor selection, best obtainable price, and disposal of school property.
- The School should consider its options to recoup the funds that the head of the maintenance department received from the sale of school property to local recycling companies. A total of \$34,012 is questioned in the findings, however the amount attributable to the sale of school property may be different. Regardless of the circumstances and whether the items were considered to be junk, the revenue earned from recycling school property should have been returned to the School for the benefit its students. Additionally, the School should consider the implications of choosing not to seek reimbursement and the tone that sets for other employees.
- The School should require vendors to submit invoices which have adequate information to support price, quantity, and timeline of goods delivered and services rendered. Additionally, the School should monitor invoices received from vendors for accuracy.

- The School should discontinue the use of open purchase orders for items other than utilities, or at a minimum, reduce the amount allocated to an open purchase order to an amount reasonable for expenditures which may occur within a one month period.

The School provided responses to each audit finding. The responses are included in the schedule of findings and responses have not been audited or edited. The OSA did inquire as to whether the responses were approved by the Board of Education or are those of management; however, the School did not respond.

## **II. BACKGROUND**

The Dora Consolidated Schools is a special purpose government entity governed by an elected five-member Board of Education. The Board of Education is the basic level of government, which has oversight responsibility and control over all activities related to the public school education in the Village of Dora and surrounding area. The School is responsible for all activities related to public elementary and secondary school education within its jurisdiction. The School receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

The approximate lengths of time that key employees have been with the School are:

- Superintendent – 11 years
- Principal – 6 years
- Assistant Principal – 2 years
- Business Manager – 2 years
- Head of the Maintenance Department - 10 years

Dora Elementary was recognized in 2014 by the U.S. Department of Education as a National Blue Ribbon School. None of the complaints that were received or included in this report were with respect to the School's academics and no procedures were performed with respect to academic programs.

Applicable to FY2016, OSA revised the Audit Rule to require all independent public accounting firms to rotate off for a minimum of two years after auditing the same entity for six consecutive fiscal years. The School's prior auditor had audited the school for nine fiscal years from FY2007 to FY2015. As a result, the School was required to select a new auditor for FY2016. Additionally, during the transition to a new auditor, the previous business manager retired. The willingness of employees to provide information and express their concerns is partially attributable to the change in auditor and the difference in audit approach (spending a week on-site and interacting face-to-face with school employees) from the prior auditor.

The current business manager appears to have worked diligently to clean up the accounting and financial records, consolidate duplicate vendors, and consolidate and reconcile the schools bank accounts. After the results of the FY2016 audit, the business manager also began to work towards reconciling the fixed asset records.

### **III. SCOPE AND PROCEDURES**

The School engaged the Office of the State Auditor to perform certain procedures to assess the School's compliance with applicable laws, regulations, policies and procedures in various areas. The following procedures were agreed to:

1. Obtain and review School policies and procedures.
2. Gain an understanding of the policies and procedures related to procurement, receipts, disbursements, asset acquisition and disposition, accounts receivable and payable through inquiry and observation.
3. Review procurement files and supporting documentation, test for compliance with statutes, regulations, and policies and procedures.
4. Review Asset Acquisitions and dispositions, test for compliance with statutes, regulations, and policies and procedures.
5. Review cash receipting and disbursement processes, test for compliance with statutes, regulations, and policies and procedures.

This report was developed based on information from interviews, observations, and our review of selected documentation and records. Based on the samples tested and the limited procedures performed, the OSA was not able to determine if the findings and issues of non-compliance were the result of intentional wrongdoing. However, had additional procedures been performed, other matters may have become known that would have been reported.

Additional concerns were brought to OSA's attention by various school employees and parents of students attending the School; however, due to lack of sufficient evidence, or because the information obtained was not related to the scope of the engagement, these concerns were not included in the special audit.

### **IV. GENERAL OBSERVATIONS**

The results observed from the procedures performed highlight internal control and policy deficiencies, which may make the School susceptible to fraud, waste and abuse.

#### ***Audit Challenges***

During the course of the special audit, it came to OSA's attention that School staff were fearful of retaliation for speaking with the auditors. Specifically, staff were concerned that employees and students of parents who spoke with auditors may face retaliation due to past instances where it was perceived that former employees who publicly questioned things lost their jobs. Furthermore, concerns were raised about the Superintendent questioning employees about their discussions with OSA after watching auditors talk to staff members on the School's closed circuit cameras. The Superintendent also repeatedly tried to ascertain from OSA staff exactly what allegations and other information individuals were providing and who had provided the information. The apprehension of employees is troubling and did result in individuals being afraid to openly communicate with OSA regardless of whether they were actually aware of any wrongdoing. OSA found this deeply concerning and sent a letter to the Superintendent, which was also made available to the Board

Members, regarding these concerns. The letter reiterated that it was the School's obligation to permit employees to directly share information with auditors and to do so without fear of retaliation of any kind. Threats or retaliatory actions interfere with the audit and could result in violations of the protections afforded to public employees under the Whistleblower Protection Act, NMSA 1978 §§10-16C-1 to 10-16C-4 (2010).

### ***Possible Governmental Conduct Act Violations***

The OSA identified three possible violations of the Governmental Conduct Act. First, the head of the maintenance department was allowed to take school property that was slated for disposal to two different recycling centers in Clovis. Since 2010, the individual has received approximately \$37,230 from the two recycling centers in Clovis. The head of the maintenance department in an interview with OSA indicated that the money he received from the recycling centers was "his money." These activities may also violate the Anti-Donation Clause of the New Mexico Constitution. The OSA notes that prior to this engagement, the School never received any financial benefit from the recycling of school property, and likely incurred costs associated with school vehicle use and staff time; however, as a result of inquiries from OSA, the employee did return \$66.30 to the School in June of 2017 for computers recycled in August of 2016.

Second, the School purchased supplies from the head of the maintenance department's supply company, without the required public disclosure of the conflict of interest. A conflict of interest form was signed in May of 2016. During the period reviewed, the School spent \$41,292 with the head of the maintenance department's company. Price quotes received from other companies had instructions on the documents to provide them to the head of the maintenance department, who was also submitting a bid for the same products. No record of an evaluation of the prices was maintained by the School, to justify the selection of an employee's business over the other businesses.

Third, while the OSA was performing fieldwork on the engagement, OSA was informed by three members of the Coyote Pack ("Pack"), an athletic booster club run by parents for the benefit of students of the School, that the Superintendent approached the Pack to request that they accept a donation from a restricted vendor on behalf of Business Professionals of America ("BPA"), a student organization. In turn, the Pack would be required to issue a check to the school for the benefit of the BPA. Per interviews with the members of the Coyote Pack, the Superintendent commented that it would "raise too many red flags" for the school to accept the donation directly, presumably because the donor does business with the School. The Pack informed OSA that after refusing to accept the donation, the Superintendent made references to the Pack's annual Little Dribbler's Tournament, the Pack's one fundraiser and potential concerns about allowing the organization to continue holding the annual fundraiser on school property. In addition to potential Governmental Conduct Act violations, this may also be a violation of School Policy G-0900, which restricts vendors from being donors under certain conditions. Per the Business Manager, the School's policy regarding any donations received for BPA is that these funds benefit all of the students involved in the organization, and not just the student on whose behalf the donation may have been received.

### ***Chief Procurement Officer Concerns***

The OSA issued a Chief Procurement Officer ("CPO") Risk Advisory to all state and local government agencies in March of 2017. The Risk Advisory recommends against designating a member of top management as the CPO due to the importance of maintaining independent internal



controls over procurement within an organization. The School should reevaluate its use of the Superintendent as the CPO. The School should authorize the Business Manager or other mid-level employee to obtain a CPO certification. The advisory also notes the importance of CPOs receiving the support of management when highlighting areas of noncompliance.

Based on the results of this engagement as well as concerns raised in the FY2016 audit, the School is not in compliance with the Procurement Code, which reflects upon the current CPO's ability to implement appropriate controls. It is our recommendation that the School seek to improve its internal controls in relation to procurement by following the advice in the Risk Advisory and providing the necessary support, training, and backing of a new CPO.

***Progress in Addressing FY2016 Annual Audit Findings***

OSA noted during fieldwork that school personnel appear to be working diligently to help correct and resolve the FY2016 audit findings and addressing other concerns which were brought to management's attention.

An analytical comparison of the volume of transactions with an auto parts supplier for the period under review shows significant increases in the amounts spent with this vendor from a total of \$1,365 in FY2014, \$2,467 in FY2015, to \$4,214 in FY2016, and then a significant decrease for the first half of FY2017 of 49%. The timeline for the decrease in spending corresponds directly with the timing of the FY2016 annual audit and concerns which were raised during that audit regarding potential unnecessary and/or personal use purchases.

The FY2016 audit report also noted that the maintenance department did not have an inventory listing. Just prior to OSA's site visit, maintenance personnel prepared an inventory listing for their department; however, per interviews with staff, this listing was created based on items purchased and was not systematically compared to the items on hand. We recommend that a comparison be performed.

When OSA compared capital asset balances during the interim, the balances had even larger variances than those reflected in the FY2016 audit report. We recommend the performance of a physical inventory of capital assets and a comparison to the asset listing to verify that all of the School's assets are accounted for and reflected accurately.

Also noted in the FY2016 audit report, the School was not keeping consistent mileage logs or trip sheets for the use of School vehicles. The School has started keeping actual mileage logs for the vehicles in addition to the trip tickets previously used. However, we noted that these logs are not being completed for each trip, trips are logged out of order, and gaps existed in the odometer readings.

In contrast, as of May 31, 2017, the School has not taken appropriate corrective action to appoint an audit committee in compliance with the statutory requirements.

**SCHEDULE OF FINDINGS AND RESPONSES**

**Finding 2017-001 Recycling Transactions**

**Condition**

The head of the maintenance department of the School utilized school vehicles to take metal and other recyclable materials to two recycling centers in Clovis during work hours without taking leave. In the following tables, information is included to show the total number of receipts received by the head of the maintenance department for recycling activity as well as the total number of days on which recycling activity occurred; however, OSA is unable to determine if the individual made multiple trips in a day.

<b>Recycling Activity for the Head of the Maintenance Department by Calendar Year</b>			
<b>Calendar Year</b>	<b>\$ Amount Paid</b>	<b># of Receipt Tickets</b>	<b># of Days with Recycling Activity</b>
2010	\$ 18,689.98	154	43
2011	\$ 6,877.15	41	16
2012	\$ 1,729.25	23	10
2013	\$ 2,266.15	26	13
2014	\$ 3,840.95	45	15
2015	\$ 542.00	16	4
2016	\$ 66.30	1	1
<b>Total</b>	<b>\$ 34,011.78</b>	<b>306</b>	<b>102</b>

*Source:* Data derived from records provided by the two recycling centers, excluding transactions from June 2010 through December 2010, when the individual was not employed by the School.

Of the activity reported, all but one transaction occurred at one of the recycling centers (Center #1), the remaining transaction occurred at the second recycling center (Center #2). Per Center #1, the account used by the head of the maintenance department of the School was set up as an account not only in the head of the maintenance department’s name, but is also associated with the School’s name, and they are unable to differentiate between recycling material brought from the School and recycling material brought by the individual. OSA confirmed with the Recycling Centers that they offer payments by check, however, per the records of both Centers, the individual was always paid in cash. In a follow-up interview with the individual, he confirmed that he was always paid in cash. When asked about what type of materials he recycles, the individual stated that he recycled “cars and some old farm equipment given to [him] by other individuals.”

**Finding 2017-001 Recycling Transactions (Continued)**

A review of the School’s bank statements, general ledger, and inquiry of the Business Manager, indicates the School did not receive funds from recycling activities. Additionally, the head of the maintenance department stated during the follow-up interview that this was “his money.”

Several of the transactions between the recycling centers and the head of the maintenance department coincide with specific events which occurred at the School.

<b>Limited Analysis of Recycling Center Transactions (Specific Events)</b>				
<b>Description</b>	<b>\$ Amount Paid</b>	<b># of Receipt Tickets</b>	<b># of Days with Recycling Activity</b>	
In School Vehicle	\$ 2,457.75	8	8	a
During workday without taking leave	\$ 15,732.93	131	9	b
Tin – (Computers)	\$ 66.30	1	1	c
Stainless Steel (Kitchen Equipment from Rogers Gym (formerly a cafeteria))	\$ 190.00	1	1	
Tin, Copper, Brass, and Aluminum – (Metal Roofing Materials)	\$ 446.40	5	5	d

*Source:* Data derived from records provided by the two recycling centers, school records, and interviews, the items noted above indicate the type of material received per the recycling centers, and the items noted in parenthesis are the School’s property to which these items are potentially linked.

- a) Data only available beginning in 2014 when recycling center began tracking this information
- b) Data is only for 2013 - 2016 and is based on individuals contracted work calendar adjusted for working 10 hour days Monday through Thursday. Additionally, the Recycling Centers close at 5:00 pm and it takes approximately 45-60 minutes to drive from Dora to Clovis.
- c) Per School records, the head of the maintenance department paid the \$66.30 to the school on June 8, 2017, the original transaction occurred in August of 2016.
- d) Insurance proceeds were used to pay the vendor replacing the roofs to dispose of the old materials. Additionally, although the head of the maintenance department denies taking these materials, another school employee during multiple interviews with OSA indicated that the employee had helped the head of the maintenance department load the materials to take to the recycling center, but never realized that the school did not receive the money for the materials.

**Finding 2017-001 Recycling Transactions (Continued)**

<b>Transaction Volume by Day of the Week</b>			
<b>2010-2016</b>			
<b>Day of the Week</b>	<b>\$ Amount Paid</b>	<b># of Receipt Tickets</b>	<b># of Days with Recycling Activity</b>
Monday through Thursday	\$ 16,872.58	149	55
Friday and Saturday	\$ 17,139.20	157	47
<b>Total</b>	<b>\$ 34,011.78</b>	<b>306</b>	<b>102</b>

*Source:* Data derived from records provided by the two recycling centers

Trip tickets, which are required by policy for vehicle use, were not provided for any of the instances where the individual was utilizing a school vehicle for recycling activity.

In a preliminary interview with the head of the maintenance department, the individual indicated that the School does not have a recycling program and that he does not participate in recycling personally. The head of the maintenance department and his spouse indicated that they might have taken items once or twice to Center #2 in Clovis, however they did not mention Center #1. Records obtained from the Center #2 indicated that the head of the maintenance department had one transaction for \$190 for stainless steel with the Center.

**Criteria**

Pursuant to the Governmental Conduct Act, Section 10-16-3(A-B) NMSA 1978, a public employee shall treat the public employee's government position as a public trust, the public 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. Public employees shall conduct themselves in a manner that justifies the confidence placed in them by the people at all times maintaining the integrity and discharging ethically the high responsibilities of public service.

The Governmental Conduct Act, Section 10-16-3.1C NMSA 1978, defines the violation for a public officer or employee's duty not to use property belonging to a state agency or local government agency, or allows its use, for other than authorized purposes.

Section 13-6-1 NMSA 1978, Disposition of obsolete, worn-out or unusable tangible personal property, requires the School to designate a committee of the governing body to approve and oversee asset dispositions for assets valued at less than \$5,000. This section also requires the sale of assets to be completed by means of a public auction or competitive sealed bid.

Section 30-16-8 NMSA 1978 defines the criminal violation of embezzlement as consisting of a person embezzling or converting to the person's own use anything of value, with which the person has been entrusted, with the fraudulent intent to deprive the owner thereof, and the penalties for

**Finding 2017-001 Recycling Transactions (Continued)**

violations of this law.

Article IX, Section 14 of the New Mexico Constitution (the Anti-Donation Clause) sets forth the requirement that government entities, including school districts, not make any donation to or in aid of any person, association or public or private corporation.

Per School Policy E-2850, no school vehicle shall be used for personal business, unless the personal business is incidental to a school-related trip.

G-0761 Regulation of Staff Conduct states that no employee, while on or using school property, otherwise acting as an agent, or working in an official capacity for the District, shall engage in:

- Any conduct violating federal, state, or applicable municipal law or regulation.
- Any other conduct that may obstruct, disrupt, or interfere with teaching, research, service, administrative, or disciplinary functions of the District, or any other activity sponsored or approved by the Board.

In addition, all staff members are expected to:

- Guard against misappropriation of school assets and immediately report suspected theft or fraud to their immediate supervisor and/or the Superintendent.

**Cause**

Lack of oversight of maintenance operations and projects at the School and inadequate internal controls over disposition of property. A lack of understanding appropriate handling and disposition of school property. Insufficient supervision and/or the employee's failure to understand policy, laws, rules, and regulations pertaining to time reporting and vehicle use. The employee responsible for making decisions regarding the disposal of maintenance items is the employee who has benefited from the sale to recycling companies.

**Effect**

Non-compliance with school policy and state statutes. The head of the maintenance department conducted personal business while using a school vehicle, during the work day without taking leave, and profited from the sale of school property. The funds received from the sale of school property to the recycling centers should have been revenues of the School.

**Recommendation**

School employees should be required to take leave when they are conducting personal business during contracted working hours. The School should evaluate options to recoup the funds that the head of the maintenance department received from the sale of school property, including potentially referring the head of the maintenance department to law enforcement. The School should also consider options for corrective action(s) related to theft of time by the head of the maintenance department, as well as corrective actions against the individual authorizing the head of the maintenance department to conduct personal business during contracted working time.

**Finding 2017-001 Recycling Transactions (Continued)**

We recommend that the School develop and implement policies and procedures to properly dispose of School property. These policies and procedures should include prior written approval from the Superintendent to take School property to the recycling center, the written approval should include a description of the material taken for recycling, the date of approval, and the date the materials are to be taken to the center. These policies and procedures should also include that employees notify the recycling center that the materials are School property and request a check payable directly to the School. The School should then deposit these funds timely for the benefit of the School and its students. Additionally a reconciliation of approvals to recycling center receipts should be performed periodically.

**Response**

a. **Recyclable Materials** - The District agrees that internal control procedures for the disposition of recyclable materials need to be improved. The District will develop a written process for the disposal of recyclable materials and the corresponding collection of moneys from the sale of such materials. The Board of Education of the Dora Consolidated Schools is committed to implementing such controls by August 2017. The new process will be communicated to all staff by the Superintendent or Business Manager at the beginning of the new school year in August 2017.

However, the District is not in full agreement with the auditor's estimated value of the recyclable materials belonging to the district. The District, nor the auditors, can unequivocally establish the value of District property that was delivered to the recycler. The District's Maintenance Supervisor has an ongoing established business of cleaning up old farm equipment and hauling the scrape metal to the recycler. Without the knowledge of the District, the recycling companies set up the account in the name of the District and the individual. It is certain that all the scrape materials disposed by recycling could not have all belonged to the School District.

The Board of Education believes that properly designed internal controls are necessary to track the inventory of property owned by the School District and the disposition of the asset at the end its useful life. Additionally, the tracking of the proceeds (if applicable) derived from the disposition of the asset is equally important as maintaining an accurate fixed asset records.

Corrective Action: The School District will develop policies and procedures, which will be added to the Business Office Manual of Procedures, that direct the Maintenance Department and Business Office staff to track inventory and provide documentation on the disposition of all School District equipment and property at the end of its useful life. The Business Office will provide training at the beginning of the 2017-2018 school year to staff to assure that the changes in procedures continues forward through the school year. The District will utilize current business software to track fixed asset inventory in compliance with state law and prudent accounting practices. An inventory system shall be created and maintained of District inventory of property of nominal value. A running inventory is necessary to track inventory control. Inventory control will decrease the chance of loss of property either intentional or unintentional.

The District will develop procedures in compliance with state law and OSA regulations, to be added to the Business Office Manual of Procedures, that direct the Maintenance Department and Business Office staff on the requirements for the disposal of School District property that requires the prior

**Finding 2017-001 Recycling Transactions (Continued)**

approval of the Superintendent before any property is taken for disposal or for recycling. The District has already notified current disposal and/or recycling companies that all payments for recycled property shall be made by check and payable to only to the Dora Consolidated Schools.

**b. Appropriate use of employer time** – According to the audit findings, employees have not taken leave to conduct personal business, including use of school vehicles.

The Board of Education agrees that District did not appropriately document the employees work hours and the use of “flex time”. The corrective action plan and subsequent written procedures will be completed by the Superintendent by August 2017.

Corrective Action: The Superintendent shall enforce existing policies, rules and procedures to ensure that all time an employee is at work he or she is conducting official school business and that all leave policies and procedures are enforced for employees wishing to conduct personal business. In addition, the Superintendent will enforce existing policies, rules and procedures for the use of school vehicles and maintain sufficient documentation of the use and mileage of each school vehicle to ensure compliance. The Superintendent will provide training at the beginning of the 2017-2018 school year to staff to assure that employees are aware of the procedures and requirements for taking personal leave and use of school vehicles continues forward through the school year.

**Finding 2017-002 Maintenance/Janitorial Supplies and Service Bids**

**Condition**

The School purchased janitorial supplies and floor maintenance services from a supply company owned by a school maintenance employee (Company A).

The required Conflict of Interest form was signed in May of 2016, but the School was doing business with Company A throughout the entire period reviewed of June 1, 2013 through December 31, 2016. After being signed, the Conflict of Interest form was attached to the supporting documentation for payments made to Company A that were made prior to May 2016.

Janitorial supplies such as paper towels, toilet paper, miscellaneous cleaning supplies, scrubbing pads, mops, brooms, etc., in the amount of \$41,292, were purchased from Company A from June 1, 2013, through December 31, 2016. Evidence of competitive sealed bidding for the suppliers was not provided by the School. The procurement files did contain quotes from Company A and other companies, however, there was no documentation of price comparisons or evaluations. Additionally Company A’s quotes were consistently dated later than the other business quotes. Further, according to documentation provided to OSA, the bids received from the other Companies were routed to Company A’s owner in his capacity as the head of the maintenance department compromising the independence of the evaluation process.

Floor maintenance services for the gym floor included the use of various chemicals and sealing agents designed to strip and refinish the wood floor. The school paid Company A \$2,700 for materials and labor in November of 2015. The school obtained two price quotes, one from an Amarillo company, dated August 17, 2015, which was addressed to the Company A’s owner in his capacity as the head of the maintenance department, the other from Company A, dated October 26, 2015.

**Finding 2017-002 Maintenance/Janitorial Supplies and Service Bids (Continued)**

Per interviews with other school personnel, the refinishing of the gym floors had been performed previously by maintenance personnel for no additional pay as part of their normal job responsibilities. The School does not have a formal job description for the maintenance personnel to detail what would be considered part of the regular job responsibilities and what responsibilities would need to be contracted out. Additionally, the School paid Company A for the same chemicals on three separate occasions in prior fiscal years during the period audited, but did not pay Company A for the labor associated with refinishing the floor.

**Criteria**

Section 10-16-7 B. NMSA 1978 (Contracts involving public officers or employees) requires public officers and employees to “publicly disclose” their business and interest prior to contracting with a local public body. Additionally the local public body must award the contract pursuant to a competitive process.

6.20.2.11 NMAC provides that every school district shall establish and maintain internal controls sufficient to ensure the protection of public funds. Appropriate internal control procedures shall be adopted by the local board within a school district to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure shall address all school district transactions.

School Policy G-0700 (Staff Conflict of Interest) prohibits an officer or employee of the district to be employed by a corporation or business or to have a relative with a substantial interest in a corporation or business which is or may be interested in contracting with or furnishing goods and services to the District. The officer or employee shall declare the interest and refrain from being involved in the contracting process either directly or indirectly. Once such interest is publicly disclosed the corporation or business can seek and obtain the business of the district through a public competitive process.

**Cause**

The School did not maintain adequate supporting documentation to justify the selection of Company A as the vendor to provide janitorial supplies and maintenance services to support that the best obtainable price was obtained or that a competitive process took place. The lack of a specific job description for maintenance department personnel allows for confusion in determining what tasks would be normal job requirements for maintenance personnel, and what tasks would need to be contracted with third parties. The employee was not aware of the requirement to have the conflict of interest form on file for his personal maintenance supply business.

**Effect**

The School and the maintenance employee may not have complied with the Governmental Conduct Act requirements for disclosure and competitive procurement. Additionally the school may have overpaid for janitorial and maintenance supplies and services.



**Finding 2017-002 Maintenance/Janitorial Supplies and Service Bids (Continued)**

Job responsibilities for maintenance department personnel are not clear. Additionally, it appears that the School may have paid the head of the maintenance department an additional amount for performing services which appear to have been historically provided as part of the normal job responsibilities for maintenance department personnel.

**Recommendation**

Janitorial and maintenance supplies should be sent to the business office upon receipt to be counted and verified by employees other than maintenance department employees. The School should also review the requirements of the Governmental Conduct Act to ensure compliance. Consideration should be given to the use of the conflict of interest form as it may not meet the requirements of public disclosure.

The School should perform and maintain documentation of the evaluation of price quotes for supplies to justify vendor selection. In addition, the School should ensure that when price quotes are obtained for any purpose, that the time frame for which those prices will be honored by the vendor is documented. Price quotes should also be obtained within a reasonable time frame of the other quotes obtained for comparability.

The School should develop a job description for maintenance personnel to include certain tasks and whether or not they would be part of the normal job duties. The School should also make a determination whether certain maintenance tasks would be beyond the normal scope of responsibility of maintenance personnel.

**Response**

The Board of Education is committed to the prudent, proper and legal use of taxpayer resources and to do so in an ethical and transparent manner. The Board of Education agrees that School Policy G-0700, current in place, was not followed.

The District was confident they were acting in the best interest of the students by saving money on custodial supplies. Additionally, the practice was reviewed by the prior auditor and the auditor confirmed that their actions were indeed appropriate.

Corrective Action: The Business Manager shall ensure compliance with the Procurement Code, including the provisions of public disclosure of perceived conflicts of interest in which the School District contracts with a company owned in sufficient part by an employee or public officer. The School District will develop procedures, to be added to the Business Office Manual of Procedures, to ensure that conflicts of interest are addressed in a timely manner and ensure competitive bids or RFPs are sought for all contracts to include sufficient documentation of the evaluation of price quotes for supplies and services to justify vendor selection and all price quotes shall be within a reasonable time frame of each other. This corrective action plan was completed prior to June 30, 2017.

### **Finding 2017-003 Disposition of Capital Assets**

#### **Condition**

In December 2015, Dora Schools accepted bids to sell a 1993 Ford F-150 Pickup and a 1999 Chevrolet Suburban. Evidence of public posting for these bid was not maintained. Based on records obtained, the sale occurred while the school was closed for winter break. Based on the review of the bids received for the vehicles, it appears that one vehicle was sold to a former acquaintance of the head of the maintenance department in San Antonio and one to the Superintendent's half-brother. Additional bids were received from the head of the maintenance department and an individual who has previously contracted with the School.

Three bids were received for the Suburban, \$150, \$175, and \$200. Four bids were received for the Pickup, \$150, \$175, \$180, and \$200.

Receipts were not issued directly to individuals who purchased the vehicles and no copy of a bill of sale was maintained by the school. \$400 cash was provided from the Superintendent to the School Business Manager in January of 2016 at which time a receipt was issued by the School Secretary to the Business Manager. The Superintendent stated during two interviews with OSA and reiterated during the exit conference for this engagement that he received the \$400 from the head of the maintenance department; however, per two interviews with the head of the maintenance department, he indicated that "he never touched this money, that it was all handled by the Superintendent and the Business Manager." The funds were subsequently deposited into the School's bank account.

Although most of the bids received indicate "as-is" or "for parts" for the condition of the vehicles, when the vehicle titles were transferred to the new owners, neither were transferred as salvage titles. Additionally, per the Vehicle Identification Number (VIN) history obtained for each of the vehicles, salvage titles have not been obtained on either vehicle.

#### **Criteria**

Section 13-6-1 NMSA 1978, Disposition of obsolete, worn-out or unusable tangible personal property, requires the School to designate a committee of the governing body to approve and oversee asset dispositions for assets valued at less than \$5,000. This section also requires the sale of assets to be completed by means of a public auction or competitive sealed bid.

6.20.2.14 (B) NMAC (Cash Control Standards) requires the school district to issue a factory pre-numbered receipt for all money received. Pre-numbered receipts are to be controlled and secured.

6.20.2.14 (C) NMAC (Cash Control Standards) provides that money received and receipted shall be deposited in the bank within twenty-four (24) hours or one banking day. If the distance to the bank is considerable, or the cash collection is limited to small amounts and/or low volume and it is impractical to meet the twenty-four hour/one banking day requirement, the local board may request approval from the Public Education Department for an alternative plan.

School Policy D-3300 (Cash in School Buildings) requires that money collected by school employees shall be handled in accordance with prudent business procedures. All monies collected shall be receipted, accounted for, and directed without delay to the proper location of deposit. No funds, other than a change fund, shall be left in the building overnight or over the weekend and/or holidays, except in safes provided for safekeeping of valuables or a secured area.

**Finding 2017-003 Disposition of Capital Assets (Continued)**

**Cause**

Lack of adequate internal controls over the disposition of capital assets and other school inventory items, and the cash receipts related to these sales.

**Effect**

The School's disposition of fixed assets was not in compliance with state law regarding dispositions. The School's handling of cash related to the asset disposition and issuance of receipts is not in compliance with New Mexico Administrative Code. The School failed to maintain adequate documentation for the sales and cannot be certain that it received the best price for the vehicles.

The cash received was passed through several school personnel before a receipt was issued and before the deposit was made. The receipt was not issued to the individuals when the cash was received, therefore there is no evidence to support when the cash was received, the true reason for the receipt of cash, and the actual amount that may have been received.

**Recommendation**

School personnel should ensure that the disposition of assets occurs with the approval and oversight of governing body committee. The School should ensure that the announcement/advertisement for the sale is posted in public locations consistent with other public postings by the school, in addition to posting on the School's website. The sale should be consistent with the requirements for public auction or competitive sealed bids.

The School should maintain adequate supporting documentation of disposed of assets to demonstrate compliance with state law, New Mexico Administrative Code, school policies, and any other applicable regulations.

The School should require that cash or other funds received for the sale of School property are received directly by the Business Office and not by other School personnel. The Business Office should then ensure that the deposits are taken to the bank and deposited in a timely manner.

**Response**

The Board of Education is committed to prudent, proper and legal use of taxpayer resources and to do so in an ethical and transparent manner. The Board of Education agrees that the procurement code in the disposition of unusable vehicles was not followed to the letter of the law.

Corrective Action: The Superintendent and Business Manager shall develop procedures, to be added to the Business Office Manual of Procedures, that direct the Maintenance Department and Business Office staff on the requirements for the disposal of School District assets. This process will comply with state law and applicable regulations of NMAC, PED, DFA and OSA.

### **Finding 2017-004 Propane Transactions**

#### **Condition**

The invoices from the School's propane supplier indicate that the total number of gallons purchased exceeds the number of gallons calculated from the change in percentage volume in the tank. Per an interview with the propane supplier's employee who fills the tank at the School, it was repeatedly stated that it is possible to recalculate the gallons purchased by calculating the percentage change in tank volume multiplied by the tank's capacity and it will tie perfectly every time. After OSA questioned why the invoices do not appear to add up, the individual began explaining possible reasons for the variances noted. Further, the individual indicated that he is not permitted to leave the meter on the truck running when he leaves a site, therefore, he could not have charged the School for cost of the propane not provided to the School. This explanation received from the propane supplier's employee does not explain how the School was charged on transaction #13 noted below for 1,000 gallons in excess of the propane truck's tank capacity of 2,400 gallons, this transaction would have required two separate invoices, since the quantity of propane purchased could not have been provided in one trip.

Of the 66 total transactions with the propane supplier from June 2013 to March 2017:

- 35 (53%) invoices indicate a total number of gallons billed exceeded the number of gallons calculated from the change in percentage volume in the tank.
- 18 of the 35 transactions have variances of 60 gallons or less, which could relate to an error in reading the gauge on the tank because 1% of the tanks capacity is 60 gallons (471 gallons/\$733).
- 17 of the 35 transactions during the period audited indicate total gallons billed exceeded the number of gallons calculated from the change in percentage volume in the tank by more than 60 gallons (2,480 gallons/ \$3,494).
- Only 16 (24%) of the 66 invoices could be recalculated without variances.

Dora Consolidated Schools  
 Schedule of Findings and Responses  
 For the Period of June 1, 2013 through December 31, 2016

**Finding 2017-004 Propane Transactions (Continued)**

		A	(A * 6,000 = B)	C	(C * 6,000 = D)	E	(D - B = F)	(F - E = G)	(G * Price/Gallon per Invoice)
	Transaction Date	Beginning Tank Volume per Supplier Invoice	Calculated Beginning Volume in	Ending Tank Volume per Supplier	Calculated Ending Volume in Gallons	Gallons Billed per Supplier Invoice	Gallons Filled Based on Volume Percentages	Gallons Billed in Excess of Calculated Amount	Dollar Value of Gallons Billed in Excess of Tank
1	Oct-13	65%	3,900	80%	4,800	975	900	75	128.05
2	Dec-13	60%	3,600	80%	4,800	1,300	1,200	100	194.40
3	Dec-13	52%	3,120	81%	4,860	1,900	1,740	160	311.04
							Subtotal	335	633.49
4	Jan-14	56%	3,360	80%	4,800	1,700	1,440	260	505.44
5	Jan-14	56%	3,360	80%	4,800	1,600	1,440	160	328.80
							Subtotal	420	834.24
6	Mar-15	50%	3,000	80%	4,800	1,980	1,800	180	255.60
7	Dec-15	43%	2,580	75%	4,500	2,000	1,920	80	77.52
							Subtotal	260	333.12
8	Jan-16	47%	2,820	77%	4,620	2,000	1,800	200	193.80
9	Feb-16	60%	3,600	80%	4,800	1,300	1,200	100	96.90
10	Feb-16	71%	4,260	83%	4,980	825	720	105	101.75
11	Mar-16	60%	3,600	80%	4,800	1,400	1,200	200	193.80
12	Nov-16	49%	2,940	80%	4,800	2,080	1,860	220	264.00
13	Dec-16	25%	1,500	80%	4,800	3,400	3,300	100	120.00
14	Dec-16	46%	2,760	77%	4,620	2,000	1,860	140	168.00
							Subtotal	1,065	1,138.25
15	Jan-17	55%	3,300	80%	4,800	1,600	1,500	100	120.00
16	Jan-17	65%	3,900	80%	4,800	1,050	900	150	217.50
17	Feb-17	40%	2,400	71%	4,260	2,010	1,860	150	217.50
							Subtotal	400	555.00
					Total	29,120	26,640	2,480	3,494.09

The variances noted did not appear to be reasonably explained or accounted for by any of the explanations provided by the School's propane supplier or other technical information obtained by OSA from a large propane supplier.

**Criteria**

6.20.2.11 NMAC requires that every school district shall establish and maintain internal controls sufficient to ensure the protection of public funds. Appropriate internal control procedures shall be adopted by the local board within a school district to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure shall address all school district transactions.

**Cause**

Lack of monitoring and recalculating propane transactions.

**Effect**

Invoices received from the propane supplier for the School indicate quantities purchased in excess of the number of gallons calculated from the change in percentage volume in the tank. The School appears to be paying for propane not received.

**Finding 2017-004 Propane Transactions (Continued)**

**Recommendation**

The School should assign individuals to monitor and record the tank volume before and after the propane supplier fills the tank. The School should also have someone present to accept the trip ticket from the supplier immediately after the tank has been filled. The School should begin reviewing the bills to ensure that they are being billed accurately for the amount of propane received, and work with the vendor to ensure that invoices accurately reflect the transaction which occurred.

**Response**

The Board of Education is committed to prudent, proper and legal use of taxpayer resources and to do so in an ethical and transparent manner. However, we do not agree with this finding. The gauges on propane tanks are only for approximating the amount of fuel contained within the tank. Therefore, the gauges cannot be reasonably relied upon to calculate, with certainty, as to the quantity of fuel the tank will accept.

The gauges on the tanks will vary depending upon ambient air temperature at the time the gauge is read. Additionally, the auditor's accusation, without substantiation, of collusion between the propane provider, the delivery truck driver and the superintendent was, at the very least, unprofessional and unethical behavior on the part of the auditors. The district processes payment for propane based upon the amount of fuel that is delivered and recorded on the "fill ticket". The "fill ticket" is generated by the delivery driver from a state certified pump that is installed on the delivery truck. However, in light of the disagreement with the audit finding, the District shall modify the process for the payment of propane invoice. See corrective action below:

Corrective Action: The School District shall modify the internal procedures for the payment of the propane invoice and add the process to the Business Office Manual of Procedures. The process will be that payment will be made only with the original "fill ticket" from the propane delivery truck driver. The "fill ticket" is the document that details the amount of fuel that is pumped into the propane storage tank and the pump is certified by the state of New Mexico as being true and accurate. If the truck is not able to provide such ticket, an employee from the Maintenance Department shall be present during the transfer of propane and sign the delivery ticket to evidence the amount of fuel delivered. The School's Business Manager will notify the propane provider as to the new process for the delivery of product. Corrective action plan will be completed by August 2017.

**OSA Rebuttal**

The corrective action plan provided by the School does not address the concern that the School is being overbilled for propane. As noted in the condition of the finding, one of the metered transactions was for 1,000 gallons of propane in excess of the capacity of the truck hauling the propane. Further, in an interview with the business manager for the propane vendor, the company tries to keep their total inventory variances to within 100 gallons a day.

**Finding 2017-005 Procurement**

**Condition**

During the review of purchases made for specific vendors, the following compliance issues were noted, in addition to those noted in other findings in the report.

1. The Purchase Order (“PO”) attached to a reimbursement travel voucher for \$42 was not applicable to the purpose of the trip. The PO was for professional development and the travel voucher was to meet with a contractor.
2. Two transactions for a total of \$499 had purchase orders created after the transaction date or after services were performed.
3. Four transactions for \$9,639 were paid from a quote or an estimate and not an actual invoice or statement, two of these transactions totaling \$8,929 pertaining to insurance proceeds were received from New Mexico Public School Insurance Authority and then paid to the vendor for repair services.
4. One transaction for \$230 had a price quote attached which was not an actual price quote, but an invoice from six months prior to the purchase from another vendor for the replacement of a vehicle windshield.
5. Ten transactions not including those confirmed to be related parties for \$34,589 did not contain evidence of best obtainable price.
6. For certain vendors reviewed, the total payments to the vendor exceeded the amount of the total PO’s for the respective fiscal year.

<b>Fiscal Year</b>	<b>Number of Vendors</b>	<b>Amount \$ Paid in Excess of Purchase Orders</b>
2014	3	\$ 21,019.44
2016	2	\$ 4,214.53
2017	1	\$ 1,637.93

*Note:* Amounts for Fiscal Year 2017 are only for the first six months of the year.

Additionally, the School purchased a used dolly (hand truck) for \$175 in June of 2016 from Company A. The price quotes attached to show the value of the hand truck contained specifications that were not comparable to the hand truck purchased and ranged from \$219 to \$330. Only one of the quotes attached appeared to be for the same load capacity.

Company A received payment in October of 2015 for mower blades at a cost of \$157; however, the supporting documentation did not contain evidence of price quotes to support best obtainable price.

**Criteria**

State Procurement Code, Section 13-1-28 through 13-1-199 NMSA 1978.

**Finding 2017-005 Procurement (Continued)**

Pursuant to Section 10-16-3(A-B) NMSA 1978, a public employee shall treat the public employee's government position as a public trust, the public 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. Public employees shall conduct themselves in a manner that justifies the confidence placed in them by the people at all times maintaining the integrity and discharging ethically the high responsibilities of public service.

Section 22-29-11 NMSA 1978, Expenditure of insurance proceeds for public schools, states that if the payment of insurance proceeds is made directly to the school, the proceeds of the insurance payment may be expended by the school to repair or replace the damaged facility if the school district complies with the Procurement Code.

New Mexico Manual of Procedures for Public School Accounting and Budgeting, Supplement 13 – Purchasing states: “the preparation and execution of a duly authorized purchase order must precede the placement of any order for goods, services, or construction.”

6.20.2.11 NMAC requires that every school district shall establish and maintain internal controls sufficient to ensure the protection of public funds. Appropriate internal control procedures shall be adopted by the local board within a school district to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure shall address all school district transactions.

**Cause**

School employees are not monitoring the amounts spent on open POs, and continuing to make purchases with a vendor even after being notified by the Business Manager that total purchases have exceeded the PO amount. Employees may not understand the State compliance requirements related to procurement or the need to monitor expenditures.

**Effect**

The School is not in compliance with State statutes in relation to procurement. Staff may be using open POs as a way to purchase items not intended for use at the School, diverting education dollars away from benefiting the School and the students of the School.

**Recommendation**

The School should discontinue or limit the use of open POs for vendors other than utilities. If open POs will continue to be used for maintenance supplies and parts, then they should be limited to smaller dollar amounts and set up on a monthly basis instead of an annual basis to assist in tracking expenditures applicable to the PO.

The School should train staff regarding compliance with State Procurement Code, other State compliance requirements, and School policy. School personnel should also ensure that adequate documentation is obtained to support best obtainable price. Any price quotes obtained should be kept with the documentation for the purchase.

Additionally, price quotes obtained should be for similar products.



**Finding 2017-005 Procurement (Continued)**

**Response**

The Board of Education is committed to prudent, proper and legal use of taxpayer resources and to do so in an ethical and transparent manner. The District agrees with the finding. The Superintendent will direct the task of updating the procurement policies and procedures.

Corrective Action: The process for assuring that Purchase Orders are in compliance with the state procurement code (NMSA and NMAC) will be updated and implemented with fidelity. The plan shall include a centralized review of all Purchase Orders for compliance with policy and appropriate state laws. The updated process will mandate that Purchase Orders shall only be signed after a business office or central purchasing staff has determined the transaction is in compliance with the District's updated procurement policies and with state law. The Business Office will receive training in the state procurement code through the State's Procurement Office during the 2017-2018 school year to assure that the changes to policies/procedures are indeed in compliance with state law. Additionally, the Superintendent and/or the Business Manager will provide training to the appropriate School District staff on the updated procurement policy and procedures. The Superintendent will update the Business Office Manual of Procedures to reflect the changes to policy and procedures in August 2017. The new policy/procedures will address the proper use and documentation of requisitions, PO, vendor files (including W-9 information), change orders and vendor performance.

**Finding 2017-006 Purchase of Vehicles Parts for Non-School Vehicles**

**Condition**

Per review of the School's records, there was a quote obtained for Jeep Wrangler parts, a vehicle not owned by the School, included with the invoices paid to the auto parts vendor. This quote was obtained on December 8, 2015, at the same time that the head of the maintenance department was making a purchase for the School per the time and date information on the quote and invoice providing further evidence of the head of the maintenance department has been conducting personal business during the his scheduled working hours.

Additionally, on November 5, 2015, the head of the maintenance department purchased "8 SP-515 MTC Finewire Plat Plug" spark plugs, which were paid for by the School for a "2007 Ford F-150," in the amount of \$78.72. The School does not have any record of owning the vehicle referenced.

**Criteria**

Pursuant to Section 10-16-3(A-B) NMSA 1978, a public employee shall treat the public employee's government position as a public trust, the public 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. Public employees shall conduct themselves in a manner that justifies the confidence placed in them by the people at all times maintaining the integrity and discharging ethically the high responsibilities of public service.

**Finding 2017-006 Purchase of Vehicles Parts for Non-School Vehicles (Continued)**

Article IX, Section 14 of the New Mexico Constitution (the Anti-Donation Clause), sets forth the requirement that government entities, including school districts, not make any donation to or in aid of any person, association or public or private corporation.

Per 6.20.2.11 NMAC, every school district shall establish and maintain internal controls sufficient to ensure the protection of public funds. Appropriate internal control procedures shall be adopted by the local board within a school district to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure shall address all school district transactions.

**Cause**

A School employee purchased vehicle parts and supplies for a vehicle not owned by the School. The head of the maintenance department was conducting personal business simultaneously with School business when making auto parts purchases, and did not ensure that his personal purchases were not associated with the School's account.

**Effect**

The School paid for vehicle parts for vehicles not owned by the School diverting school resources and funding from the benefit of the School and its students. Potential violations of Governmental Conduct Act, Anti-donation Clause, other state statutes, and school policy.

**Recommendation**

The School should monitor expenditures for vehicle maintenance and supplies to ensure that items purchased are for use on School owned assets and property and not for an employee's personal use.

**Response**

The Board of Education is committed to prudent, proper and legal use of taxpayer resources and to do so in an ethical and transparent manner. The District does not agree with this finding. It is technically factual that the district paid for spark plugs for a vehicle that the District does not own. However, the District contends that the auto parts store accidentally pulled the wrong plugs from their shelf and the error was not detected by the maintenance supervisor before leaving the store. The maintenance employee noticed that he had receive the incorrect part upon returning to the District's maintenance shop.

Once he noticed that he received the wrong part, he placed the spark plugs on a shelf in the maintenance shop to be returned later. The Maintenance Supervisor's intent was to return the part to the vendor. When the employee was asked about the plugs by the Superintendent the Maintenance Supervisor remembered the situation and immediately brought the plugs to the Superintendent. As of the writing of this response, the plugs remain in the Superintendent's office.

### **Finding 2017-007 Additional Concrete Work**

#### **Condition**

The School accepted three quotes for a concrete slab in March and April 2016. The quotes were in the amount of \$13,910.40, \$18,358.62, and \$12,757.50 excluding gross receipts tax. All three quotes included specific details as to the amount of concrete. A fourth quote was obtained in July 2016 for \$12,957.50 excluding gross receipts tax. The School did not provide documentation to show the evaluation of the quotes or justification for selecting fourth quote and not the lowest offeror.

The quote from the fourth vendor indicates it was sent through email, but supporting documentation was not provided to OSA by the School. The quote and supporting documentation was obtained directly from this vendor upon request, and emailed again to the School simultaneously. The quote and invoice obtained did not have adequate information to determine the size of the area being bid.

#### **Criteria**

Section 13-1-125 NMSA 1978 (Small purchases) allows the procurement of construction services with a value not exceeding \$20,000 at the best obtainable price.

#### **Cause**

The School did not select the vendor who offered the best price. According to the Superintendent, the originally awarded vendor was non-responsive when the School contacted them to complete the work, however, like the invoice and quote, supporting documentation was not maintained by the School to support this.

#### **Effect**

The School may have paid an additional \$200 excluding gross receipts tax for concrete work performed. Additionally, without adequate supporting documentation, the School does not appear to be in compliance with the State Procurement Code, as they did not accept the best obtainable price which was quoted to the School or maintain documentation to justify contacting and selecting another vendor.

#### **Recommendation**

The School should ensure that all relevant and necessary records related to procurement are maintained. Additionally, the School should ensure compliance with the State Procurement Code.

#### **Response**

The Board of Education is committed to prudent, proper and legal use of taxpayer resources and to do so in an ethical and transparent manner. However, the District does not agree with this finding due to the following reasons:

a. Cooperative Purchasing Agreement – This service was procured through the use of a Cooperative Purchasing Agreement of CES. CES (Cooperative Education Services) awards bids to vendors on a competitive basis and member school districts may utilize these services without additional procurement activities such as a bid or RFP. The District could have elected to use the service of a higher priced vendor and remained in compliance with the procurement law due to the Cooperative

**Finding 2017-007 Additional Concrete Work (Continued)**

Purchasing Agreement with CES. Therefore, this purchase is compliant with the state's procurement code and should not be listed as a finding.

b. Evaluation of the bids/proposals: The State Auditor's Office staff misinterpreted the proposals and then refused to listen to the District's explanation. The bid/proposal of \$12,757.50, as noted in the audit finding, was the vendors cost before gross receipts tax. The total cost of the \$12,757.50 bid is \$13,786.07 inclusive of GRT. The total cost of bid/proposal accepted by the district was \$12,957.50 inclusive of GRT. Therefore, the least cost option was selected. However, this point should be deemed moot due to fact that the District utilized the cooperative procurement agreement through CES.

This is a simple issue and an auditor auditing the procurement function of a school district must have an understanding of this issue.

Corrective Action: N/A

**OSA Rebuttal**

As indicated in finding 2017-008, the total cost of the additional concrete work was \$13,913.12, which includes the \$12,957.50 base price of the contract and \$955.62 of New Mexico Gross Receipts Tax per the copies of the invoice obtained from the vendor and from CES as the contractor used is also a CES contractor. Further, the School did not maintain adequate supporting documentation to show why they did not use the lower bid, regardless of whether the vendor had become unresponsive to the School. The School can use a CES contractor without needing to obtain other price quotes; however, in this case, the School obtained price quotes and did not maintain adequate supporting documentation to justify the selection of the higher priced quote, which was also received several months after the original quotes.

**Finding 2017-008 Management Could Not Provide All Requested Information**

**Condition**

The School did not provide an invoice or price quote for concrete work valued at \$13,913.12 that was requested during the audit.

**Criteria**

School policy D-2150 requires the maintenance of a complete and auditable financial system. An auditable financial system should include adequate supporting documentation for expenditures such as: copies of invoices, purchase orders, price quotes, and any other relevant and necessary documentation.

Section 14-3-13 NMSA 1978 requires the School to carefully preserve and protect public records.

6.20.2.11 NMAC, requires the School to establish and maintain an internal control structure including accounting controls and controls over accounting records.

**Finding 2017-008 Management Could Not Provide All Requested Information (Continued)**

**Cause**

Invoice and supporting documentation could not be located when requested by the OSA.

**Effect**

Management and the governing authority of the School are unable to affirm that they have provided the State Auditor with all requested documents as required for the audit. The OSA obtained the requested information from Cooperative Education Services (CES) and from the vendor directly.

Missing invoices and/or other records can be indicators of more serious issues including fraud.

**Recommendation**

The School should have a filing system that enables them to locate supporting documentation for School transactions.

**Response**

The Board of Education is committed to a strong internal control structure, prudent accounting practices and transparency in financial accounting and business practices. The District does not agree with this finding. The District believes that all information was provided to the auditors in a timely manner.

The information in question are the quotes/estimates from CES vendors as discussed in finding 2017-007. However, in light of the disagreement to the finding, the District does agree that updated procurement policies and procedures should be developed and implemented with fidelity.

Corrective Action: See correction action for finding 2017-005. The updated policies and procedures for procurement will provide improved documentation for bids and quotes that will aid in providing information to interested parties on a timely basis.

**OSA Rebuttal**

During the engagement, the Business Manager informed OSA through email that the School did not have copies of and was unable to provide the invoice or related documentation for the referenced invoice for the additional concrete work. Copies of this invoice, and the original quote from the vendor were obtained by OSA directly from the vendor and from CES.

**Finding 2017-009 Vendor Controls and Required IRS Forms**

**Condition**

The School has been unable to obtain a W-9 for a vendor used for various vehicle and bus repairs. Additionally, the School has not sent 1099s to two vendors for services performed as required by the IRS. The School should have sent 1099s for the following:

**Finding 2017-009 Vendor Controls and Required IRS Forms (Continued)**

<b>Vendor</b>	<b>Calendar Year</b>	<b>Amount Paid to Vendor</b>
Vendor #1	2013	\$7,812.50
Vendor #1	2015	\$9,409.12
	<b>Total</b>	\$17,221.62
Vendor #2	2015	\$3,500.00

Three transactions with Vendor #1 for \$5,286, \$1,313, and \$3,643 were for insurance repairs which were reimbursed to the School from the New Mexico Public School Insurance Authority (“NMPSIA”). If NMPSIA had paid the vendor directly the responsibility for 1099 compliance for these transactions would have shifted to NMPSIA.

The OSA was informed through discussion with several school employees that the payments to this vendor have been hand delivered by and at the request of the Superintendent.

The School does not have W-9s on file for all vendors.

**Criteria**

Federal law, 26 U.S.C. § 6041, requires the School to send a 1099 form to individuals who are not School employees for services performed in excess of \$600.

6.20.2.11 NMAC requires the School to have an internal control structure that provides reasonable assurance that the School is complying with applicable laws and regulations. Additionally sound accounting practices recommend against the hand delivery of vendor payments.

**Cause**

The School authorizes purchase orders and transactions with vendors without ensuring that they have received a W-9. Additionally, the School has had several Business Managers during the past few years, and each had a different way of setting up vendors in the system.

**Effect**

The School is not in compliance with federal law requiring the completion of 1099s. Hand-delivered checks increase the risk for fraud and loss.

**Recommendation**

Purchases should not be allowed with a vendor until the School has a valid copy of the vendor’s W-9 on file.

Payments should not be hand-delivered; however, if a check is to be hand-delivered in the future, then the Business Manager should keep a log of these checks, signature of the Superintendent to authorize the check to be hand-delivered, name and signature of employee who hand-delivered the check, and the vendor’s prior in-person (showing valid government issued identification) signed

**Finding 2017-009 Vendor Controls and Required IRS Forms (Continued)**

authorization for their checks to be hand-delivered.

**Response**

The Board of Education is committed to a strong internal control structure, prudent accounting practices and transparency in financial accounting and business practices. The District agrees with the finding.

Corrective Action: The Business Manager will review the documentation for all vendors and acquire the appropriate tax reporting information for all vendors with missing information. Additionally, the business manager will review the vendor setup within the accounting system and make correction to the vendor master file as necessary for correct reporting of 1099s. This issue will be specifically addressed within the updated procurement policies and procedures.

**Finding 2017-010 Personal Use of School Vehicle**

**Condition**

The Assistant Principal took a school vehicle to Amarillo, Texas, to pick up supplies for the concession stand. The trip started on Saturday, October 10, 2015, the same day it was requested. Additionally, authorization for the trip was by the same individual who was traveling. The Assistant Principal did not return the school vehicle until Monday, October 12, 2015.

Per the trip ticket submitted, the total mileage for the trip was 478 miles, which is 196 miles further than a round trip from Dora to Amarillo. Fuel receipts indicate that the Assistant Principal purchased using the School’s Wright Express (“WEX”) card, and the pin number for the School Principal, who was not on the trip. There is no evidence that the Assistant Principal reimbursed the School for the personal use of a school vehicle.

Mileage from Dora to Amarillo	140
Mileage from Amarillo to Dora	140
Total estimated mileage for the trip	280
Total Mileage Recorded for the Trip per the Trip Ticket	478
Difference Between Estimated and Actual Mileage	198

*Note:* The mileage noted in the examples above are the shortest distance between locations per Rand McNally.

Additionally, as noted in Finding 2017-001, the head of the maintenance department was also using school vehicles for personal use while profiting personally from the sale of recyclable materials.

### **Finding 2017-010 Personal Use of School Vehicle (Continued)**

#### **Criteria**

School Policy E-2850 requires that administrators shall be responsible for making certain that the use of school vehicles is not abused inside or outside the District, and it is the responsibility of such administrative personnel to assure that all travel has final approval from the District administration office. Further, no school vehicle shall be used for personal business, unless the personal business is incidental to a school-related trip.

Pursuant to Section 10-16-3(A-B) NMSA 1978, a public employee shall treat the public employee's government position as a public trust, the public 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. Public employees shall conduct themselves in a manner that justifies the confidence placed in them by the people at all times maintaining the integrity and discharging ethically the high responsibilities of public service.

#### **Cause**

Insufficient supervision and/or the employee's failure to understand policy, laws, rules, and regulations pertaining to vehicle use.

A new employee was not set up as a WEX user prior to being allowed to drive a school vehicle, so the School Principal was told to share his WEX pin number with the Assistant Principal.

#### **Effect**

Non-compliance with School policy and State statute. The Assistant Principal drove a School vehicle an additional 196 miles over the calculated round trip mileage for the authorized trip which appears to be for personal use. The personal use of school vehicles diverts school funds away from purposes that would benefit the School or the students attending the School.

Lack of internal controls over WEX usage and fuel purchases. By sharing pin numbers, the School loses the ability to monitor fuel purchases by employee. An employee could misuse the fuel card and use the pin number for another employee to prevent detection.

#### **Recommendation**

The School should ensure that all employees are familiar with the School's policies and not allow the use of School vehicles and/or equipment for personal use. Additionally the School should consider changes to the policy to ensure the individual approving the use of the vehicles is not the same as the individual using the vehicle.

The School Principal's personal identification number (PIN) should be changed immediately. All employees should be set up as users in WEX if they will be driving a school vehicle. Employees should not be allowed to drive a school vehicle until they are set up as a user in WEX, and employees should not be required to share pin numbers.



**Finding 2017-010 Personal Use of School Vehicle (Continued)**

**Response**

The Board of Education is committed to the proper use of school district assets including equipment and vehicles. Due to the two separate issues within this finding, each area listed will be address individually.

a. Personal use of vehicle by assistant principal:

The assistant principal used the vehicle to commute to his home in Borger Texas because he was going to pick up supplies for the school over the weekend in Amarillo Texas and deliver the supplies back to the school on Monday morning. It is District's position that the additional (personal) mileage driven cost the district less money and was less disruptive to the education process than sending him to pick up the supplies during the week. To send a staff during the work week would have meant that the assistant principal would have been out of the building for the day and that is not in the best interest of our students. The estimated cost of the fuel used to take the vehicle to the Assistant Principal's home is approximately \$30 (10 gallons at @ \$3). The district believes this personal use of the vehicle was incidental and is allowable under School Policy E-2850. The School District disagrees with the finding.

Corrective Action: Review policy E-2850 and adjust language as necessary to more clearly state "best interest" of the district. This corrective action plan will be completed before the end of September 2017.

b. Personal use of vehicle by Head of Maintenance:

The maintenance employee was going for parts when he stopped to do other personal things. As such, the trip was coincidental to School District business and in compliance with School Policy E-2850. Therefore, the School District disagrees with the finding. However, due to the nature of the coincidental use of the vehicle, the issue is addressed in the corrective action.

Corrective Action: Although the use of the vehicle was coincidental to School District business, due to finding 2017-001, we have directed the appropriate staff the following:

1. Do not use school truck to haul personal property to the recycling center.
2. Do not take school district property to the recycle center in a personal vehicle but only use school truck.
3. Do not mix school district property with personal property when hauling load to recycle center.

**OSA Rebuttal**

The Schools response to the finding does not address the use of the of the Principal's PIN number by other employees. Additionally, per School policy, the incidental personal use of the vehicle must be approved by the Superintendent; however supporting documentation of these approvals was not maintained or provided.

The School's response also does not contain reference to the timeline and designation of what employee position(s) are responsible for implementation of the corrective action plan, which are required to be included per Section 2.2.2.10(L)(3)(d)(vi) NMAC.

### **Finding 2017-011 Non-School Employee Driving School Vehicle**

#### **Condition**

A non-school employee was allowed to drive a School Vehicle and was reimbursed \$59.84 fuel costs incurred to drive a school vehicle to Dora after being repaired in Albuquerque.

#### **Criteria**

Per E-2850, the School's Travel Policy, only Board members or school employees may drive school vehicles.

#### **Cause**

A non-School employee who contracts with the School for information technology services and equipment transported the vehicle back to Dora.

#### **Effect**

Non-compliance with the School's Vehicle Usage Policy. The School could be liable for injuries and/or other damages because accidents that occur while a School vehicle is being driven by a non-school employee may not be covered by the School's insurance. The School could be exposed to excessive risk of injuries, damages and/or theft because the driving and criminal history of the non-school employee has not been verified. Additional repairs or maintenance needed en route could be difficult to obtain because the non-school employee does not have the authority to obligate the School for these services. The School could incur additional expenditures, without ramifications toward the non-school employee, if repairs were not completed satisfactorily and the vehicle needed to be returned to the repair shop.

The non-school employee incurred a financial burden because he/she was not authorized to use the School's Wright Express account for fuel purchases and had to wait for reimbursement of the fuel costs.

#### **Recommendation**

The School should comply with its policy and only allow school employees who have met applicable requirements to drive school vehicles.

#### **Response**

The Board of Education is committed to the proper use of School District assets including equipment and vehicles. The School District does agree that a "nondistrict" employee was permitted to drive the vehicle and that is in violation of school policy E-2850. However, due to extenuating circumstances, the decision to allow an employee of the local REC (Regional Educational Cooperative), of which the District is a member, drive the vehicle was in the best interest of the District. The vehicle in question was in Albuquerque for repair due to an insurance claim. CCMSI, risk insurance administrator for NMPSIA, called the district to inform that the repairs were completed and the vehicle was ready for delivery in Albuquerque. Staff from the local REC were in Albuquerque and they brought the truck to Dora without costing the district additional man hours and the associated travel cost (meals, fuel etc.) for two people to go and get the vehicle. The REC

**Finding 2017-011 Non-School Employee Driving School Vehicle (Continued)**

employee is an extension of the school district through a joint powers agreement (NMSA 1978, §11-1-1) and therefore, a quasi-employee.

Corrective action: The Superintendent will review policy E-2850 recommend changes to the School Board that will provide the superintendent to make an exception for REC employees as the situation dictates.

**Finding 2017-012 Overpaid Landscaping Company**

**Condition**

A Landscaping Company was paid \$500 more than the quoted price without supporting documentation to justify the additional expense incurred. The landscaping company quoted the School \$12,000 to provide landscaping and rodent services, payable in installments of \$4,000. The School made installment payments of \$4,000, \$5,000 and \$3,500, resulting in an overpayment of \$500.

**Criteria**

School Policy D-2950 requires to implement procedures to insure invoices are for contracted amounts.

Per 6.20.2.11 NMAC, every school district shall establish and maintain internal controls sufficient to ensure the protection of public funds. Appropriate internal control procedures shall be adopted by the local board within a school district to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure shall address all school district transactions.

**Cause**

The School did not monitor the total amount paid on the agreement with the Landscaping Company. The School opened a purchase order in fiscal year 2016 for \$12,000. The purchase order was closed at the end of fiscal year 2016 and the School opened a new purchase order in fiscal year 2017 for \$12,000 even though \$9,000 had been paid for services in fiscal year 2016.

**Effect**

Non-compliance with state statute and school policy. The School appears to have overpaid a vendor by \$500 without adequate supporting documentation to justify a price increase.

**Recommendation**

The Business Manager should verify that invoices are in accordance with quoted prices and obtain supporting documentation for any price increases to justify any additional expenses. Additionally, when a price agreement extends over two fiscal years, the purchase order should match the amount to be paid in the fiscal year and not the total amount of the price agreement.

**Finding 2017-012 Overpaid Landscaping Company (Continued)**

**Response**

The Board of Education is committed to a strong internal control structure, prudent accounting practices and transparency in financial accounting and business practices. The School District agrees that payment was made in excess of the original contract. This situation occurred due to a change order in the contract that was not properly documented.

Corrective Action: The process for assuring that Purchase Orders are in compliance with the state procurement code (NMSA and NMAC) will be updated and implemented with fidelity. The plan shall include a centralized review of all Purchase Orders for compliance with policy and state laws.

The updated process will mandate that Purchase Orders shall only be signed after a business office or central purchasing staff has determined the transaction is in compliance with the District's updated procurement policies and with state law. The Business Office will receive training in the state procurement code (NMSA and NMAC) at the beginning of the 2017-2018 school year to assure that the changes to policies/procedures are indeed in compliance with state law. Additionally, the Superintendent and/or the Business Manager will provide training to the appropriate School District staff on the updated procurement policy and procedures.

The Superintendent will update the Business Office Manual of Procedures to reflect the changes to policy and procedures in August 2017. The new policy/procedures will address the proper use and documentation of requisitions, PO, vendor files (including W-9 information), change orders and vendor performance.

**Finding 2017-013 Required Documents Not Posted to the School's Website**

**Condition**

During the course of the audit, we noted that the School did not have certain required documents posted on its website. The documents not posted include budget status reports, budget adjustment requests, cash reports, voucher reports, and procurement listing reports as applicable.

**Criteria**

Section 22-8-13.2 NMSA 1978 requires school districts to post at a minimum, the following reports to the School's website:

- a report on the budget status of the district;
- a statement of any budget adjustment requests;
- cash reports;
- voucher reports;
- reports listing procurement, travel or gas card expenditures and;
- investment reports.

**Finding 2017-013 Required Documents Not Posted to the School's Website (Continued)**

**Cause**

The School is not posting this information to its website. This appears to be a common issue among many school districts throughout the State.

**Effect**

The School does not appear to be in compliance with Section 22-8-13.2 NMSA 1978 resulting in a lack of transparency to the public.

**Recommendation**

The School should ensure that the required reports are posted to its website in a timely manner.

**Response**

The Board of Education is committed to a strong internal control structure, prudent accounting practices and transparency in financial accounting and business practices. The School District agrees with this finding. The District had no knowledge of this requirement until it was brought up as a finding.

Corrective action: Post required information to the District website beginning July 2017.

**OSA Rebuttal**

The School did not indicate in the response and corrective action plan to the finding who would be responsible for implementing the corrective action plan and ensuring that the required information is posted to the School's website, which is required by Section 2.2.2.10(L)(3)(d)(vi) NMAC.

## **EXIT CONFERENCE**

On June 13, 2017 the OSA held an exit conference with the following individuals to discuss the results of the consulting service engagement and the findings.

### **Dora Consolidated Schools**

Mr. Steve Barron, Superintendent  
Mr. Kenneth Cox, Board President  
Mr. John Mohon, Board Member  
Mr. Bill Prater, Board Member  
Ms. Jana Roberts, Board Member  
Mr. Gary Simpson, Board Member

### **Cuddy & McCarthy, LLP**

Andrew M. Sanchez, Partner

### **Office of the State Auditor**

Timothy M. Keller, State Auditor  
Sanjay Bhakta, CPA, CGFM, CFE, CGMA, Deputy State Auditor  
Kevin Sourisseau, CPA, Special Investigations Division Director  
Lisa Jennings, Audit Supervisor



**Timothy M. Keller**  
State Auditor

**Sanjay Bhakta**, CPA, CGFM, CFE, CGMA  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

June 13, 2017

Mr. Steve Barron, Superintendent  
Board of Education  
Dora Consolidated Schools  
100 School Street/P.O. Drawer 327  
Dora, New Mexico 88115

Dear Superintendent and Board Members:

We have performed consulting services on accounting and financial records related to Dora Consolidated Schools (the "School") for the period of June 1, 2013, through December 31, 2016. This engagement is solely to assist the School in addressing various concerns regarding the School.

On behalf of the School, the Superintendent agreed to the services. The School's management is responsible for its accounting and financial records. This consulting services engagement was conducted in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants.

School management is responsible for maintaining the accounting records and for establishing and maintaining effective internal control over compliance with applicable laws, regulations, and procurement policies of the School. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. In addition, our consulting procedures do not provide an ultimate legal determination of the School's compliance with applicable laws and regulations.

This report is intended solely for the information and use of management of the Dora Consolidated Schools and the New Mexico State Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Please do not hesitate to contact us at (505) 476-3800 if you have any questions regarding this report.

Sincerely,

A handwritten signature in cursive script that reads "Office of the State Auditor".

Office of the State Auditor

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