

**STATE OF NEW MEXICO  
OFFICE OF THE STATE AUDITOR**



**SPECIAL AUDIT REPORT  
NEW MEXICO FINANCE AUTHORITY**

**Hector H. Balderas  
State Auditor  
December 12, 2012**

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- Exhibit D. FY 2011 and FY 2012 Audit Committee Meetings**
- Exhibit E. Risk Assessment – List of Observations and Recommendations**

## 1. Executive Summary

On July 11, 2012, the State of New Mexico's Office of the State Auditor (OSA or State Auditor) confirmed that the New Mexico Finance Authority (NMFA) had issued a fraudulent audit report of its financial statements for the fiscal year (FY) ended June 30, 2011 (Fraudulent Audit Report). As a result of this discovery, on July 12, 2012, the State Auditor designated the NMFA for Special Audit pursuant to Section 12-6-3(C) NMSA 1978, which provides that the State Auditor "may cause the financial affairs and transactions of an agency to be audited in whole or in part."

In conjunction with its Special Audit designation, the OSA assembled an investigative team to conduct the investigation, initial planning for the Special Audit, and development of the Special Audit's scope. As part of these efforts, the OSA hired the services of forensic accountants from the national accounting firm of PricewaterhouseCoopers, LLP (PwC) to assist OSA staff in the performance of the Special Audit. The team included OSA staff and expert forensic accountants from PwC (the Investigative Team). The PwC forensic accountants assigned to the Investigative Team included individuals who have extensive experience working on forensic investigations for national and multinational companies and financial institutions. The investigations they have performed and consulted on include investigations related to financial reporting fraud, accounting irregularities and errors, misappropriation of public funds, mismanagement, and improper revenue recognition and contract accounting. PwC's team also included forensic technology professionals with extensive experience in the collection, preservation and analysis of electronic data. Additionally, the Securities Division of the New Mexico Regulation and Licensing Department (RLD) initiated a criminal investigation immediately following the July 12, 2012 public disclosure of the Fraudulent Audit Report. The Securities Division assisted the OSA in its performance and completion of the Special Audit by sharing information and electronic files.

Gregory Campbell, the NMFA's former Controller, admitted to creating the Fraudulent Audit Report and has stated that he acted alone without assistance from others. On August 8, 2012, Securities Division agents arrested Mr. Campbell on charges of Forgery, Securities Fraud, Racketeering, and Conspiracy to Commit Racketeering in connection with the Fraudulent Audit Report. That same day, Securities Division agents also arrested the NMFA's then Chief Operating Officer (COO) and Chief Financial Officer (CFO), John Duff, on charges of accessory to Securities Fraud, Racketeering, and Conspiracy to Commit Racketeering. After these arrests, on September 20, 2012, a grand jury was convened to hear evidence in the case. While the grand jury did not indict Mr. Duff on any of the charges, it did indict Mr. Campbell on the charges of Forgery and Securities Fraud. On November 29, 2012, Mr. Campbell pleaded guilty to Forgery and Securities Fraud and was sentenced to five years of supervised probation with a conditional discharge.

OSA and PwC staff conducted procedures that covered two broad areas related to the Fraudulent Audit Report. The first area of focus was designed to identify the facts and circumstances surrounding the creation and issuance of the Fraudulent Audit Report. We conducted extensive forensic procedures, including interviews and electronic evidence analysis, with the goal of answering certain question, including how the Fraudulent Audit Report was created, who knew about the Fraudulent Audit Report, and how the Fraudulent Audit Report went undetected. These procedures encompassed an analysis of the responsibilities of the NMFA's management, Audit Committee, Board, and the NMFA's external auditor as they relate to the annual financial audit process required by law, regulation, the NMFA's internal policies, and auditing standards. Further, we analyzed the OSA's processes and procedures as they relate to identifying and communicating with agencies regarding their external audits. Specifically, we interviewed 41 individuals, including current and former NMFA employees, current and former NMFA Board members, NMFA's external auditors, OSA staff, and other persons of interest. We also collected over 2 million emails and analyzed over 250,000 electronic files, including emails, spreadsheets, and other electronic documents.

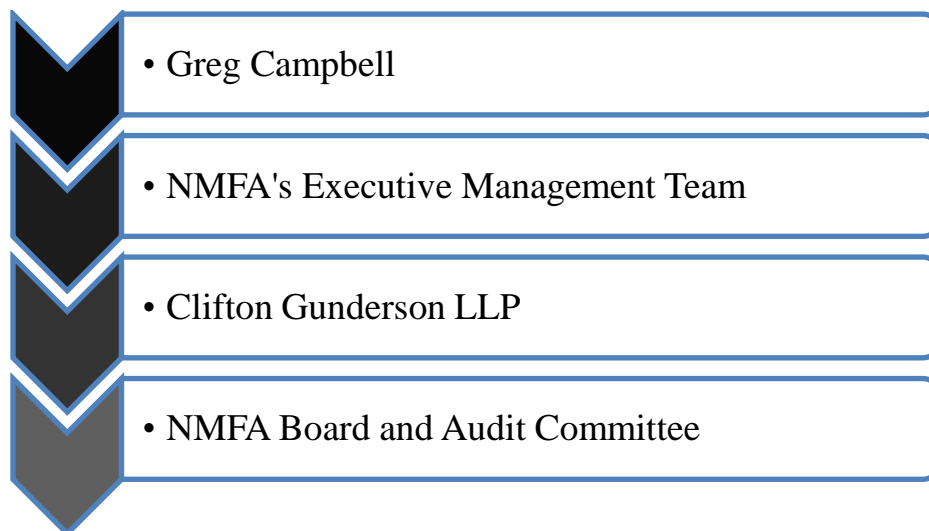
The second area of the Special Audit's focus involved a comprehensive analysis and assessment of the risks to NMFA, including the risk of theft, embezzlement and financial misreporting. As part of our procedures in this area, OSA and PwC staff conducted certain transaction testing to identify possible evidence of theft and embezzlement. While the scope of our investigation was broad, our testing was designed to identify transactions based on potential fraud risk. There are two broad areas of fraud risk associated with theft and embezzlement. The first type of fraud risk occurs from the potential to steal money before it is deposited in the bank or withdraw cash from a bank account without making an entry in the entity's accounting records. The second area of fraud risk is stealing cash when there is a fraudulent entry created on the books and records. We considered both of these fraud risks during our Special Audit, and we selected certain transactions such as bank reconciliations, wire transfers, journal entries and loans.

Our investigation found that NMFA's executive management, Audit Committee and Board committed numerous violations of certain laws, regulations, policies and standards pertaining to the external audit process. These violations constituted a massive failure of the management and governance of the NMFA by those who were responsible for overseeing the NMFA's FY 2011 audit. In this environment, Mr. Campbell was delegated almost complete autonomy to manage NMFA's FY 2011 external audit process. His pattern of deception, which led to the creation of the Fraudulent Audit Report and extended well beyond the report's dissemination, went undetected by those who had ultimate responsibility to oversee the agency, despite various clues that should have raised suspicion. The likelihood of Mr. Campbell perpetrating the Fraudulent Audit Report would have decreased significantly had members of NMFA's executive management, Audit Committee and Board complied with their fiduciary and oversight obligations.

In addition, NMFA's independent public accountant for the FY 2011 audit, Clifton Gunderson,<sup>1</sup> failed to adhere to certain administrative rules and auditing standards that require auditors to maintain communication with their clients. Clifton failed to raise concerns with the Audit Committee or the OSA about the firm's difficulties in receiving responses from Mr. Campbell as well as the firm's inability to complete the FY 2011 audit by established deadlines. This also contributed significantly to Mr. Campbell's ability to prolong his deception.

It is important to note that our investigation did not identify evidence to indicate that Mr. Campbell or any other NMFA employee engaged in theft or embezzlement. However, through our analysis and risk assessment, we identified certain areas within the financial operations and processes of NMFA that deserve serious consideration by NMFA's management and the Board. **Exhibit E** of this report contains numerous recommendations related to such areas as loans, cash, and accounting policies and procedures.

### 1.1. Responsibility for the Fraudulent Audit Report



#### 1.1.1. Greg Campbell

In many respects, Greg Campbell is an enigma whose actions are difficult to reconcile with his established reputation at the NMFA. On the one hand, he was a trusted, high performing employee of the NMFA for many years. Former employees and supervisors of Mr. Campbell described him as someone who was very knowledgeable, trustworthy and competent. On the other hand, he is someone who has demonstrated that he was capable of great deception. Mr. Campbell admitted to forging financial documents, lying consistently to his supervisors and

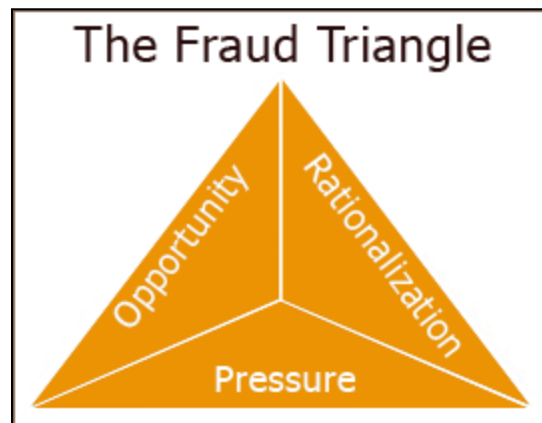
<sup>1</sup> Clifton Gunderson is now known as CliftonLarsonAllen, LLP. Clifton Gunderson was procured by NMFA to conduct its annual financial audits for FY 2009, 2010, and 2011.

Board members, and making false representations to entities outside the NMFA, including government agencies and investment firms.

Greg Campbell started his employment with the NMFA in 2005. Mr. Campbell was initially hired as a temporary employee, where his role included entering journal entries, fixed asset accounting, and preparing paperwork for cash transfers. Mr. Campbell was then given a permanent position as an Accountant II effective October 10, 2005. In 2006, Mr. Campbell was promoted to Senior Accountant. On December 10, 2007, Mr. Campbell was promoted to Controller. Mr. Campbell resigned from the NMFA in June 2012, prior to the discovery of the Fraudulent Audit Report.

Since his initial arrest, Mr. Campbell has stated that he acted alone and no other persons knew of or participated in his fraudulent conduct. In fact, we did not identify any evidence during our extensive investigation to suggest otherwise. So the question remains: why did he do it? When asked that question directly, Mr. Campbell has repeatedly stated that he made bad decisions and an error in judgment. When pressed, Mr. Campbell gave various inconsistent responses, and he was unable or unwilling to explain his actions any further. In our view, these answers were unsatisfactory, so we designed procedures to test the theory that Mr. Campbell or others were hiding the real reason for creating the Fraudulent Audit Report.

In analyzing Mr. Campbell's actions and the factors that led to the creation of the Fraudulent Audit Report, we utilized the "Fraud Triangle," which was developed by sociologist David Cressey. The Fraud Triangle provides a basic framework for understanding the factors that typically contribute to a person's decision to commit fraud and we evaluated information in the context of the three following factors: (1) opportunity, (2) pressure, and (3) rationalization.





- **Opportunity**

Greg Campbell had the opportunity to create the Fraudulent Audit Report and potentially commit other frauds because he maintained almost complete control over the NMFA's accounting department, financial reporting process and external audit process. The NMFA's executive management team, including Richard (Rick) May, NMFA's Chief Executive Officer (CEO), and John Duff, COO and Chief Financial Officer (CFO), provided Mr. Campbell with almost complete autonomy to oversee all aspects of the NMFA's accounting and financial reporting. In addition, the NMFA's Board and particularly the Audit Committee did not provide effective oversight of the financial reporting and external audit process. Throughout the time period during which the Fraudulent Audit Report was created and went undetected, the NMFA's executive management team, the Board and the Audit Committee remained wholly disengaged from the external audit process.

Additionally, Mr. Campbell's accounting department was understaffed. His staff's duties also were compartmentalized, which meant that Mr. Campbell was the only individual who had a deep and comprehensive understanding of the NMFA's accounting. Without exception, Mr. Campbell's staff said they respected him and enjoyed working for him. The NMFA's policies and procedures provided Mr. Campbell with the ability to approve transactions and disburse funds. For example, checks over \$3,500 required two signatures, but Mr. Campbell had the authority to authorize wire transfers for unlimited amounts based upon his sole approval.

Mr. Campbell was the primary contact for the NMFA's external auditor Clifton Gunderson LLP (Clifton).<sup>2</sup> Most of the external auditor's requests for information were made through Mr. Campbell, and in FY 2011, Mr. Campbell was the only employee involved in the creation and finalization of the financial statements and footnotes for the audit report. As such, Mr. Campbell essentially controlled the external audit process.

- **Pressure**

Mr. Campbell had pressure and distractions that likely contributed to his decision to create the Fraudulent Audit Report. These pressures also contributed to him resigning from the NMFA prior to the Fraudulent Audit Report being discovered.

Until the middle of August 2011, it appeared that the external audit process was on track to be completed before the OSA deadline of December 15, 2012. However, between August 20, 2011 and September 23, 2011, the audit process mysteriously shut down with no apparent effort by Mr. Campbell to complete the audit. Our investigation did not identify written communications between the Clifton audit team and Mr. Campbell after September 23, 2011,

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<sup>2</sup> The firm is now known as CliftonLarsonAllen, LLP.

and Mr. Campbell stated that he did not recall any verbal or written communications with Clifton after this date. This dormant period in the external audit process remains somewhat unexplained. Mr. Campbell stated that the audit was put on the “back burner” because he became distracted and was called to work on other matters. However, this does not explain Clifton’s apparent lack of effort to complete the audit as required by state law and as agreed to by Clifton and NMFA in May 2011. It also does not illuminate why Mr. Campbell failed to respond to Clifton’s request for information.

The incoming administration of New Mexico Governor Susana Martinez also had an impact on the governance structure of the NMFA. Because most of the NMFA Board is comprised of cabinet secretaries or gubernatorial appointees, significant turnover occurs on the Board with any new administration. Mr. Campbell stated that he had to spend considerable time in fiscal year 2011 educating new Board members which also distracted him from his daily duties.

In September 2011, Mr. May was hired as the new CEO. Mr. Campbell stated that Mr. May’s hiring caused him to spend considerable time in meetings with Mr. May and distracted him from his daily duties. In addition, shortly after his hiring, Mr. May shared with Mr. Campbell what was referred to as the “13 Point Memo,” which, among other things, called for significant changes in the NMFA, including a 50 percent reduction in staff. Mr. Campbell disagreed with some of Mr. May’s decisions, including his decision to lay off three NMFA employees and hire Mr. May’s former assistant from the Department of Finance and Administration (DFA). Mr. Campbell stated that he did not enjoy working with Mr. May or his assistant and this working environment contributed to his decision to leave the NMFA.

New bond offerings in late 2011 and early 2012 created additional pressure. These bond offerings created additional tasks for Mr. Campbell and his staff in connection with preparing the preliminary and final offering statements. In addition, the NMFA’s 2012A bond offering statement, scheduled to be issued in April 2012, was to include the NMFA’s 2011 audited financial statements.

As of December 2011, the audit remained incomplete and in mid-December 2011 Mr. Duff asked Mr. Campbell about the status of the audit. Mr. Campbell admitted to lying to Mr. Duff that the audit was complete and the report was at the OSA being reviewed. In his interview with the OSA, Mr. Campbell stated that as of December 2011 he had not yet made the final decision to forge the report but admitted it would have been very difficult for him to go back to Mr. Duff and tell him that the audit had not been finished. Mr. Campbell also stated that he feared any disclosure that NMFA’s audit would be late for the third year in a row would provoke a reaction from Mr. May and the DFA Secretary (an NMFA Board member) that may have adverse consequences for NMFA staff. Finally, starting in approximately January 2012, a number of government agencies and other stakeholders began asking for a copy of the NMFA’s FY 2011 Audit Report. Mr. Campbell faced pressures to respond to these inquiries, which

related to inclusion of the NMFA's financial information in the Comprehensive Annual Financial Report (CAFR) and the April 2012 bond offering, as well as other requests.

- **Rationalization/Concealment**

Mr. Campbell stated that he made the final decision to forge the report, rather than complete the audit, sometime in January 2012. He emailed a draft of the report to a DFA Financial Control Division (FCD) staff member on February 9, 2012. Mr. Campbell stated that he worked on the audit report throughout February and did not finalize the Fraudulent Audit Report until March 12, 2012 when he affixed the Clifton letterhead and signature. On March 12, 2012, the report was posted on the NMFA's website and made public.

Mr. Campbell rationalized his decision by repeatedly stating that the facts and figures in the report were accurate, therefore users of the statements could rely on them. He stated that he believed he was "helping" the agency by finalizing the audit report himself so it could be included in the upcoming 2012A bond offering.

Mr. Campbell concealed the fact that the Audit Report was forged by arranging a fake "exit conference" with the NMFA's Audit Committee on April 23, 2012. During this meeting, the Audit Committee was told that Clifton would be attending to discuss the results of the audit. When the meeting participants joined, Mr. Campbell left the room under the pretense of calling Clifton. When he returned, Mr. Campbell lied by stating there had been a "scheduling conflict" and that the Clifton auditors would not be attending the meeting. Mr. Campbell then proceeded to summarize the report for the Audit Committee and reported that the audit report did not have any findings. Mr. Campbell also misled others who requested copies of the report by lying and stating that the report was delayed because of a backlog at the OSA in reviewing and approving audit reports.

On May 23, 2012, the OSA designated the NMFA "At Risk" for failing to submit its FY 2011 audit report to the State Auditor. On May 24, 2012, after receipt of the OSA's notification, Mr. May and Mr. Duff met with Mr. Campbell to find out why the NMFA was on the list. In an interview with the Investigative Team, Mr. Campbell indicated that he conveyed to Mr. May and Mr. Duff that the FY 2011 audit report had been submitted and he would follow up with the OSA. Mr. Campbell also indicated that later that afternoon he represented to both Mr. May and Mr. Duff that he had followed up with the OSA and that the NMFA would be taken off the "At Risk" list. He also stated that he thought the OSA placed agencies on the "At Risk" list that were two years behind on their audits, so he thought it would have been a much longer period of time before the OSA designated the NMFA "At Risk" for failure to submit its FY 2011 audit.

### ***1.1.2. Executive Management***

The NMFA's executive management team, namely Mr. Duff and Mr. May, have significant responsibility for creating an environment that allowed Mr. Campbell to create the Fraudulent Audit Report and continue a pattern of deception for nearly four months after the audit was disseminated.

- **John Duff**

Mr. Duff was Mr. Campbell's supervisor and as the NMFA's CFO was ultimately responsible for managing the external audit process. In March 2010, Mr. Duff was promoted to acting COO, but also formally retained the responsibilities of CFO. Mr. Duff stated that Mr. Campbell acted in the capacity of CFO (while maintaining his Controller title) during the 2011 fiscal year. However, this unofficial change in roles did not absolve Mr. Duff of the responsibility of managing Mr. Campbell, including making sure the external audit was completed timely. Mr. Duff should have remained engaged in the external audit process, especially given that the NMFA's audit reports were completed late in the prior two years. Additionally, Mr. Duff received a draft of the Fraudulent Audit Report from Mr. Campbell on February 22, 2012, but it does not appear that he carefully reviewed it. Even a cursory review of the Fraudulent Audit Report could have identified problems such as the disclosure that Mr. Duff attended an exit conference that he obviously never attended. As a CPA, a former audit partner of a large accounting firm, and the primary contact for the audit in prior years, Mr. Duff knew that an exit conference was required and a management representation letter was needed to complete the audit, yet these did not occur for FY 2011. Mr. Duff should have been more involved in the audit process and should have asked Mr. Campbell for regular updates on the audit report. Mr. Duff did not respond to a Clifton email request sent in September 2011 asking for assistance in completing the audit. Mr. Duff should have followed up with Clifton to formulate a plan for the completion of the audit.

- **Rick May**

Mr. May became the CEO of the NMFA in September 2011. As the former DFA Secretary, Mr. May had been a member of the NMFA Board since January 2011 and was also a member of the NMFA's Audit Committee. The Fraudulent Audit Report was created and issued while Mr. May was CEO. As CEO, Mr. May was responsible for providing effective management oversight of the entire organization, including both Mr. Duff and Mr. Campbell. He failed to do so. Mr. May knew or should have known that the NMFA had issued late audit reports in both 2009 and 2010 given he was a member of the Board when the 2010 audit report was issued late. In January 2012, Mr. May received an email from an FCD staff member questioning why the OSA had not approved the NMFA's audit. Had Mr. May taken it upon

himself to confirm the status of the audit with the OSA or Clifton, the fraud could have likely been deterred. As CEO, Mr. May should have carefully reviewed a draft of the audit report before the report was issued. Mr. May also knew or should have known that he was required to sign a management representation letter in connection with the audit. As a member of the Audit Committee, Mr. May knew or should have known that he was required to attend an exit conference with the external auditor.

### ***1.1.3. Clifton Gunderson LLP***

As the NMFA's IPA, Clifton is responsible for failing to complete the audit as agreed. Clifton was awarded the NMFA audit starting in 2009, and the NMFA engaged Clifton as their IPA for 2010 and 2011. In both 2009 and 2010, the NMFA audit reports were issued after the OSA deadline of December 15th, which resulted in audit "findings" each year. For 2011, Clifton agreed to complete the audit by September 30, 2011, and agreed to notify the NMFA's Audit Committee if problems were encountered in meeting that deadline. Our investigation did not identify any written communications with the Audit Committee regarding a late filing for 2011 and all of the Audit Committee members interviewed indicated that Clifton did not notify them that the audit was going to be late. Clifton emailed Mr. Campbell and Mr. Duff in September 2011 to discuss completion of the audit and their requirement to notify the Audit Committee that the audit would not be complete by September 30, 2011, but Clifton did not take the important next step of actually contacting the Audit Committee when both Mr. Campbell and Mr. Duff failed to respond to their inquiry.

Clifton should have notified NMFA's executive management team and the Audit Committee that the audit was not going to be completed by the agreed upon September deadline or the OSA's December deadline. In addition, if such communications had occurred, they should have been maintained or memorialized in the audit work papers. Our review of documentation provided by Clifton did not identify any such communications. In fact, our investigation did not identify any written communications between anyone from the Clifton audit team and anyone at the NMFA after September 23, 2011. As stated above, the fact that the entire audit process shut down after September 2011 remains unexplained. Clifton agreed to have the audit completed by September 30, 2011, but they failed to do so.

Clifton, as the NMFA's IPA, had responsibilities to comply with the OSA's Audit Rule, which included providing written notice to the OSA if the NMFA's audit was going to be completed after the December 15th deadline. Clifton failed to notify the OSA as required by the Audit Rule.

#### ***1.1.4. NMFA Board and Audit Committee***

The NMFA Board and specifically the Audit Committee had a fiduciary obligation to provide effective management oversight and governance over the external audit process and they failed to do so. The Audit Committee did not meet between September 2011 and April 2012. Additionally, our investigation did not identify any email or written communications between the Audit Committee and any members of senior management regarding the completion of the audit. None of the Audit Committee members raised concerns with management or Clifton regarding why the audit was not complete or why they had not been asked to attend an exit conference prior to April 2012. In connection with April 23, 2012 Audit Committee meeting, all of the members were provided with a copy of the Fraudulent Audit Report. None of the members questioned the false disclosure that they had attended an exit conference on December 10, 2011, which happened to be a Saturday. The OSA's Audit Rule also requires that the IPA present the audit report to a meeting of the full Board after its release. None of the NMFA Board members questioned why the IPA had not presented the audit report after its release. The Board was aware of the "completion" of the audit because in March 2012, as part of the Board meeting to discuss the 2012A preliminary offering statement, Mr. May, with the concurrence of Mr. Campbell, stated that the audit report had been released with "zero findings."

### **1.2. Findings and Recommendations**

The following sections of this report detail additional background information, the scope and procedures, results of our forensic analysis and risk assessment, and findings and recommendations. A comprehensive list of recommendations is included as **Exhibit E**.

## 2. Background

### 2.1. Investigation Background

On May 23, 2012, the OSA designated the NMFA “At Risk” for failing to submit its FY 2011 financial and compliance audit to the State Auditor as required by the Audit Act<sup>3</sup> and the Audit Rule<sup>4</sup>. Following this designation and a series of events described in this report, the OSA confirmed that the NMFA had issued a Fraudulent Audit Report of its financial statements to investors and the public. As a result of this discovery, on July 12, 2012, the State Auditor designated the NMFA for Special Audit pursuant to Section 12-6-3(C) NMSA 1978, which provides that the State Auditor “may cause the financial affairs and transactions of an agency to be audited in whole or in part.”

In conjunction with its Special Audit designation, the OSA assembled an Investigative Team to conduct the investigation, initial planning for the Special Audit, and development of the Special Audit’s scope. As part of these efforts, the OSA hired the services of forensic accountants from the national accounting firm of PwC to assist OSA staff in the performance of the Special Audit. PwC’s team also included forensic technology professionals with extensive experience in the collection, preservation and analysis of electronic data. The PwC forensic accountants assigned to the Investigative Team included individuals who have extensive experience working on forensic investigations for national and multinational companies and financial institutions. The investigations they have performed and consulted on include investigations related to financial reporting fraud, accounting irregularities and errors, misappropriation of public funds, mismanagement, and improper revenue recognition and contract accounting.

Additionally, the Securities Division of the RLD initiated a criminal investigation immediately following the July 12, 2012 public disclosure of the Fraudulent Audit Report. On August 8, 2012, Securities Division agents arrested the NMFA’s former Controller, Gregory Campbell, on charges of Forgery, Securities Fraud, Racketeering, and Conspiracy to Commit Racketeering in connection with the Fraudulent Audit Report. That same day, Securities Division agents also arrested the NMFA’s then Chief Operating Officer, John Duff, on charges of accessory to Securities Fraud, Racketeering, and Conspiracy to Commit Racketeering. After these arrests, on September 20, 2012, a grand jury was convened to hear evidence in the case. While the grand jury did not indict Mr. Duff on any of the charges, it did indict Mr. Campbell on the charges of Forgery and Securities Fraud.

During this time, and over the past several months, OSA and PwC staff conducted procedures that cover two broad areas related to the Fraudulent Audit Report. The first area of focus was designed to identify the facts and circumstances surrounding the creation and issuance

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<sup>3</sup> Sections 12-6-1 through 12-6-14 NMSA 1978.

<sup>4</sup> Section 2.2.2.1, et seq.

of the Fraudulent Audit Report. We conducted extensive forensic procedures, including interviews and electronic evidence analysis, with the goal of determining how the Fraudulent Audit Report was created, who knew about the Fraudulent Audit Report, and how the Fraudulent Audit Report went undetected. These procedures encompassed an analysis of the responsibilities of the NMFA's management, Audit Committee, Board, and external auditor as they relate to the annual financial audit process required by law, regulation and the NMFA's internal policies. Further, we analyzed the OSA's processes and procedures as they relate to identifying and communicating with agencies regarding their external audits. The second area of focus involved a comprehensive analysis and assessment of the risks to the NMFA, including the risk of theft, embezzlement and financial misreporting. As part of our procedures in this area, OSA and PwC staff conducted certain transaction testing to identify possible evidence of theft and embezzlement.

NMFA officials and employees worked diligently throughout the Special Audit process to cooperate with OSA and PwC staff and respond timely to our requests for information and documents. Also, the Securities Division assisted greatly in the OSA's performance and completion of the Special Audit by sharing information and electronic files.

As a final note, on November 29, 2012, Mr. Campbell pleaded guilty to forging, issuing and transferring the Fraudulent Audit Report (two counts of Forgery). Mr. Campbell also pleaded guilty to the Fraudulent Sale of a Security, given that the Fraudulent Audit Report was included in the Preliminary Official Statement for a bond sale (one count of Securities Fraud). The First Judicial District Court sentenced Mr. Campbell to five years of supervised probation with a conditional discharge. Mr. Campbell has stated that he acted alone without assistance from others in the creation of the Fraudulent Audit Report.

The following sections of this report detail additional background information, the scope and procedures, results of our forensic analysis and risk assessment, and findings and recommendations. Also included in this report are various appendices and exhibits related to our test work. To assist the reader in navigating the report, we included a list of acronyms used within this report as **Appendix A**.

## **2.2. Background on the NMFA**

The NMFA was created by the New Mexico Finance Authority Act in 1992 (NMFA Act).<sup>5</sup> The NMFA assists New Mexico governmental units, such as cities, counties, state governmental departments and agencies by financing capital equipment and infrastructure projects. The NMFA issues bonds and then makes loans to its borrowers at tax exempt rates. The NMFA's primary mission is to provide low-cost financing for borrowers who might not

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<sup>5</sup> The information regarding the history and structure of the NMFA was compiled from the NMFA's audited financial statements for the fiscal years 2009 to 2010.



otherwise be able to access the tax-exempt bond market on a cost-effective basis. It accomplishes its objective primarily by issuing bonds and making loans through the Public Project Revolving Fund (PPRF). The NMFA's core program is the PPRF, which accounts for the majority of the agency's bond offerings and lending operations. The NMFA Act created the PPRF as the NMFA's primary vehicle to accomplish its financing objectives. The PPRF makes loans of less than \$5 million from its own funds. It then "packages" the loans as collateral and sells tax-exempt bonds. Loans for amounts larger than \$5 million are typically funded simultaneously with the closing of the bond offering. The PPRF operates, in many respects, in the same manner as a bank or other lending institution. Infrastructure finance agencies similar to the PPRF are often called "bond banks." From 1993 through 2010, the PPRF issued over \$1.7 billion in loans. The NMFA does not own a material interest in any of the infrastructure projects they finance.

Aside from the PPRF, the OSA identified eighteen programs the NMFA is also actively involved in managing and administering. These programs include Governor Richardson's Investment Partnership (GRIP) as well as two other New Mexico Department of Transportation (NMDOT) initiatives; Drinking Water State Revolving Loan Fund (DWSRLF) and at least five other programs that support water infrastructure projects throughout the state; Energy Efficiency and Renewable Energy Projects (EEREP); programs that provide loans for capital improvements to non-profit organizations, and programs that fund small businesses that may not be eligible for financing elsewhere. The NMFA also created the New Market Tax Credit program through the non-profit entity Finance New Mexico which has at least twenty-eight subsidiaries which are referred to as the Investor Series, I through XVIII. The NMFA also finances state projects such as the NM Spaceport the Capitol Parking Structure and UNM Cancer Center, either through its PPRF program or by issuing standalone bonds.

The NMFA's Board is composed of eleven members. The Secretary of the Department of Finance and Administration; the Secretary of Economic Development; the Secretary of Energy, Minerals and Natural Resources; the Secretary of the Environment Department; the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties are ex-officio members of the NMFA with voting privileges. The Governor, with the advice and consent of the Senate, appoints five members to the NMFA Board including the chief financial officer of an institution of higher education and four members who are residents of the state. The appointed members serve at the pleasure of the governor and are appointed to four year terms. Pursuant to the 1992 Act, all officers of the Board are elected by the Board members with the exception of the Board Chair who is an appointed member selected by the Governor.

The NMFA is not subject to the supervision or control of any other Board, bureau, department or agency of the state, except as specifically provided in the NMFA Act. The NMFA Act specifically excludes the Authority from the definition of "state agency" or "instrumentality"

in any other law of the state, unless specifically referred to in the law. A Legislative Oversight Committee (LOC) is empowered to monitor and oversee the NMFA's operations.

The NMFA is treated as a governmental entity for financial reporting purposes because: (1) it was established by statute; (2) it has relationships with other governmental entities; (3) its governing Board includes government officials, (4) it receives tax revenue and (5) it has the authority to issue tax-exempt debt. The NMFA is a discretely presented component unit of the State of New Mexico and its financial statements are included in the CAFR. The authority accounts for each of its programs as a separate fund, each with its own assets, liabilities, net assets, income and expense.

### ***2.2.1. Governmental Gross Receipts Tax***

The Governmental Gross Receipts Tax (GGRT) is a tax imposed on the gross receipts of municipalities for services rendered to customers such as water, sewer, and solid waste collection. Seventy five percent of GGRT collections are appropriated to the PPRF. The GGRT funds are used as a "credit enhancement" for PPRF bonds. In the event of defaults on loans, GGRT funds can be used to make up for any shortfall in funds available for bond payments. In addition, GGRT funds are used to pay PPRF operating expenses and to fund smaller loans the NMFA chooses not to package in bond offerings.

## **2.3. NMFA's Control Environment**

In order to understand what allowed the Fraudulent Audit Report to be created and why it went undetected, it is important to understand the "control environment" or "tone at the top" that existed at the NMFA during FY 2011, the subsequent period during which the external audit was being conducted, and the time period during which the audit was expected to have been finalized. The control environment includes such factors as the integrity, ethical values and competence of employees and management.<sup>6</sup> It also includes management's philosophy, operating style and the oversight and direction provided by the organization's Board.<sup>7</sup> With respect to the NMFA, there are a number of factors that may have influenced the agency's internal controls and may have contributed to an environment where an audit report could be fraudulently created and remain undetected. Those factors are discussed below.

### ***2.3.1. Late Annual Financial Audits in Fiscal Years 2009 and 2010***

The NMFA is required to submit annual financial and compliance audits pursuant to the NMFA Act, the Audit Act and the Audit Rule. The NMFA Act, specifically Section 6-21-21(D) NMSA 1978, provides that the NMFA shall have "an audit of its books and accounts made at

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<sup>6</sup> The "control environment" of an organization is typically described using a framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO framework is also used by organizations to evaluate their internal controls.

<sup>7</sup> Committee of Sponsoring Organizations of the Treadway Commission, "Internal Control - Integrated Framework", December 2011, section 58, page 11.

least once each year by the state auditor or by a certified public accounting firm whose proposal has been reviewed and approved by the state auditor.” Additionally, the Audit Act provides that the financial affairs and transactions of every agency shall be thoroughly examined and audited each year by the State Auditor, personnel of the OSA or an IPA approved by the State Auditor. The NMFA is specifically included in the statutory definition of “agency” under the Audit Act.<sup>8</sup> For FY 2009 and 2010, NMFA failed to submit its audit reports by the required deadlines under state law and regulation. Pursuant to the Audit Act and the Audit Rule, which are rules promulgated by the State Auditor, NMFA’s FY 2009 and 2010 audits were due on December 15, 2009 and December 15, 2010, respectively.

Also, the NMFA has certain policies and procedures that apply to the external audit process. At its June 25, 2009 meeting, the NMFA Board approved the NMFA’s “Financial Management Policy I – Audit Policies.” The Audit Policies direct “agency staff” to take various steps regarding the external audit process “in order to achieve and maintain the unqualified audit opinion each fiscal year.” By carrying out the Audit Policies, NMFA states it will achieve the goal of completing and filing the annual audit with the State Auditor “as soon as practical each year,” but no later than November 15. The NMFA also failed to submit its FY 2009 and 2010 audit reports by the deadline set by its own Audit Policies. For both these fiscal years, the NMFA and Clifton had also set an internal deadline of submitting the audit reports by September 30<sup>th</sup>, which was not met.

The Audit Rule requires that all agency audit reports that are not submitted by the regulatory deadline include a finding for this noncompliance. Accordingly, Clifton included a finding in the FY 2009 audit report for NMFA’s failure to “meet the reporting deadlines based on the Office of the State Auditor of New Mexico’s Audit Rule or the requirements of the Federal Audit Clearinghouse.” The audit report stated that “delays in the completion of the audit were a result of change in presentation and prior period adjustments.” In an interview with the Investigative Team, Mr. Duff indicated that the primary reason the audit was not completed on time was due to prior period adjustments and a restatement of the 2008 financial statements. During FY 2009, the NMFA determined funds previously classified as governmental were not consistent with the GASB 34 definition and were instead enterprise funds.<sup>9</sup> In addition, the NMFA identified errors related to the accounting for intergovernmental receivables, which resulted in an increase of net assets of over \$162 million as detailed below:

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<sup>8</sup> Section 12-6-2(A)(3) NMSA 1978.

<sup>9</sup> FY 2009 NMFA Audit Report, page 39.

**2009 Restatement – Change Reflected as of June 30, 2008<sup>10</sup>**

	<u>Net Assets</u>
Disposition of refunding escrow balances related to defeased bonds reported as assets in error.	\$ (82,337,416)
Intergovernmental receivables not previously recorded.	168,165,000
Defeased bonds payable and related accrued interest recorded as liabilities in error.	84,345,119
Write-off of unamortized deferred issuance costs related to defeased bonds.	<u>(1,264,976)</u>
<b>Increase as of July 1, 2007</b>	<b>\$ 168,907,727</b>
FY 2008 revenues originally reported as appropriation revenue restated as reductions to intergovernmental receivables.	(6,560,000)
FY 2008 other revenues and expenses removed to reflect defeased bonds payable.	<u>25,975</u>
<b>Net change at June 30, 2008</b>	<b><u>\$162,373,702</u></b>

In 2010, the NMFA’s audit report was again submitted late. Per Mr. Duff, the primary factor that delayed the audit was determining the risks and related accounting issues associated with certain loan prepayments, causing a mismatch between loan repayments and retirement of the corresponding bond debt. The NMFA typically issues bonds with ten year terms. While management and the external auditor ultimately concluded that a specific reserve or restatement were not required to account for the exposure, per Mr. Duff, the issue diverted management’s attention and ultimately delayed the completion of the audit. Because the NMFA failed again in FY 2010 to submit its audit report by the required regulatory deadline, Clifton included a repeated finding in the audit report for NMFA’s failure to “meet the reporting deadlines based on the Office of the State Auditor of New Mexico’s Audit Rule or the requirements of the Federal Audit Clearinghouse.” The audit report stated that “delays in submission were a result of disclosure issues related to loan allowances and prepayments which required additional testing and research due to the current state of the economy.”

The Audit Rule and Generally Accepted *Government Auditing Standards* (GAGAS) (Yellow Book) issued by the U.S. Government Accountability Office require that NMFA’s management prepare a corrective action plan to address all audit findings.<sup>11</sup> We did not identify a corrective action plan during our investigation that addressed these repeated audit findings, but our analysis of the Clifton 2011 audit working papers indicated that both Clifton and the NMFA planned to have the 2011 audit completed by September 27, 2011. However, based on our interviews, meeting the audit deadline was not a management priority.

<sup>10</sup> FY 2009 NMFA Audit Report, page 39.

<sup>11</sup> 2.2.2.10(I)(3)(b) NMAC; GAGAS 5.32.

### ***2.3.2. Management Supervision of the External Audit Process in FY 2011***

The NMFA's external audit process for FY 2011 was managed by Greg Campbell with limited involvement from the NMFA's executive management team. The NMFA's executive management team, including Mr. May, NMFA's then CEO, and Mr. Duff, then COO and CFO, provided Mr. Campbell with the authority to oversee all aspects of the NMFA's accounting and financial reporting.

As the former DFA Secretary, Mr. May had been a member of the NMFA Board since January 2011. Mr. May also served as a member of the NMFA's Audit Committee. As CEO, Mr. May was responsible for providing effective management oversight of the entire organization, including both Mr. Duff and Mr. Campbell. However, Mr. May stated that he was not involved in the accounting and financial management of the NMFA and had no involvement in the external audit process. He relied on Mr. Campbell and Mr. Duff to report to him on the audit process and did not question Mr. Campbell's representations about the status of the audit.

Mr. Duff stated that although he was the COO and he maintained the responsibilities of CFO, he relied on Mr. Campbell to manage the external audit process in 2011. Mr. Duff had been heavily involved in the external audit process in the past, including FY 2009 and 2010. For FY 2011, Mr. Campbell stated that the handling of the external audit process had been delegated to him. As such, Mr. Campbell had nearly complete autonomy regarding the external audit process and was the primary contact for the external auditor, Clifton.

### ***2.3.3. Changes in Senior Management and Ongoing Restructuring in FY 2011***

Following Susana Martinez's inauguration as New Mexico's Governor in January 2011, the then CEO of the NMFA announced he would be leaving the NMFA to allow the new governor the opportunity to recommend her own candidate for the position. He formally resigned as of March 30, 2011 but stayed on as a consultant through June 30, 2011. From June 30, 2011 through September 6, 2011, Mr. Duff assumed the title of acting CEO, in addition to his roles as CFO and COO.<sup>12</sup> Mr. May, former DFA Secretary, became the new CEO effective September 6, 2011. It appears the additional responsibilities given to Mr. Duff may have had the effect of providing more autonomy to Mr. Campbell to manage the NMFA's accounting and external audit process.

After Mr. May's arrival, certain events occurred that appear to have had adverse impacts on staff morale, in particular Mr. Campbell. For example, shortly after Mr. May's arrival, Mr. May shared a memorandum with certain members of NMFA senior management, including Messrs. Duff and Campbell. The memo, which has come to be known as the "13 Point Memo," outlined certain actions to be taken at the NMFA, including reducing the staff levels at the

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<sup>12</sup> While an NMFA Organization Chart from September 2011 (after Mr. May was appointed CEO) indicates that the CFO position was vacant and that Mr. Duff solely held the COO title, the NMFA's 2012A Bond Offering Statement from April 2012 listed Mr. Duff as both COO and CFO.

NMFA by half. Mr. May indicated that the memo had the effect of reducing morale within the organization. Certain NMFA employees stated in their interviews that while Mr. May voiced opposition to the memo, such as reducing staff levels, the actions he took while CEO appeared to be implementing the action steps outlined in the memo. Furthermore, in November 2011, the NMFA laid off three employees. The layoffs have been described by several individuals we interviewed as having a negative impact on staff morale. Also, based on our interviews, exacerbating the situation was the fact that Mr. May had hired a personal secretary shortly before the layoffs occurred.

#### ***2.3.4. Board Turnover in FY 2011***

Similar to senior management, the NMFA Board also went through significant changes coinciding with the incoming administration. From January 2011 through September 2011, the NMFA Board completely turned over except for the two non-political appointees from the NM Municipal League and the NM Association of Counties and the Higher Education Appointee, whose term had expired. This turnover resulted in a Board that was new and did not have experience dealing with the complex nature of the NMFA's organization. When the OSA interviewed Mr. Campbell he continually stated that if the Board and Audit Committee had been engaged and reviewed or questioned the audit or the audit process, the Fraudulent Audit Report would not have gone undetected. Mr. Campbell and other current and former NMFA staff members stated the former Board, and Board Chair in particular, were fully engaged which differed from what we were told about the Board in 2011 and 2012. Aside from the changes in the Board that occurred as a result of a turnover in the administration, the Board Chair appointed in 2011 resigned in June of 2012, and a new Board Chair was not selected until mid-July, 2012. Also, because Mr. May was selected by the Board to become NMFA CEO in September 2011, his former position as DFA Secretary was filled, therefore creating another new member of the Board.

#### ***2.3.5. Intergovernmental Receivables***

The NMFA typically makes loans to borrowers where the terms of the loan and the commitment to repay the loan are clearly defined. However, the NMFA also lends funds where an appropriation of tax revenue is used to repay the amounts borrowed. In these cases, the entity that enters into the lending arrangement (e.g., the General Services Department) serves only as a "conduit" borrower since the ultimate source of repayment is appropriated tax revenue. The NMFA classifies these assets as intergovernmental receivables. Appropriated tax revenue is generally viewed as a highly secure repayment source that tends to lower the risk of overall nonperformance. However, the entities that serve as conduit borrowers do not recognize the amounts borrowed as debt on their financial statements. As such, there is a risk that the entities will not actively manage the amounts borrowed or the total amount outstanding, thus eliminating

a typical check and balance that exists in most lender/borrower relationships. The result is that the NMFA, and specifically Mr. Campbell, had substantial control over the NMFA's intergovernmental receivables.

### ***2.3.6. Accounting Policies and Procedures***

The NMFA's accounting policies and procedures are not robust and are out of date. For example, many of the accounting procedures reference the MITAS accounting system which is no longer being used to house the NMFA's general ledger. The NMFA's general ledger is now kept on the Sage accounting system and the policies and procedures have not been updated to account for the migration or system differences. In addition, the NMFA relies on manual calculations and spreadsheets to perform many calculations that could be automated such as calculating borrower interest earnings on cash balances maintained by the NMFA or its trustee.

### ***2.3.7. Trustee***

For the PPRF and other lending programs tied to the NMFA's bond offerings, the terms of the indenture agreements typically require that a third party trustee maintain custody of all cash balances. The Bank of New York Mellon (BoNY) currently serves as the NMFA's trustee. Loan payments collected by the NMFA are forwarded to the trustee for purposes of making bond interest and principle payments. The trustee is also responsible for disbursing funds per loan requisition requests. Having a third party trustee involved in the custody, collection and disbursement of funds provides additional security for the bond holders and tends to lower the overall fraud risk for transactions where the trustee is involved. However, with respect to loan disbursements specifically, the terms of the trustee's agreement with the NMFA do not require the trustee to perform procedures to validate the business purpose for loan disbursements. In accordance with their agreement, the trustee disburses funds based upon approval from the NMFA. This provided Mr. Campbell the ability to effectively control loan disbursements even though a third party trustee was involved in the disbursement process. The NMFA's prior trustee, Bank of Albuquerque, indicated that they previously verified that both the borrower and the NMFA had approved the disbursement.

### **3. Overview of Procedures Performed**

The following general procedures were performed as part of the investigation.

#### **3.1. Interviews**

Interviews were conducted with various current and former employees of the NMFA, as well as NMFA Board Members and a former Board Member. Additionally, representatives were interviewed from third parties including Clifton, NMDOT, the DFA, the Bank of Albuquerque, and the OSA. In total, we interviewed 41 individuals as part of the Special Audit.

In addition to formal interviews, informal follow-up inquiries were made with certain personnel to obtain more information or to seek clarification on certain topics.

#### **3.2. Document Review**

During the investigation, various documents were provided for analysis. These documents were primarily provided in electronic format. The general categories of the documents received during the investigation are included below. A more detailed listing of the documents obtained is included as **Appendix B**.

- Clifton audit working papers for FY 2009 and FY 2010 and Clifton documentation related to the incomplete FY 2011 audit.
- Documents related to the 2009, 2010, and 2011 audits as stored on the NMFA Accounting Drive.
- OSA documents and communications related to the NMFA for FY 2009, 2010, and 2011.
- Board Meeting Minutes and Audio Recordings for 2010 to 2012.
- Documents related to NMFA policies and procedures.
- Bank Statements and confirmations for NMFA accounts at Bank of Albuquerque, BoNY, and Wells Fargo.
- Documents provided as a result of transaction testing inquiries, e.g. accounting records, vendor invoices, loan agreements, and bank statements.

#### **3.3. Electronic Evidence Review**

The Investigation Team also obtained and reviewed Emedia, i.e., emails and other electronic evidence, as part of its investigation procedures.

##### ***3.3.1. Electronic Evidence Collection***

- **Computer and Server Data Collection**



Forensic Technology specialists from the Investigation Team worked with the NMFA IT Department to obtain hard drive images (including internal hard drives, external hard drives, and USB drives) for 32 NMFA employees considered to be potentially relevant for the Special Audit. The Forensic Technology specialists used EnCase software to create the forensic images of the hard drives. In addition, the Department of Homeland Security (DHS), who assisted the Securities Division with the forensic technology portion of their investigation, provided the Investigation Team with the hard drive image from the computer of Mr. Campbell.

The Forensic Technology specialists also obtained copies of the NMFA's file servers and network share drives. These copies were obtained directly from the NMFA servers. DHS also provided the Investigation Team with copies of the data they collected from file servers. The servers and network shares obtained included the NMFA website server, the Accounting network share, and the Microsoft Exchange email server. A list of the hard drive images and server data that was collected is included as **Appendix C**.

- **Emedia Collection**

In approximately June 2009, the NMFA began utilizing a cloud-based email archiving vendor called Mimecast. The Mimecast system is a "logging" system that maintains a copy of emails sent or received by the NMFA, regardless of whether an individual chooses to delete an email after they receive or send it.

At the start of the Special Audit, DHS provided Mimecast data that had been extracted for Mr. Campbell. DHS also provided a copy of Mr. Campbell's Outlook email (PST) file from his hard drive image that contained recent emails that were sent and received by Mr. Campbell. Forensic Technology specialists from the Investigation Team worked with the NMFA IT Department and with Mimecast to obtain the NMFA's Mimecast email backup data. Mimecast provided the email archive data in 75 compressed (RAR) files which were 89.5GB in size before they had been expanded from their compressed form.

After obtaining this Emedia data, the Forensic Technology specialists began processing the data for review. The first step was to remove duplicate files from the population of emails and attachments (de-duplication process). To identify duplicate files, an MD5 algorithm is used to assign a unique identifier, or hash, to each document in the Emedia population. Documents with the same contents were assigned the same MD5 hash value and considered duplicative. Therefore duplicate files with identical hash values were removed from the population to create a population of unique files.

The first set of data to be processed was the data obtained for Mr. Campbell. The data for Mr. Campbell included approximately 141,000 files, of which approximately 55,000 were emails and 86,000 were attachments. During the de-duplication process approximately 36,000 documents were removed, leaving a unique population of approximately 105,000 emails and

attachments. This population was then loaded into a program used to review emails and attachments (Review Tool).

The Forensic Technology specialists then began processing the data obtained from Mimecast. The first step was to expand the data included in the compressed RAR files so that it could be processed. After the files had been expanded, the size of the Mimecast data went from 89.5GB to over 100GB. The Mimecast data included approximately 2,054,000 files, of which approximately 1,022,000 were emails and 1,032,000 were attachments. During the de-duplication process approximately 699,000 documents were eliminated, leaving a unique population of approximately 1,355,000 emails and attachments. These documents were also loaded into the Review Tool for analysis.

### ***3.3.2. Electronic Evidence Review***

- **Computer and Server Data Review**

A digital forensic examination was performed on the image of Mr. Campbell's computer. This analysis included a review of Mr. Campbell's internet browsing history, recently accessed files, and deleted files. The analysis of Mr. Campbell's internet browsing history indicated that on April 12, 2012, Mr. Campbell looked at the career website for NJEDA, his former employer.<sup>13</sup> No other unexpected or unusual activity was noted in the review of Mr. Campbell's internet browsing history. Additionally, no unexpected or unusual activity was identified from the analysis of Mr. Campbell's deleted files.

IIS logs from the NMFA webserver were also analyzed. These logs record activity for a certain document or webpage on a website, e.g. uploads and downloads of documents. The logs indicate that the Fraudulent Audit Report was posted to the NMFA website with document ID 977. Activity related to this document ID was then extracted from the IIS logs. The IIS logs included IP information for the entities that accessed the Audit Report. These IP addresses were researched on a publicly available IP look-up database to identify the entity associated with the IP address. The results of this analysis are included as **Exhibit B**.

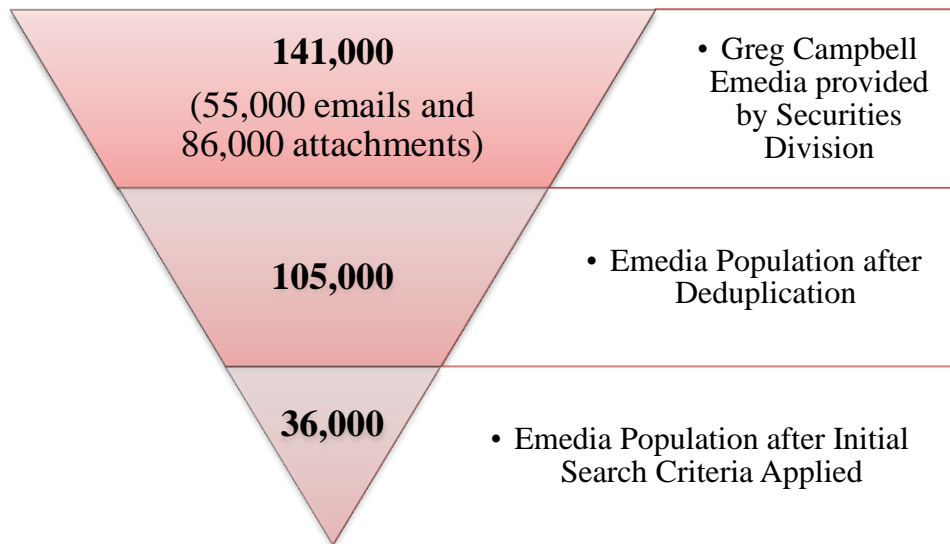
- **Emedia Review**

The Emedia review began with Mr. Campbell's emails. To focus the review, a set of key words were developed that related to the facts of this case, but that also included general terms that could be indicative of possible fraud. These key words were used for this initial set of documents (Initial Search Term) and were applied against the emails and attachments in the Review Tool. Approximately 36,000 emails and attachments included the key words and these documents were added to the population of "responsive" documents. The emails and

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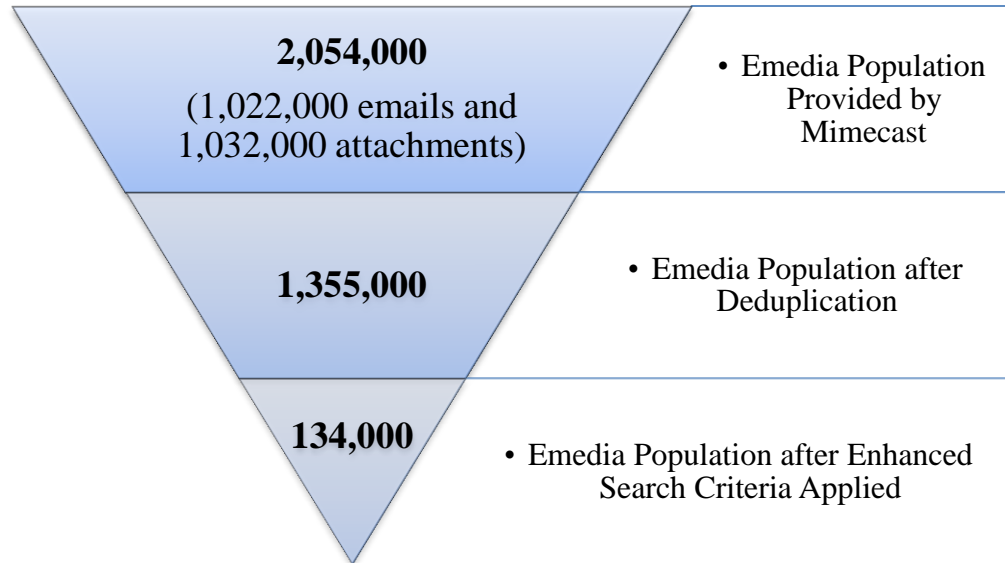
<sup>13</sup> Email from John Brooks to Greg Campbell dated April 12, 2012; Subject: FW: Development Finance Review Weekly - April 12, 2012.

attachments included in the responsive population were reviewed and documents considered to be relevant to the investigation were coded in the Review Tool so that they could be retrieved later. The chart below shows how the population of documents reviewed was derived.



After finishing the review of Mr. Campbell’s emails, the Mimecast population was reviewed. To focus the review of these documents, the Initial Search Term that was used for Mr. Campbell’s email was refined based on the results of the initial review. The refinement of the search term was an iterative process that continued as new information was learned during the review. As part of this process, the date range of documents was also refined to cover dates between July 1, 2010 and August 31, 2012. Approximately 134,000 emails met the criteria of the final iteration of the search term and these documents were added to the population of “responsive” documents.

The chart below shows how the population of documents reviewed based on the final iteration of the search term was derived.



In addition to the Emedia reviews described above, certain targeted searches were also performed in order to identify information related to particular issues. For example, searches were performed to identify emails between the NMFA and Clifton and between the NMFA and Yvonne Herrera from the Department of Finance Administration. A search was also performed to identify emails between Mr. Campbell’s NMFA email account and his personal email account.

Certain emails and attachments that were coded during our Emedia review as being particularly relevant to the investigation are incorporated as referenced documents throughout this Report and its Exhibits.

### 3.4. Transaction Testing

- The scope of the Special Audit includes an assessment of the risks to the NMFA from theft and embezzlement. As part of our procedures in this area, certain transactions were selected for testing. Transaction testing was focused on certain types of transactions based on their potential risk. Our transaction testing procedures and findings are included in the “Risk Assessment” section of this Report.

## 4. Forensic Analysis

The Special Audit's first area of focus was designed to identify the facts and circumstances related to how and why the Fraudulent Audit Report was created. Specifically, the Special Audit has focused on answering the questions listed below.

### 4.1. How Was the Fraudulent Audit Report Perpetrated?

As part of our investigation into the facts and circumstances surrounding the Fraudulent Audit Report, we analyzed certain electronic evidence in order to determine how the actual document was fabricated. This section explains the results of our analysis. Other sections of this report contain our investigation results regarding the factors that led to the creation of the Fraudulent Audit Report and how it went undetected.

Evidence identified during the investigation indicates that on July 27, 2011, Mr. Campbell obtained the electronic template for what would eventually become the Fraudulent Audit Report. Mr. Campbell initially submitted a version of the Fraudulent Audit Report to the DFA on February 3, 2012. Mr. Campbell created a second and final version of the Fraudulent Audit Report on March 12, 2012. Mr. Campbell submitted this final version to the NMFA's Chief Financial Strategist in response to an inquiry on March 9, 2011 from the Chief Financial Strategist about the status of the FY 2011 audit report. The Fraudulent Audit Report was posted to the NMFA's website that same day.

On July 27, 2011, Mr. Campbell sent an email to a Senior Associate at Clifton assigned to the NMFA audit and requested a copy of the Microsoft Word format financial statements. Mr. Campbell stated in his email that he was making the request so he could update the notes to the financial statements and then provide a draft of the financial statements, along with a copy of the preliminary trial balance, to the audit team when it arrived on August 1, 2011. Later that day, the Senior Associate sent Mr. Campbell a file of the Microsoft Word format financial statements. This file included the information from the FY 2010 audited financial statements with placeholders for the FY 2011 financial information. The file also included three Independent Auditor Reports (related to NMFA's basic financial statements, internal controls, and compliance with OMB Circular A-133) with placeholders for the audit report date, but the reports contained no official Clifton letterhead, footer, or signature. Additionally, the file included the exit conference disclosure page, but with a placeholder for the exit conference date.

The next iteration of the audit report we identified was sent to the Financial Control Division of DFA (FCD) for purposes of the CAFR. Under state law, the FCD is responsible for compiling the CAFR and each state agency is required to assist in the compilation of the CAFR by providing its financial statements to the FCD.<sup>14</sup> The CAFR presents the financial statements and other statistical information for the various department and funds of the State of New Mexico, including the State's component units. As a component unit of the State of New

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<sup>14</sup> Section 6-5-4.1 NMSA 1978.

Mexico, NMFA's financial information is discretely presented in the CAFR. The Manager of FCD's CAFR Unit initially sent an email to Mr. Campbell on December 13, 2011 requesting the NMFA's financial information so that it could be incorporated into the CAFR. Following various requests by the CAFR Unit Manager over the ensuing several weeks (which are discussed in Section 4.8 of this Special Audit Report), on February 3, 2012, Mr. Campbell emailed the CAFR Unit Manager a document which he represented to the FCD as the "final draft of the Audit Report." Mr. Campbell also indicated that he needed to "touch base with the State Auditor's Office regarding the report submitted by our auditors."

The file Mr. Campbell sent to the CAFR Unit Manager on February 3, 2012 was a PDF document with the NMFA financial statements, notes, supplementary schedules, Independent Auditor Reports, and exit conference disclosure. This document reflected a date of December 10, 2011 on each of the Independent Auditor Reports and represented that an exit conference between Clifton and the NMFA was held on December 10, 2011. However, the report sent to the CAFR Unit Manager did not include the official Clifton letterhead, footer, or signature. Additionally, some of the financial information included in the report, such as grant revenue and accounts receivable, differed from the financial information included in the final Fraudulent Audit Report. Based on the metadata in the document sent to the FCD, it appears that Mr. Campbell printed the report from a Microsoft Word file to PDF format shortly before he emailed it to the FCD on the morning of February 3, 2012. The financial information in this version of the Fraudulent Audit Report was incorporated into the CAFR. Mr. Campbell also emailed this same draft report to Mr. Duff on February 22, 2012.

Based on file metadata we analyzed, the second and final version of the Fraudulent Audit Report was created early on the morning of March 12, 2012. This final version included the official Clifton letterhead, footer, and forged signature. Each of the Independent Auditor Reports fabricated by Mr. Campbell in the Fraudulent Audit Report reflected a date of December 10, 2011 and included a Clifton letterhead, a footer on the first page of the Report, and a Clifton signature. The Clifton signature Mr. Campbell placed on the Fraudulent Audit Report was the "Clifton Gunderson, LLP" signature even though the Clifton Gunderson and LarsonAllen firms had officially merged into CliftonLarsonAllen, LLP on February 2, 2012, prior to the creation of the document. The Fraudulent Audit Report also represented that an exit conference had been held on December 10, 2011, which never actually occurred. Our analysis revealed that there were two different versions of the PDF format document in the "2011 Audit" folder on the Accounting Share Drive. Both versions included the Clifton letterhead, footer, and signature. The first file appears to have been scanned in color, while the second document appears to have been created shortly after the first file and is scanned in lower quality black and white. The black and white version was the version that was posted to the NMFA website and distributed to various individuals. Mr. Campbell stated that he obtained the Clifton letterhead, footer, and signature from the PDF version of the FY 2010 audit report. In an interview with the Investigative Team, Mr. Campbell stated that he affixed the Clifton letterhead and signature to

the Fraudulent Audit Report on March 12, 2012. He also stated that he fabricated the exit conference disclosure, but he did not realize that the December 10, 2011 date had fallen on a Saturday.

Soon after he created the final version of the Fraudulent Audit Report on March 12, 2012, Mr. Campbell emailed the Fraudulent Audit Report to the NMFA's Chief Financial Strategist. Also that same day, the Fraudulent Audit Report was posted to the NMFA website. The Fraudulent Audit Report that was posted to the NMFA website on March 12, 2012 included the following sections:

- The NMFA Official Roster indicating the NMFA Board Members, CEO, and COO;
- Management Discussion and Analysis (MD&A);
- Financial Statements and Notes to the Financial Statements: Statement of Net Assets; Statements of Revenues, Expenses and Changed in Net Assets; Statement of Cash Flows; and Statement of Assets and Liabilities for Agency Funds;
- Supplementary Schedules;
- Single Audit Act Schedules: Schedule of Expenditures of Federal Awards, Notes to Schedule, Schedules of Current Year Findings and Questioned Costs;<sup>15</sup>
- Exit Conference Disclosure;
- Independent Auditor Report for the basic NMFA financial statements;
- Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Accounting Standards; and
- Independent Auditor's Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

On March 12, 2012, Mr. Campbell also emailed the Fraudulent Audit Report to the NMFA's Disclosure Counsel for inclusion in the Preliminary Official Statement for the sale of 2012A PPRF Senior Lien Bonds. Section 4.8 of this Special Audit Report examines other third parties to which the Fraudulent Audit Report was directly presented as being NMFA's audited financial statements.

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<sup>15</sup> The Table of Contents for the Fraudulent Audit Report also refers to a Schedule of Prior Year Findings and Questioned Costs, but this Schedule is not included within the Fraudulent Audit Report. Additionally, the Schedule of Current Year Findings and Questioned Costs references the 2010 findings, rather than findings for 2011.

#### **4.2. Who Knowingly Participated in the Creation of the Fraudulent Audit Report, Both Within and Outside of the NMFA?**

The investigation did not identify evidence to indicate that anyone other than Mr. Campbell (either within or outside the NMFA) participated in the creation of the Fraudulent Audit Report. Mr. Campbell indicated that he acted alone and our investigation did not identify evidence to refute Mr. Campbell's assertions in this regard.

#### **4.3. Who at the NMFA Knew That the Fraudulent Audit Report Existed Prior to July 12, 2012, and At What Point in Time Did Each Individual Know It Was Fraudulent?**

As explained in Section 4.1 above, on March 12, 2012, Mr. Campbell emailed the Fraudulent Audit Report to the NMFA's Chief Financial Strategist. The Fraudulent Audit Report was posted to the NMFA website that same day. The Fraudulent Audit Report was subsequently accessed by and distributed to various third parties.<sup>16</sup> Additionally, members of NMFA management, certain NMFA staff, NMFA's Audit Committee and NMFA Board members received and had access to the Fraudulent Audit Report after March 12, 2012. However, our investigation did not identify evidence to indicate that, prior to July 10, 2012, anyone at the NMFA other than Mr. Campbell knew that the NMFA's fiscal year 2011 audit report was fraudulent. Evidence identified during our investigation indicates that on this date Mr. May, Mr. Duff and other NMFA staff confirmed that the audit report was a fake.

Despite various clues that indicated the FY 2011 audit report was a fake, it appears no one at the NMFA knew or realized the report was fraudulent until July 10, 2012. For example, on March 22, 2012, during an NMFA Board meeting Mr. May "reported the State Auditor has approved the NMFA audit with zero findings," even though the Fraudulent Audit Report erroneously contained a late audit finding that Mr. Campbell copied from NMFA's 2010 audit report. On April 23, 2012, Mr. Campbell coordinated a meeting of NMFA's Audit Committee during which an exit conference on the FY 2011 audit was scheduled, despite the fact that Mr. Campbell had represented, and Mr. May had reported to the Board, that the OSA approved and officially released the audit report. The meeting agenda indicated that Clifton would present the FY 2011 audit report at the meeting. On the morning of the meeting, the Fraudulent Audit Report was distributed to the Audit Committee as well as other materials for the meeting. Mr. Duff was present at this meeting. However, once the meeting began, Mr. Campbell represented to the Audit Committee that there had been a "schedule mix-up" and that the Clifton Audit Partner could not attend the meeting. It appears that there was minimal discussion about the audited financial statements, and then the Audit Committee moved to accept the Fraudulent Audit Report. In fact, during our interviews, we confirmed with each member of the Audit

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<sup>16</sup> See Exhibit B.



Committee and also Mr. Duff that they failed to review the Fraudulent Audit Report provided in any detail, and specifically did not review the final page of the report which listed them as having been in attendance of an exit conference on December 10, 2011 that they did not attend. Furthermore, no one in attendance of the April 23, 2012 meeting raised the question as to why an exit conference was taking place subsequent to the issuance of the final audit report. Finally, at the April 27, 2012 meeting of the NMFA Board, the Chair of the Audit Committee reported on the Audit Committee's April 23, 2012 meeting. The April 27, 2012 Board meeting minutes state the following: "Staff presented the 2011 financial audit. [The Audit Committee Chair] said the Committee accepted the Audit Report with an unqualified opinion and zero findings."

The trigger which ultimately led to the identification of the Fraudulent Audit Report was the "At Risk" list published by the OSA for FY 2011 government agency audit reports. The "At Risk" list is a listing of governmental agencies designated "at risk" by the OSA because their annual financial and compliance audits have not been completed and submitted to the OSA pursuant to the Audit Act (Sections 12-6-1 through 12-6-14 NMSA 1978) and audit report submission deadlines established by the Audit Rule (2.2.2 NMAC). The OSA directly notifies "At Risk" agencies of the designation and requires them to submit periodic written status reports until the agency achieves compliance with the Audit Act and Audit Rule. As required by the OSA, the status reports must contain a detailed explanation of the agency's efforts to complete and submit its audit, including an explanation of the current status of any ongoing audit work, a description of any obstacles encountered by the agency in completing its audit, and a projected completion date for the audit. The status reports must also be signed by a member of the agency's governing authority, a designee of the governing authority or a member of the agency's top management.

The OSA began the "At Risk" program in the fall of 2009 to report agencies that had not yet submitted audit reports for FY 2008 or earlier fiscal years. In October 2010, the OSA issued and distributed the first "At Risk" list for agencies that had not submitted audit reports for FY 2009 or earlier fiscal years. The following year, in October 2011, the OSA issued and distributed the first "At Risk" list that included agencies that had not submitted audit reports for FY 2010 or earlier fiscal years. On a monthly basis, the OSA updates and distributes the "At Risk" list to various government agencies, including the New Mexico Legislative Finance Committee (LFC), the DFA, the New Mexico Attorney General's Office, and other oversight agencies. Because the OSA considers the NMFA an oversight agency for those government entities to which NMFA makes loans, the OSA also distributes the "At Risk" list to the NMFA.

On May 23, 2012, the OSA issued its first "At Risk" list that included agencies that had not submitted audit reports for FY 2011 and earlier fiscal years. The NMFA appeared on this list, which the OSA initially sent to its standard distribution list of oversight agencies. As such, the OSA sent the list to the NMFA by fax, specifically to Mr. May. The following day, May 24, 2012, the OSA sent a second letter directly to Mr. May notifying him that the OSA had

designated the NMFA “at risk” because the agency’s fiscal year 2011 audit report had not been submitted to the OSA by the applicable deadline pursuant to the Audit Act and Audit Rule. The letter directed the NMFA to submit quarterly status reports on the agency’s audit to the OSA until the NMFA achieved compliance with the law, the first report being due by July 2, 2012. The letter further mandated that the reports “be signed by a member of the agency’s governing authority, a designee of the governing authority or a member of the agency’s top management.”

Upon receipt of this list on May 24, 2012, Mr. May and Mr. Duff met with Mr. Campbell to find out why the NMFA was on the list. In an interview with the Investigative Team, Mr. Campbell indicated that he conveyed to Mr. May and Mr. Duff that the FY 2011 audit report had been filed and he would follow up with the OSA. Mr. Campbell also indicated that later that afternoon he represented to both Mr. May and Mr. Duff that he had followed up with the OSA and that the NMFA would be taken off the “At Risk” list.<sup>17</sup> Additionally, he stated that he thought the OSA placed agencies on the “At Risk” list that were two years behind on their audits, so he thought it would have been a much longer period of time before the OSA designated the NMFA “At Risk” for failure to submit its FY 2011 audit.

On June 26, 2012, the OSA issued its next “At Risk” list and the NMFA again appeared on the list. The OSA again faxed the list directly to Mr. May as well as the standard distribution list for oversight agencies. On July 3, 2012, a staff member from the LFC sent an email to Mr. May and Mr. Duff inquiring as to the status of the NMFA’s FY 2011 audit and indicating that she had received a legislative inquiry because the NMFA appeared on the “At Risk” list.

On July 5th, 2011, Mr. Duff and the NMFA’s Controller called Clifton’s Audit Partner. The purpose of this phone call was to introduce the NMFA’s new Controller to Clifton’s Audit Partner and also to inquire about what was needed to get the FY 2012 audit process started. When OSA staff interviewed Clifton’s Audit Partner, he stated he mentioned to Mr. Duff during the conversation that the FY 2011 audit remained unfinished. We could not confirm this statement during our interviews with Mr. Duff and the new Controller. Based on our interviews, as well as notes taken during the phone call, Clifton’s Audit Partner did not mention during the call that the FY 2011 audit had not been completed. The notes from the conversation indicate Clifton’s Audit Partner agreed to provide the NMFA with a “prepared by client” (PBC) list in order to get the FY 2012 audit process started.

On July 3, 2012, Mr. Duff sent an email to the OSA’s Office Administrator, asking for the OSA to correct the “At Risk” list because he believed that Mr. Campbell had previously contacted the OSA a month ago and was told that the NMFA “was on the list in error and that it would be removed.” On July 5, 2012, Mr. Duff spoke with the Deputy State Auditor to inquire why the NMFA was on the OSA’s “At Risk” since, as he stated, the NMFA’s FY 2011 audit

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<sup>17</sup> Securities Division Interview with Greg Campbell dated August 6, 2012, page 106.

report was submitted in December. Later that day, OSA staff confirmed that the NMFA had not submitted an IPA Recommendation Form, OSA audit contract, or audit report for FY 2011.

On July 6, 2012, OSA staff contacted Mr. Duff to try to resolve the discrepancy between the NMFA and the OSA regarding the audit report. That afternoon, Mr. Duff sent a copy of the Fraudulent Audit Report to the OSA and indicated the NMFA was still looking for documentation to show that the audit report had been submitted to the OSA. Mr. Duff also sent an email to an LFC staff member in which he stated, “I just spoke to . . . the State Auditor’s Office. You won’t believe what the problem is – they have no record that we ever submitted a report to them . . . I recall seeing the letter from the State Auditor releasing the report for distribution, so I know they received it.”

Also on July 6, 2012, Mr. Duff sent an email to Clifton explaining that the OSA had no record of receiving the FY 2011 NMFA audit report and asked for some evidence that Clifton sent the audit report to the OSA. Clifton did not respond to this email. Mr. Duff sent another email to Clifton on July 9, 2012, in which he again asked for evidence of audit report’s delivery to the OSA. Later that same day, after it appears that Mr. Duff and Clifton’s Audit Partner spoke to each other, Mr. Duff emailed Clifton a copy of the Fraudulent Audit Report for their review. On July 9, 2012, the OSA once again confirmed with Mr. Duff and Mr. May that the OSA had not received a FY 2011 audit report from the NMFA.

On July 10, 2012, Mr. May, Mr. Duff, the NMFA’s Chief Financial Strategist and members of NMFA’s legal staff placed a call to Clifton’s Audit Partner for the NMFA audit. On the call, Clifton’s Audit Partner indicated that Clifton had not submitted the NMFA audit to the OSA. After this call, Clifton reviewed a copy of the Fraudulent Audit Report and confirmed with the NMFA that it was not their work product. Clifton’s Audit Partner also noted in an email to Mr. Duff that the exit conference date included in the Fraudulent Audit Report was a Saturday, and that it was unlikely that an exit conference would be held on the weekend. At this point, it became apparent to NMFA staff that the audit report was fraudulent.

Over the next few days, Mr. May, Mr. Duff, the NMFA’s Chief Financial Strategist, and members of the NMFA legal staff began the process of notifying NMFA employees as well as various third parties that the FY 2011 audit report was a fake. This notification process is discussed in Sections 4.4 and 4.9 of this Special Audit Report.

#### **4.4. What Did the People Identified in Response to Question 4.3 Above Do With the Knowledge That the Fraudulent Audit Report Existed and Was Being Represented by the NMFA Staff as an Approved Audit of the NMFA’s FY 2011 Financial Statements?**

On July 11, 2012, after the discovery of the Fraudulent Audit Report, the NMFA initiated discussions with representatives from Sard, Verbinnen & Co (Sard Verbinnen), a corporate and

financial communications firm. The NMFA also began discussions with the law firm Steptoe and Johnson (Steptoe) about conducting an investigation and contacted KPMG, LLP (KPMG) to discuss the forensic portion of the investigation. Additionally, Mr. May and others from the NMFA discussed the situation of the Fraudulent Audit Report with the Interim Chair of the NMFA Board who was also a member of the Audit Committee. Mr. May also contacted the Chief of Staff for New Mexico Governor Susana Martinez, other members of the Governor's staff, the State Police, the OSA and the other members of the NMFA Board.

On July 12, 2012, the NMFA, with assistance from Sard Verbinnen, began drafting a press release on the Fraudulent Audit Report. A draft of the press release was sent to the NMFA Board for review and it was issued by the NMFA later that day. The press release stated that NMFA had "discovered this week that an audit of its financial results for the fiscal year ended June 30, 2011 was not completed properly" and "the financial results have been presented erroneously as 'audited.'" The press release further stated "NMFA senior management was alerted to the issue by the State Auditor's Office" and that NMFA's former Controller had "misrepresented to senior management the status of the audit and provided financial statements for use with third parties that he falsely represented as 'audited.'" The press release also stated that NMFA had withdrawn its 2011 financial statements and retained the services of Steptoe and KPMG to conduct an investigation and complete the audit. NMFA posted the press release to its website that day.

Mr. May also contacted State Senator Mary Kay Papen and State Representative Patricia Lundstrom, Chair and Vice-Chair, respectively, of the NMFA Oversight Committee to inform them about the Fraudulent Audit Report. Additionally, on July 12, 2012, NMFA management held a staff meeting where the NMFA staff was informed about the circumstances of the Fraudulent Audit Report.

On July 12, 2012, NMFA's Chief Financial Strategist took steps to notify ratings agencies of the Fraudulent Audit Report. He emailed a copy of the NMFA press release to Standard and Poor's and Moody's. Additionally, on July 13, 2012, NMFA's Chief Financial Strategist sent an email to Standard and Poor's which requested that Standard and Poor's remove the Fraudulent Audit Report its files. The NMFA also contacted both ratings agencies to provide them with information about the Fraudulent Audit Report. Also on July 13, 2012, NMFA's Chief Financial Strategist sent emails to the DFA, the U.S. Environmental Protection Agency (EPA) and the Government Finance Officers Association (GFOA) and instructed them to return or destroy all copies of the Fraudulent Audit Report. That same day, he also sent an email to "undisclosed recipients" in the financial community. This email included an explanation of the circumstances of the Fraudulent Audit Report, and also the NMFA press release and a profile of an attorney from Steptoe and Johnson.

On July 14, 2012, Mr. May entered into a professional services agreement with Steptoe under which Steptoe was to provide services to the NMFA to conduct an investigation of the

circumstances related to the Fraudulent Audit. The scope of work in the contract NMFA executives entered into with Steptoe and Johnson was vague, stating: “the Contractor will provide services to the NMFA to conduct an independent investigation regarding the circumstances surrounding the preparation and submission of the NMFA’s audited financial results for fiscal year 2011 and related activities.” There were no other deliverables stated in the contract except those provided in the scope. The agreement also provided that KPMG would be retained as a subcontractor under the agreement. KPMG may have had a perceived conflict of interest because: (1) KPMG, LLC was NMFA’s current internal auditor and (2) per Mr. Duff, one of the partners at KPMG’s Albuquerque office had previously worked closely with him during their mutual employment at Deloitte and Touche and Ross. The NMFA Board terminated the agreement on July 18, 2012 and directed staff to work with the OSA to establish a contract for services related to the OSA’s Special Audit. As previously noted in this report, the OSA designated the NMFA for Special Audit on July 12, 2012. The OSA subsequently hired PwC to assist the OSA with the performance and completion of the Special Audit.

On July 20, 2012, the NMFA posted a voluntary disclosure statement to the Electronic Municipal Market Access (EMMA) system website, which is a website of the Municipal Securities Rulemaking Board (MSRB). The Official Statement for the 2012A bond offering was posted to the EMMA website on April 3, 2012 and the Fraudulent Audit Report was included as Appendix A to this Official Statement. The NMFA’s July 20, 2012 voluntary disclosure statement was for both the 2012A and prior bond offerings. This statement indicated that the NMFA had discovered that its FY 2011 audit “was not completed properly,” and therefore the NMFA was withdrawing the Fraudulent Audit Report. A more in depth discussion of the NMFA’s postings to the EMMA website regarding bond offerings is provided in Section 4.8 of this Special Audit Report.

On July 20, 2012, the NMFA also disclosed to investors that it had been placed under review for a credit rating downgrade by Moody’s and had been placed on CreditWatch by Standard and Poor’s.

#### **4.5. What Processes Should Have Been Followed by the NMFA, Including Their Interactions With the External Auditor Pursuant to the NMFA’s Internal Policies and Procedures in Furtherance of the Issuance of a Properly Completed Audit?**

The external audit process for the NMFA’s annual financial and compliance audit is governed by the NMFA Act (Chapter 6, Article 21 NMSA 1978), the Audit Act, the Audit Rule, and NMFA’s Financial Management Policy I - Audit Policies. In accordance with the Audit Act and the Audit Rule, the annual audit must be conducted in accordance with governmental

auditing, accounting and financial reporting standards. Finally, the NMFA submits its financial statements to the FCD for inclusion in the CAFR pursuant to Section 6-5-4.1 NMSA 1978.

The NMFA Act, specifically Section 6-21-21(D) NMSA 1978, provides that the NMFA “shall have an audit of its books and accounts made at least once each year by the state auditor or by a certified public accounting firm whose proposal has been reviewed and approved by the state auditor.” Additionally, that section requires that the NMFA shall bear the cost of the audit and submit copies of the audit to the Governor and the NMFA Oversight Committee.

The Audit Act provides that the financial affairs and transactions of every agency shall be thoroughly examined and audited each year by the State Auditor, personnel of the OSA or IPA approved by the State Auditor. The NMFA is specifically included in the statutory definition of “agency” under the Audit Act.<sup>18</sup> Pursuant to the Audit Act, the audits must be “conducted in accordance with generally accepted auditing standards and rules issued by the state auditor.”<sup>19</sup> These auditing standards include Generally Accepted *Government Auditing Standards* (GAGAS) (Yellow Book) issued by the U.S. Government Accountability Office and *Codification of Statements on Auditing Standards* (SAS) issued by the American Institute of Certified Public Accountants (AICPA). With regard to the NMFA, because it receives and expends federal funds in excess of \$500,000 in a fiscal year, it is also subject to certain audit requirements under the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The State Auditor also promulgates regulations, commonly known as the Audit Rule, which detail various processes that are “required for conducting audits in accordance with generally accepted auditing standards.”<sup>20</sup>

The Audit Act and the Audit Rule delineate certain requirements regarding the external audit process that the NMFA and Clifton were required to follow for the FY 2011 audit. These requirements include the submission of an IPA recommendation to the OSA, the submission of a standard audit contract to the OSA, the completion of an engagement letter and an exit conference, and the submission of the agency’s audit report to the OSA. Additionally, Clifton was required to adhere to provisions of the auditing standards referenced above.

Finally, the NMFA has certain policies and procedures that apply to the external audit process. At its June 25, 2009 meeting, the NMFA Board approved the NMFA’s “Financial Management Policy I – Audit Policies.” In its Audit Policies, the NMFA “recognizes the importance of achieving an unqualified or ‘clean’ audit opinion on [NMFA’s] financial statements from [NMFA’s] independent auditors each fiscal year.” The NMFA further acknowledges in its Audit Policies that its audit opinion “impacts the ratings assigned by nationally recognized ratings agencies on [NMFA’s] bond issues and also reflects the financial soundness of the NMFA and the fiscal policies that guide our management and accounting

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<sup>18</sup> Section 12-6-2(A)(3) NMSA 1978.

<sup>19</sup> Section 12-6-3(A) NMSA 1978.

<sup>20</sup> Section 12-6-12 NMSA 1978.

practices.” Moreover, the Audit Policies state that the NMFA “understands the critical importance of being able to provide its audited financial statements on a timely basis to financial market participants including ratings agencies, underwriters and investors.”

The Audit Policies direct “agency staff” to take various steps regarding the external audit process “in order to achieve and maintain the unqualified audit opinion each fiscal year.” By carrying out the Audit Policies, the NMFA states it will achieve the following goals:

- “An unqualified audit opinion each fiscal year, with no reportable and unreportable findings.”
- “Complete the annual audit and file the audited financial statements with the State Auditor as soon as practical each year. The goal for filing with the Auditor will vary from year to depending on the circumstances, but should not be later than November 15.”

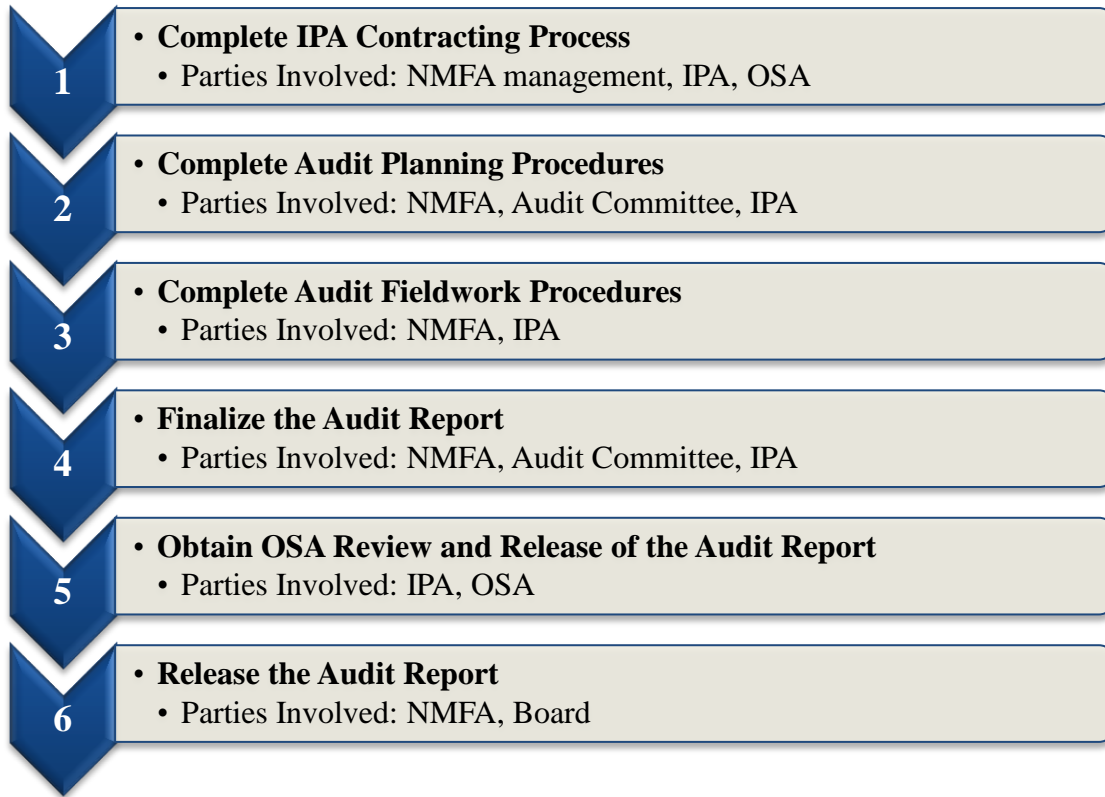
Some of the NMFA objectives documented in the policy include the following:

- “Maintain year-round communication with the independent auditors and provide them with all necessary documents and schedules as agreed in order to complete the audit efficiently and on schedule.”
- “Meet with the NMFA Audit Committee monthly to report on issues concerning financial reporting and audit matters. The external and internal auditors should also meet with the Committee as appropriate to report on the progress of their work and to bring any issues they may have to the attention of the Committee.”

These statutory, regulatory, standard and policy requirements for the NMFA’s external audit process are discussed in greater detail below, but in general, the external audit process should include the following steps according to the Audit Act and the Audit Rule:<sup>21</sup>

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<sup>21</sup> These procedures are based on the 2011 Audit Rule as this was the Audit Rule in effect for the FY 2011 NMFA audit.



As discussed in detail below, there was widespread failure to adhere to this process and its associated requirements on the part of Clifton and the NMFA, including the agency’s executive management, Audit Committee and Board.

**4.5.1. Complete IPA Contracting Process**

The first step in the external audit process for an agency is the procurement of an IPA to perform the agency’s annual financial and compliance audit. As required by the Audit Act, the State Auditor initiates this process by sending a notification to agencies that they are designated for audit and that they should begin the IPA selection and contracting process.<sup>22</sup> Agencies are prohibited from procuring an IPA for their annual financial and compliance audit without first receiving this notification from the State Auditor. The OSA typically sends the notification to agencies in February each year.

After receipt of the notification, the agency is then required by the Audit Act to “enter into a contract with an independent auditor of its choice” in accordance with the procedures set forth in the Audit Rule.<sup>23</sup> The Audit Rule requires that agencies seek quotations or proposals for the annual financial and compliance audit for IPA services in accordance with procurement laws,

<sup>22</sup> Section 12-6-14(A) NMSA 1978.

<sup>23</sup> Section 12-6-14(A) NMSA 1978.



regulations and policies applicable to that agency.<sup>24</sup> The Audit Rule strongly encourages agencies to request a multiple year proposal from IPAs for services not to exceed three years; however, the audit contract term is for one year with the option to extend for two successive one year terms at the same price, terms and conditions as stated on the IPA's original proposal to the agency.<sup>25</sup>

Once an agency has selected an IPA through a procurement process, the Audit Rule requires the agency to submit 1) a completed IPA Recommendation Form for Audits and 2) a completed and signed audit contract to the State Auditor by the deadline set forth by the Audit Rule for that agency.<sup>26</sup> The State Auditor will only approve audit contracts with IPAs that have been approved by the State Auditor after a quality control and compliance review.<sup>27</sup> The submission deadline applicable to the NMFA for its FY 2009, 2010 and 2011 IPA Recommendation Form and audit contract was June 1.<sup>28</sup>

Pursuant to the Audit Act, "each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the state auditor." Moreover, the Audit Act prohibits the payment of public funds to an IPA "unless a contract is entered into and approved" by the State Auditor. The OSA typically posts a list of agencies without an approved IPA to its website starting in July each year.

In 2009, the NMFA obtained a three-year proposal for IPA services from Clifton for its FY 2009, 2010 and 2011 financial and compliance audits. Our investigation found that the NMFA failed to submit an IPA Recommendation Form and audit contract for FY 2011 even though it had complied with these requirements of the Audit Rule in 2009 and 2010:

- **FY 2009 Audit:** For the FY 2009 audit, the OSA sent the notification to procure auditing services to state agencies on February 1, 2009. The NMFA's 2009 IPA recommendation letter was dated May 22, 2009 and the OSA approved the NMFA's recommendation of Clifton as NMFA's IPA on June 11, 2009.<sup>29</sup> The OSA received an audit contract signed

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<sup>24</sup> Section 2.2.2.8.B NMAC.

<sup>25</sup> Section 2.2.2.8.B (4) NMAC.

<sup>26</sup> Section 2.2.2.8.B (6) NMAC.

<sup>27</sup> Section 2.2.2.8.A NMAC provides the following: "The State Auditor shall approve contracts only with IPAs who have submitted a complete and correct firm profile that has been approved by the Office and who have complied with all the requirements of this Rule, including: (1) Section 2.2.2.14 NMAC, Continuing Education and Quality Control Requirements; (2) Section 2.2.2.8.H NMAC, Independence Requirements; and (3) For IPAs who have previously audited agencies under this Rule, they must have previously complied with: (a) Section 2.2.2.9 NMAC, Report Due Dates; (b) Section 2.2.2.13 NMAC, Review of Audit Reports and Working Papers; and (c) Paragraph (5) of Section 2.2.2.9.A (5) NMAC, Notifying the State Auditor Regarding Why Audit Reports Will be Late."

<sup>28</sup> Section 2.2.2.8.B (6) NMAC.

<sup>29</sup> New Mexico State Auditor's Office Audit Contract Proposal Evaluation Form dated May 22, 2009 and Letter from the OSA to Greg Campbell dated June 11, 2009.

by Mr. Duff and Clifton's Audit Partner on June 24, 2009 and the OSA approved the audit contract on June 29, 2009.<sup>30</sup>

- **FY 2010 Audit:** For the FY 2010 audit, the OSA sent the notification to procure auditing services to state agencies in February 2010. The NMFA prepared the IPA Recommendation Form for its FY 2010 audit on May 14, 2010. Mr. Duff signed the IPA Recommendation Form.<sup>31</sup> The OSA received an NMFA audit contract signed by Mr. Duff and Clifton's Audit Partner (the same Audit Partner who signed the contract in 2009) on August 9, 2010 and the OSA approved the audit contract on August 10, 2010.<sup>32</sup>
- **FY 2011 Audit:** For the FY 2011 audit, the OSA sent the notification to procure auditing services to state agencies on February 16, 2011. The NMFA did not submit an IPA Recommendation Form or an audit contract to the OSA. During our investigation we did not identify any NMFA internal communications regarding the IPA Recommendation Form or audit contract in May of 2011 or June of 2011. On August 9, 2011, a Clifton Senior Associate sent an email to Mr. Campbell asking if the contract had been approved by the OSA. Mr. Campbell did not respond to Clifton's email. In an interview with the Investigative Team, Campbell stated he did not recall the August 9, 2011 email regarding the audit contract. However, in our interview with Mr. Campbell, he stated that in April 2011 he prepared the IPA Recommendation Form and audit contract and had Mr. Duff sign both of them. He stated that he did not send the documents to Clifton for signature; rather, he mailed them to the OSA. During our investigation, we reviewed OSA mail logs, records tracked on the OSA's database, and interviewed OSA employees. We were unable to locate any evidence that the OSA ever received an IPA Recommendation Form or audit contract from the NMFA.

As discussed later in Section 4.5.2 of this Special Audit Report, the NMFA signed an engagement letter with Clifton for the FY 2011 audit. The engagement letter was dated May 9, 2011 and was signed by Mr. Duff on August 9, 2011, the same day as Clifton's email to Mr. Campbell inquiring about the audit contract. In our interview with Mr. Campbell, he also stated he never saw the engagement letter and Mr. Duff did not speak to him about it.

The NMFA paid Clifton \$67,600 for work Clifton completed on the FY 2011 audit even though the parties never signed an audit contract and submitted it to the OSA as required by the Audit Act and the Audit Rule. The Audit Act provides that "payment of public funds may not be made to an independent auditor unless a contract is entered into and approved" as required by the Audit Act and the Audit Rule.

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<sup>30</sup> State of New Mexico Audit Contract No. 09-385, dated June 16, 2009.

<sup>31</sup> Audit Contract Proposal Evaluation Form pursuant to Section 2.2.2.8.B NMAC, dated May 14, 2010.

<sup>32</sup> State of New Mexico Audit Contract No. 10-385, dated July 7, 2010.

Lastly, the NMFA's Audit Policies provide that NMFA staff will "take all necessary steps to ensure that the State Auditor approved contract is in place prior to commencement of any audit fieldwork performed by the auditors." In addition to the failure to comply with the requirements set forth in the Audit Act and Audit Rule pertaining to the contracting process, the NMFA also failed to comply with its own Audit Policies in this regard.

#### **4.5.2. Complete Audit Planning Procedures**

Under GAGAS, SAS and the Audit Rule, during the planning stages of the financial audit auditors must communicate certain information "in writing to management of the audited entity, those charged with governance, and to the individuals contracting for or requesting the audit."<sup>33</sup> In particular, the IPA must communicate in writing to the agency any potential restriction of the auditor's report, the nature of the planned work, and the level of assurance to be provided related to internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.<sup>34</sup>

The Audit Rule expressly requires IPAs to prepare a written and dated engagement letter to fulfill these communication requirements. As specified by the Audit Rule, the IPA shall prepare the engagement letter "during the planning stage of a financial audit, addressed to the appropriate officials of the agency, keeping a photocopy of the signed letter as part of the audit documentation."<sup>35</sup> The appropriate officials may include the head of the audited agency, the Audit Committee, Board, or an individual who possesses a sufficient level of authority and responsibility for the financial reporting process, such as the chief financial officer.<sup>36</sup> The Audit Rule further requires the IPA to submit to the State Auditor, within ten days of the IPA's entrance conference with the agency, an electronic copy of the signed and dated engagement letter and a list of client prepared documents with delivery dates.<sup>37</sup> If the IPA does not submit the engagement letter following the entrance conference, the Audit Rule requires the IPA to deliver the signed and dated engagement letter to the OSA when submitting the agency's audit report to the State Auditor for review.<sup>38</sup>

- **FY 2009 Audit:** For the 2009 audit, Clifton and the NMFA held an entrance conference on June 6, 2009. In attendance were Mr. Campbell, a NMFA Senior Accountant and Clifton's Audit Partner and Audit Senior Manager. Clifton also had a meeting with the Audit Committee on July 10, 2009. In attendance were the Audit Committee Chair, a designee for a Board member, two other Audit Committee members, Mr. Campbell and Mr. Duff. The planning memo from Clifton indicates that Clifton was targeting a

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<sup>33</sup> GAGAS 4.06.; SAS 114; Section 2.2.2.8.L (1) NMAC.

<sup>34</sup> GAGAS 4.06; Section 2.2.2.8.L (1) NMAC.

<sup>35</sup> Section 2.2.2.8.L (3) NMAC.

<sup>36</sup> Section 2.2.2.8.L (3) NMAC.

<sup>37</sup> Section 2.2.2.8.L (6) NMAC.

<sup>38</sup> Section 2.2.2.9.A (3) NMAC.

September 30, 2009 date of completion for the audit. The engagement letter was dated July 2, 2009 and was signed by Mr. Duff on July 14, 2009.

- ***FY 2010 Audit:*** For the 2010 audit, Clifton and the NMFA held an entrance conference on May 26, 2010. In attendance were Mr. Duff and Mr. Campbell from the NMFA and Clifton's Audit Partner and Audit Senior Manager. Clifton also had a meeting with the Audit Committee on May 26, 2010. In attendance were the Audit Committee Chair and two other Audit Committee members. The planning memo from Clifton indicates that Clifton was targeting a September 30, 2010 date of completion for the audit. The engagement letter was dated July 7, 2010 and was signed by Mr. Duff on July 9, 2010.
- ***FY 2011 Audit:*** For the 2011 audit, Clifton and the NMFA held an entrance conference on May 23, 2011. In attendance were Mr. Duff and Mr. Campbell from the NMFA and Clifton's Audit Partner, Audit Senior Manager, and Audit Senior Associate. Clifton also had a meeting with the Audit Committee on May 23, 2011. In attendance were the Audit Committee Chair, another Audit Committee member, and Mr. Campbell. Planning documents from Clifton indicate that Clifton was targeting a September 27, 2011 date of completion for the audit. The engagement letter was dated May 9, 2011 and was signed by Mr. Duff on August 9, 2011. In an interview with the Investigative Team, Mr. Campbell also stated he never saw the engagement letter and Mr. Duff did not speak to him about it. Clifton did not submit to the OSA the signed and dated engagement letter and a list of client prepared documents with delivery dates.

#### ***4.5.3. Complete Audit Fieldwork Procedures***

Following the contracting and planning stages, the next step in the audit process is for the IPA to complete audit fieldwork procedures. At the beginning of fieldwork, the IPA typically creates a PBC listing which includes items that the IPA needs for its procedures, such as trial balances, loan schedules, and bank reconciliations. The IPA then works with the personnel from the entity to obtain this information. Additionally, the IPA performs testing procedures such as confirming cash balances and loan balances, and obtaining supporting documentation for the transactions selected for testing.

The Audit Rule provides that the "financial statements are the responsibility of the agency" and the agency "shall maintain adequate accounting records, prepare financial statements in accordance with accounting principles generally accepted in the United States of America, and provide complete, accurate, and timely information to the IPA as requested to meet the audit report due date deadline." Moreover, the NMFA's Audit Policies require NMFA staff to "maintain year-round communication with the independent auditors and provide them with all necessary documents and schedules as agreed in order to complete the audit efficiently and on schedule." Under the Audit Policies, NMFA staff is also required to meet monthly with the

NMFA Audit Committee “to report on issues concerning financial reporting and audit matters.” The Audit Policies further provide that the external auditors “should also meet with the Committee as appropriate to report on the progress of their work and to bring any issues they may have to the attention of the Committee.”

For the FY 2009 audit of the NMFA, Clifton planned to perform on-site fieldwork between August 10, 2009 and August 28, 2009. For the FY 2010 audit, Clifton planned to perform on-site fieldwork between July 26, 2010 and August 31, 2010.

In FY 2009 and FY 2010, the NMFA’s audit reports were not submitted to the State Auditor by the Audit Rule’s regulatory audit report deadline of December 15th. The Audit Rule requires that all agency audit reports that are not submitted by the regulatory deadline include a finding for this noncompliance. In order to correct these findings in FY 2011, the NMFA’s management was required to prepare a corrective action plan as required by the Audit Rule and GAGAS.<sup>39</sup> We did not identify a corrective action plan during our investigation, but our analysis of the Clifton 2011 audit working papers indicated that both Clifton and the NMFA planned to have the 2011 audit completed by September 27, 2011.

Clifton planned to perform on-site fieldwork between August 1, 2011 and August 12, 2011 and Clifton performed on-site fieldwork as scheduled. Clifton’s planning documents indicate that Clifton was targeting a September 27, 2011 date of completion for the audit according to the following schedule:

<b>Task</b>	<b>Planned Start Date</b>	<b>Planned Completion Date</b>
Audit team risk of material misstatement discussion meeting	5/9/11	5/9/11
Communication with governing body regarding auditor responsibilities, planned audit scope, timing and communication process	5/23/11	5/23/11
Interim fieldwork	5/9/11-5/20/11	5/9/11-5/20/11
Inventory observation	N/A	N/A
Year-end fieldwork	8/1/11	8/12/11
Detail review completed and significant matters discussion with management	8/10/11	8/17/11
Engagement partner review	8/22/11	8/24/11
Preissuance review	9/6/10	9/6/10
Draft audit reports and letters delivered to client	9/19/11	9/19/11
Audit report and letters released	9/27/11	9/27/11

However, Clifton did not complete their audit fieldwork procedures for the FY 2011 audit. During our investigation we noted that Clifton prepared a list of outstanding audit items as of July 16, 2012. According to the list, Clifton still required the following items from the NMFA:

<sup>39</sup> Section 2.2.2.10.I (3)(b) NMAC; GAGAS 5.32.

- The final trial balance. This schedule contains ending balances as of June 30, 2011 for each of the general ledger accounts. Clifton had received a draft trial balance, but Clifton noted that the amounts on this draft trial balance differed from the amounts on the Fraudulent Audit Report;
- Year-end journal entries and journal entries made after August 10, 2011 (i.e. once Clifton had left the site);
- Board Meeting Minutes for Board meetings where ‘problem’ loans were discussed;
- Letters from attorneys engaged by the NMFA indicating litigation, claims and assessments involving the NMFA; and
- Loan confirmations. Clifton had selected a sample of 100 loans for testing. For each of the loans, it appears Clifton intended to obtain third party confirmation of the balance of the loan in order to compare it to the loan balance carried in the NMFA system. As of July 16, 2012, 36 loan confirmations were outstanding.

A Clifton Senior Associate was on site at the NMFA in the first two weeks of August 2011 with two Clifton Associates conducting fieldwork. The Senior Associate and others on the audit team appeared to be continuing with fieldwork through approximately the end of August. However, to be able to complete the audit, Clifton required certain documents from the NMFA (specifically Mr. Campbell) and third parties. The Clifton audit team requested documents from Mr. Campbell but Mr. Campbell failed to respond.

On August 20, 2011, the Senior Associate emailed Mr. Campbell asking for the status of various documents. The Senior Associate also asked if the final statements were going to be ready on August 23, 2011 so that Clifton could wrap up the audit in accordance with the timeline that had been discussed during the audit planning meeting. Mr. Campbell did not respond to this email. On August 23, 2011, Clifton’s Audit Partner sent an email to Mr. Duff regarding the status of the audit. The Audit Partner noted that from a testing and work paper standpoint, they only had a “few open items.” However, he noted that Clifton was still waiting on information from Mr. Campbell to start tying out the financial statements, and that Clifton’s Senior Associate had not heard back from him. The Audit Partner then asked for Mr. Duff’s help with expediting the request so that Clifton could address the “Audit Committee’s and state’s concerns as far as timing of the reports.” We did not identify a response from Mr. Duff to this request.

On September 23, 2011, Clifton’s Audit Senior Manager sent an email to both Mr. Duff and Mr. Campbell regarding the status of the audit. The Audit Senior Manager noted that Clifton had not received correspondence from the NMFA for several weeks and that Clifton was concerned about “the deadline of September 30, 2011.” The Audit Senior Manager also noted that NMFA’s Audit Committee had requested that Clifton communicate with them after the 2010 Audit Report was late and indicated that she believed Clifton needed to provide an update to the Audit Committee. However, the Audit Senior Manager indicated that Clifton wanted to talk with

Mr. Campbell and Mr. Duff to discuss plans to complete the audit. In an interview with the Investigative Team, Mr. Campbell stated he did not recall this email. We did not identify a response from Mr. Duff.

Moreover, we did not identify any further communications between Clifton and the NMFA or between Clifton and the Audit Committee in the time between Clifton's September 23, 2011 email and June 2012. In our interview with Clifton's Audit Partner, he stated that he sent an email in mid-January 2012 to Mr. Duff and Mr. Campbell, as well as the Interim Board Vice-Chair (who was also a member of the Audit Committee), noting that the deadline had passed and wanting to discuss wrapping up the audit. We did not locate this email during our Emedia Review and Clifton was unable to produce this email.

Other than the May 23, 2011 entrance conference, we did not identify any evidence that Clifton met with the NMFA Audit Committee to report on the progress of their work or to notify them of the delay in the audit during the entire 2011 audit process. SAS 115 and the Audit Rule require the IPA to "communicate significant deficiencies and material weaknesses in writing, to both management and those charged with governance." We did not identify any evidence to indicate that Clifton provided any such communications to the NMFA's management, Board or Audit Committee for the FY 2011 audit.

In fact, the NMFA's Audit Committee did not meet between August 2011 and April 2012 despite NMFA's Audit Policies which require the NMFA staff to maintain year-round communication with independent auditors, provide documents to the auditors in a timely fashion, and meet with the Audit Committee monthly to report on audit matters. Furthermore, the Audit Policies state that the external auditor should meet with the Audit Committee "to report on their progress of their work and to bring any issues they may have to the attention of the Committee." The Audit Committee, in turn, is required by the Audit Policies to "report to the full NMFA Board on all matters discussed in Committee meetings." The Audit Committee did not report to the Board between August 2011 and April 2012. In our interview with Mr. Campbell, he stated that he informed the Audit Committee that there was no need to meet.

Additionally, as explained in more detail below, we did not identify any evidence to indicate that Clifton communicated with the State Auditor that NMFA's FY 2011 audit report would be submitted late to the OSA. The Audit Rule requires IPAs to provide written notification to the State Auditor "as soon as the auditor becomes aware that circumstances exist that will make an agency's audit report late."<sup>40</sup> Clifton failed to comply with this requirement.

On April 26, 2012, Clifton's Audit Partner sent an independence confirmation to DFA for Moss Adams, the external auditor engaged to review the State's CAFR. In our interview with Clifton's Audit Partner, he indicated that in this letter he disclosed to the DFA and Moss Adams

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<sup>40</sup> Section 2.2.2.9.A (5) NMAC.

that the NMFA's 2011 audit was still incomplete. However, the email and attached letter we obtained from DFA does not include such a disclosure.

#### ***4.5.4. Finalize the Audit Report***

Upon completion of fieldwork procedures, the IPA and the agency work to finalize the agency's financial statements. The IPA also prepares the Independent Auditor's Report, which contains the auditor's opinion regarding the agency's financial statements.

The Audit Rule requires that the IPA hold an exit conference with representatives of the agency's governing authority and top management prior to submitting the financial statements to the OSA. The exit conference must be held in person unless telephonic presence is approved by the OSA.<sup>41</sup> Additionally, the date of the conference and the names and titles of personnel attending must be stated on the last page of the financial statements.<sup>42</sup> The Audit Rule further requires that, prior to the exit conference, the IPA must deliver to the agency a draft of the audit report (stamped 'Draft'), a list of passed audit adjustments, and a copy of the adjusting journal entries. The draft report "shall include the MD&A [management discussion and analysis], independent auditor's report, a complete set of financial statements, required schedules, audit findings that include responses from agency management, status of prior-year audit findings, and the reports on internal control and compliance required by *Government Auditing Standards* and the Single Audit Act."<sup>43</sup> The agency is provided five days to review the report and respond to the IPA on issues that need to be resolved prior to issuance of the report. Once the agency approves the financial statements, management is required to sign a management representation letter and provide it to the IPA.<sup>44</sup>

Auditing standards also require the IPA to obtain a written representation from management, in the form of a management representation letter, for all financial statements and periods covered by the audit report.<sup>45</sup> The management representation letter is addressed to the auditor and "should be signed by those members of management with overall responsibility for financial and operating matters whom the auditor believes are responsibility for and knowledgeable about, directly or through others in the organization, the matters covered by the representations."<sup>46</sup> Through a management representation letter, management of the audited agency confirms its responsibility for the presentation of the financial statements.

Our investigation found that Clifton did not complete its work and never held an exit conference with the NMFA for the FY 2011 audit. Communication between Clifton and the

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<sup>41</sup> Section 2.2.2.10.J (1) NMAC.

<sup>42</sup> Section 2.2.2.10.J (1) NMAC.

<sup>43</sup> Section 2.2.2.10.J (1) NMAC.

<sup>44</sup> Section 2.2.2.10.J (1) NMAC.

<sup>45</sup> AU Section 333.05.

<sup>46</sup> AU Section 333.09.



NMFA ceased after September 23, 2011, and Clifton did not complete fieldwork or finalize an audit report. Management for the NMFA also never signed a management representation letter for the FY 2011 audit. These failures were in contrast to what occurred during the FY 2009 and FY 2010 audits.

- ***FY 2009 Audit:*** For the FY 2009 audit, the audit report states that the exit conference was held on February 22, 2010.<sup>47</sup> The management representation letter was signed on March 25, 2010. Mr. Duff and Mr. Campbell signed the letter, in addition to the former CEO, William Sisneros. The audit report for FY 2009 identifies the following individuals in attendance at the exit conference:
  - Stephen R. Flance, Chairman, NMFA Board
  - Katherine Miller, Board Member, Chair of Audit Committee
  - William F. Fulginiti, Vice Chairman
  - Lonnie Marquez, Board Member
  - Dan Silva, Board Member
  - William C. Sisneros, Chief Executive Officer
  - Jerome Trojan, Chief Operating Officer
  - John Duff, Chief Financial Officer
  - Greg Campbell, Controller
  - Rick Martinez
  - J. Michael Stephens, Clifton Gunderson LLP

The date Clifton signed the Independent Auditor's Report was also March 25, 2010. On February 20, 2010, Clifton's Audit Partner sent an email to Mr. Duff and Mr. Campbell which included a draft of the audit report. In the email, he stated that there were some "holes in the statements" but that these statements would "give the Audit Committee a sense of what the new presentation looks like," and indicated that he would be at the NMFA for the meeting on Monday (February 22, 2010 exit conference). It therefore appears that the audit report presented at the exit conference for FY 2009 was not finalized and was not the same audit report that was ultimately submitted to the OSA. The audit report submitted to the OSA includes additional notes on investments and the basis of accounting as well as differences in the amounts for line items including loans receivable, bonds payable, and net cash used in capital financing activities.

- ***FY 2010 Audit:*** For the FY 2010 audit, the audit report states that the exit conference was held on February 28, 2011.<sup>48</sup> The management representation letter was signed on February 18, 2011 by Mr. Duff. The audit report for FY 2010 identifies the following individuals in attendance at the exit conference:

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<sup>47</sup> NMFA FY 2009 Audit Report, page 66.

<sup>48</sup> NMFA FY 2010 Audit Report, page 60.

- William F. Fulginiti, Vice Chairman
- Lonnie Marquez, Chair of Audit Committee
- Dan Silva, Board Member
- John Duff, Chief Operating Officer
- Greg Campbell, Controller
- J. Michael Stephens, Clifton Gunderson LLP

During our Emedia Review, we identified correspondence between Clifton's Audit Partner and Mr. Campbell that indicated the Audit Partner intended to travel to Santa Fe for the Audit Committee meeting on February 28, 2011. Additionally, we identified correspondence between Mr. Campbell and Mr. Duff regarding the exit conference. On February 28, 2011, Mr. Campbell sent an email to Mr. Duff providing an update about the Audit Committee meeting and indicating that Clifton's Audit Partner presented the audit report. Mr. Duff responded that he would be back in the office on Wednesday. It therefore appears that Mr. Duff did not attend the exit conference for the FY 2010 audit, even though this is indicated in the audit report. Mr. Duff did not dispute this assertion when asked in an interview.

- ***FY 2011 Audit:*** For the 2011 audit, the Fraudulent Audit Report states that the exit conference was held on December 10, 2011.<sup>49</sup> No evidence was identified to support that an exit conference occurred on this date, which was a Saturday. In fact, in an interview with the Investigative Team, Mr. Campbell stated that he fabricated the exit conference disclosure, but he did not realize that the December 10, 2011 date had fallen on a Saturday. On July 10, 2012, after the call between Mr. May, Mr. Duff, and Clifton's Audit Partner regarding the Fraudulent Audit Report, the Audit Partner sent an email to Mr. Duff stating that he was out of town on December 10, 2011, which was a Saturday, and that he was at another client on December 9, 2011. Mr. Duff responded that an Audit Committee meeting had been scheduled for December 12, 2011 but that this meeting was cancelled.

Additionally, in their interviews with the Investigative Team, Mr. May and Mr. Duff confirmed that the NMFA never signed a management representation letter for the FY 2011 audit.

#### ***4.5.5. Obtain OSA Review and Release of the Audit Report***

Once the audit report has been finalized between the agency and the IPA (i.e., the IPA has signed the audit report, management has signed the management representation letter, and the exit conference has been held), the Audit Rule requires the IPA to submit the audit report to the OSA for review. Pursuant to the Audit Act, the State Auditor "shall cause a complete written

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<sup>49</sup> Fraudulent Audit Report, page 60.

report” to be made of each agency’s financial audit, and the State Auditor “shall examine all reports of audits of agencies made pursuant to contract.”<sup>50</sup> To carry out this statutory requirement, the Audit Rule requires the IPA to submit the audit report and certain documents so that the OSA may “determine if the reports are presented in accordance with the requirements of [the Audit Rule] and applicable auditing, accounting and financial reporting standards.”<sup>51</sup>

The Audit Rule requires the IPA to submit an organized and bound hard copy of the audit report to the OSA by the date indicated in the Audit Rule and on the OSA audit contract.<sup>52</sup> In the case of NMFA, the due date for the audit was December 15 of each year.<sup>53</sup> As part of the audit report submission to the OSA, the IPA is also required to submit a copy of the signed engagement letter, a copy of the signed management representation letter, a list of passed audit adjustments, and a completed copy of the OSA Report Review Guide. The Report Review Guide is approximately 30 pages and functions as a checklist for the audit report against the Audit Rule and auditing, accounting and financial reporting standards. The Audit Rule requires IPAs to review the audit report using by answering all the questions in the Report Review Guide. The IPA’s audit manager or person responsible for the IPA’s quality control system must either complete the Report Review Guide or sign off as having reviewed the completed questionnaire.<sup>54</sup>

The OSA then reviews the audit report and identifies if the report contains “significant deficiencies that warrant a determination that warrant a determination that the audit was not made in a competent manner in accordance with the provisions of the contract and applicable standards, or requirements of [the Audit Rule].”<sup>55</sup> If the OSA identifies significant deficiencies, OSA staff directs the IPA to correct the deficiencies and resubmit the report.<sup>56</sup> After this review is complete, the OSA will issue an ‘OK To Print’ notification to the IPA. This notifies the IPA to send to the OSA, within two business days, the number of hard copies of the Audit Report specified in the audit contract as well as an electronic version of the Audit Report. The OSA will review this submission and, if it meets OSA requirements, will officially release the report.

If the audit report will not be submitted by the required regulatory due date, the Audit Rule provides certain actions be taken. First, the Audit Rule requires IPAs to provide written notification to the State Auditor “as soon as the auditor becomes aware that circumstances exist that will make an agency’s audit report late.” The notification “must include a specific explanation regarding why the report will be late, when the IPA expects to submit the report and a concurring signature by the agency. If the IPA is going to miss the expected report submission date, then the IPA should send a revised notification letter.” The IPA also must send a copy of

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<sup>50</sup> Section 12-6-5(A) NMSA 1978 and Section 12-6-14(B) NMSA 1978.

<sup>51</sup> Section 2.2.2.13.A NMAC.

<sup>52</sup> Section 2.2.2.9.C (1) NMAC.

<sup>53</sup> Section 2.2.2.12.A (1) NMAC.

<sup>54</sup> Section 2.2.2.9.A (3) NMAC.

<sup>55</sup> Section 2.2.2.13.C NMAC.

<sup>56</sup> Section 2.2.2.13.C (1) NMAC.

the letter to the agency's oversight body and the Legislative Finance Committee.<sup>57</sup> Second, if the audit report is not delivered on time to the State Auditor, the Audit Rule requires the IPA to include this instance of noncompliance as an audit finding in the agency's audit report. If appropriate, "the finding should also be reported as an instance of deficiency, significant deficiency, or material weakness in the operation of internal control in the agency's internal controls over financial reporting" pursuant to auditing standards.<sup>58</sup>

The NMFA's Audit Policies provide that NMFA "will achieve" completion of "the annual audit and file the audited financial statements with the State Auditor as soon as practical each year." Furthermore, the Audit Policies state that "the goal for filing with the Auditor will vary from year to year depending on the circumstances, but should not be later than November 15."

- **FY 2009 Audit:** For the 2009 audit, Clifton determined that the audit would not be completed on time and on December 15, 2009 sent a notification letter to the OSA. In the letter, Clifton's Audit Partner notes that the reason for the delay is that the "format used for the financial statements in past years did not comply with GASB requirements" and estimates that the audit will be submitted by January 31, 2010. On March 23, 2010, the then NMFA CEO, the then COO, and Mr. Campbell met with the OSA to discuss the late audit.<sup>59</sup> The audit report was finally received by the OSA on March 26, 2010. The OSA provided an 'OK to Print' notification to Clifton on March 29, 2010. The OSA sent an official release letter to the NMFA and Clifton on April 2, 2010.

Because the NMFA failed to submit its FY 2009 audit report by the required regulatory deadline, Clifton included a finding in the report for NMFA's failure to "meet the reporting deadlines based on the Office of the State Auditor of New Mexico's Audit Rule or the requirements of the Federal Audit Clearinghouse." The audit report stated that "delays in the completion of the audit were a result of change in presentation and prior period adjustments." In the report, Clifton recommended that the NMFA "implement procedures to ensure that future reports meet the Office of the State Auditor of New Mexico Audit and OMB reporting deadline." In its management response to the finding, NMFA stated that its management "agrees with this finding" and "we understand the importance of the rules and intend to comply in the future."

- **FY 2010 Audit:** Although NMFA failed in 2010 to submit its audit by the required regulatory deadline, Clifton failed to submit a late audit notification letter to the OSA in accordance with the Audit Rule. The OSA received the audit report on March 8, 2011 and provided an 'OK to Print' notification to Clifton on March 21, 2011. The OSA sent an official release letter to the NMFA and Clifton on March 29, 2011.

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<sup>57</sup> Section 2.2.2.9.A (5) NMAC.

<sup>58</sup> Section 2.2.2.9.A (3) NMAC.

<sup>59</sup> Letter from the OSA to John Duff dated March 23, 2010.

Because the NMFA failed again in FY 2010 to submit its audit report by the required regulatory deadline, Clifton included a repeated finding in the audit report for NMFA's failure to "meet the reporting deadlines based on the Office of the State Auditor of New Mexico's Audit Rule or the requirements of the Federal Audit Clearinghouse." The audit report stated that "delays in submission were a result of disclosure issues related to loan allowances and prepayments which required additional testing and research due to the current state of the economy." In its report, Clifton recommended that the NMFA "implement procedures to ensure that future reports meet the Office of the State Auditor of New Mexico Audit and OMB reporting deadline." In its management response to the finding, NMFA stated that its management "agrees with this finding" and "we understand the importance of the rules and intend to comply in the future."

- ***FY 2011 Audit:*** For the 2011 audit, Clifton failed to submit a late audit notification to the OSA. Additionally, since the audit was not complete, the OSA did not receive the FY 2011 Audit Report. We confirmed in interviews with Mr. May, Mr. Duff and Mr. Campbell that NMFA did not have a written plan to remediate past audit findings regarding NMFA's failure to submit a timely audit.

#### ***4.5.6. Release Financial Statements***

The Audit Rule provides that "the IPA shall deliver to the agency the number of copies of the audit report indicated in the audit contract only after the State Auditor has official released the audit report with a 'release letter.'" The agency or the IPA is required by the Audit Rule to "ensure that every member of the agency's governing authority receives a copy of the audit report."<sup>60</sup> The report does not become public record until five days after the date of the State Auditor's release letter, or earlier if the agency waives the five-day period.<sup>61</sup> The IPA and agency personnel are prohibited from releasing information about the audit report to the public until it has been officially released by the OSA and is public record.<sup>62</sup> Once the report is public record, the OSA sends copies of the report to the LFC and DFA as required by the Audit Act. The NMFA Act requires the NMFA to submit copies of the audit report to the Governor and the NMFA Oversight Committee.<sup>63</sup>

After the audit report is public record, the Audit Rule requires the IPA to present the report "to a quorum of the governing authority of the agency at a meeting held in accordance with the Open Meetings Act, if applicable." The Audit Rule further requires that the "presentation of the audit report should be documented in the minutes of the meeting" and

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<sup>60</sup> Section 2.2.2.9 C (4) NMAC.

<sup>61</sup> Section 12-6-5(A) NMSA 1978.

<sup>62</sup> Section 2.2.2.10.J (3) NMAC.

<sup>63</sup> Section 6-21-21(D) NMSA 1978.

auditors should refer to auditing standards “for information that should be communicated to those charged with governance.”<sup>64</sup>

Additionally, as a recipient of federal funds, NMFA is subject to OMB Circular A-133 audit requirements and is required to submit audits to the federal government. Audit reports are typically submitted through the Federal Audit Clearinghouse, and are accompanied by a form SF-SAC. This form must be signed (manually or electronically) by representatives of the agency and the IPA.<sup>65</sup> The SF-SAC form and Audit Report are due to be submitted through the Clearinghouse by the earlier date of (a) 30 days after the release date of the Audit Report, or (b) nine months after the end of the fiscal year.<sup>66</sup> For the NMFA’s FY 2011 audit, that deadline was March 31, 2012.

- ***FY 2009 Audit:*** For the 2009 audit, the NMFA submitted a request to waive the five day holding period for the audit on March 22, 2010 and therefore the Audit Report was ready to release on April 2, 2010. Clifton’s Audit Partner attended the April 22, 2010 NMFA Board meeting to present the audit report for acceptance by the Board. However, the Board Chair recommended tabling the discussion of the audit to the May meeting.<sup>67</sup> Therefore, Clifton’s Audit Partner attended the May 27, 2010 Board meeting to present the audit report.<sup>68</sup>
- ***FY 2010 Audit:*** For the 2010 audit, our review of NMFA Board meeting minutes did not identify whether Clifton presented the audit report to the Board.
- ***FY 2011 Audit:*** In 2011, the audit report was not presented to the Board by Clifton as it was never received or released by the OSA. However, on March 22, 2012, during an NMFA Board meeting, Mr. May “reported the State Auditor has approved the NMFA audit with zero findings.” On April 23, 2012, Mr. Campbell coordinated a meeting of NMFA’s Audit Committee during which an exit conference on the FY 2011 audit was scheduled, despite the fact that Mr. Campbell had represented, and Mr. May had reported to the Board, that the OSA approved and officially released the audit report. The meeting agenda indicated that Clifton would present the FY 2011 audit report at the meeting. On the morning of the meeting, the Fraudulent Audit Report was distributed to the Audit Committee as well as other materials for the meeting. However, once the meeting began, Mr. Campbell represented to the Audit Committee that there had been a “schedule mix-up” and that the Clifton Audit Partner could not attend the meeting. It appears that there was minimal discussion about the audited financial statements, and then the Audit Committee moved to accept the Fraudulent Audit Report. Finally, at the April 27, 2012

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<sup>64</sup> Section 2.2.2.10.J (3) NMAC.

<sup>65</sup> Federal Audit Clearinghouse FAQ, Question 7, <http://harvester.census.gov/sac/FAQ.htm>.

<sup>66</sup> Federal Audit Clearinghouse FAQ, Question 8, <http://harvester.census.gov/sac/FAQ.htm>.

<sup>67</sup> Minutes to the April 22, 2010 meeting of the NMFA Board.

<sup>68</sup> Minutes to the May 27, 2010 meeting of the NMFA Board.

meeting of the NMFA Board, the Chair of Audit Committee reported on the Audit Committee's April 23, 2012 meeting. The April 27, 2012 Board meeting minutes state the following: "Staff presented the 2011 financial audit. [The Audit Committee Chair] said the Committee accepted the Audit Report with an unqualified opinion and zero findings." Even if assuming the audit report was legitimate, none of these actions complied with the requirements of the Audit Rule that the IPA to present the report "to a quorum of the governing authority of the agency at a meeting held in accordance with the Open Meetings Act."

The NMFA did not submit the Fraudulent Audit Report to the Federal Audit Clearinghouse for FY 2011.

As a component unit of the State of New Mexico, NMFA submits its financial statements to DFA for inclusion in the CAFR pursuant to Section 6-5.4.1 NMSA 1978. As discussed in Sections 4.1 and 4.8.1 of this Special Audit Report, Mr. Campbell fabricated NMFA's financial statements for FY 2011 and emailed them to DFA for inclusion in the CAFR.

Finally, the NMFA Act, specifically Section 6-21-21(D) NMSA 1978, requires that NMFA submit of its annual audit report to the Governor and NMFA Oversight Committee. During our investigation, we did not locate any evidence that the Fraudulent Audit Report was submitted to the Governor or the Committee.

#### 4.5.7. Summary

The table below summarizes the status of the various stages of NMFA's external audit process for FY 2009, 2010, and 2011.

Audit Process	FY 2009	FY 2010	FY 2011
NMFA submits IPA Recommendation Form to OSA	Complete	Complete	Incomplete
NMFA and IPA obtain signed OSA Contract	Complete	Complete	Incomplete
NMFA and IPA sign engagement letter	Complete	Complete	Complete
IPA holds planning meeting with Board and management	Complete	Complete	Complete
IPA completes fieldwork	Complete	Complete	Incomplete
NMFA signs management representation letter	Complete	Complete	Incomplete
IPA submits late audit notification letter (if applicable)	Complete	Incomplete	Incomplete
IPA, NMFA and Audit Committee hold Exit Conference	Complete	Complete	Incomplete
IPA submits audit report and review form to OSA	Complete	Complete	Incomplete
OSA provides release letter to IPA	Complete	Complete	Incomplete
IPA presents financials to Board	Complete	Incomplete	Incomplete

#### **4.6. What NMFA Management and Staff Positions Should Have Participated in the Processes Identified Above?**

As indicated by prior section of this Special Audit Report, entities who should have participated in the audit process include NMFA management (CEO, COO, CFO and the Controller), the Audit Committee and the NMFA Board. Other NMFA employees, including members of Mr. Campbell's accounting staff, participated in the audit process and were responsible for responding to Clifton's PBC requests for items such as loan listings, bank reconciliations, contact information for loans and cash confirmations, and copies of the NMFA Board meeting minutes. The accounting staff appears to have provided Clifton with most of the requested documents for the FY 2011 audit.

##### ***4.6.1. NMFA Management***

Mr. Campbell acted as the primary point of contact for Clifton and was seen as the individual responsible for coordinating with Clifton to complete the audit. Some of the final items on the PBC list were assigned to Mr. Campbell, for example a final version of the trial balance.

NMFA executive management's responsibilities included signing a management representation letter that would be provided to Clifton at the conclusion of the audit. In prior years (2009 and 2010), this letter had been signed by the CEO, CFO, and the Controller. In their interviews with the Investigative Team, Mr. May and Mr. Duff confirmed that they never signed a management representation letter for the FY 2011 audit.

The NMFA Audit Policy also indicates that the NMFA (although it does not specify which positions) would meet with the Audit Committee monthly to report on issues concerning audit matters. However, while Audit Committee meetings were scheduled each month, it appears that the Audit Committee only met six times between the period July 2010 and June 2012.<sup>69</sup>

##### ***4.6.2. NMFA Audit Committee***

As noted above, the Audit Committee should typically participate in both an entrance conference and an exit conference. The Audit Committee did not participate in an exit conference for the FY 2011 audit on the date indicated in the Fraudulent Audit Report (December 10, 2011). In fact, the Audit Committee did not meet between August 2011 and April 2012 (see **Exhibit D**). However, on April 23, 2012, the Audit Committee did meet and the FY 2011 audit was one of the agenda items. Mr. Campbell coordinated this meeting and its agenda, and in the agenda indicated that Clifton would be presenting the FY 2011 audit at the

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<sup>69</sup> See Exhibit D.



meeting.<sup>70</sup> On the morning of the meeting, the Fraudulent Audit Report was distributed to the Audit Committee as well as other materials for the meeting. However, once the meeting began, Mr. Campbell represented to the Audit Committee that there had been a ‘schedule mix-up’ and that the Clifton Audit Partner could not attend the meeting.<sup>71</sup> It appears that there was minimal discussion about the audited financial statements, and then the Audit Committee moved to accept the Fraudulent Audit Report.<sup>72</sup>

#### **4.6.3. NMFA Board**

In addition to an exit conference, once the audited financial statements are officially released the IPA should present them to a quorum of the Board.<sup>73</sup> In the April 27, 2012 Board meeting, as the Chair of the Audit Committee reported on the April 23, 2012 Audit Committee meeting. The Audit Committee Chair reported that “staff presented the 2011 financial audit” and also noted that the Audit Report included an “unqualified opinion and zero findings.”<sup>74</sup> However, for FY 2011 the audit was not completed and no evidence was identified to indicate that Clifton presented the Audit Report to the Board as required by the Audit Rule.

#### **4.7. How Did the Fraudulent Audit Report Go Undetected by NMFA Management, Clifton Gunderson, LLP, and the NMFA Board?**

As explained in Section 4.1 above, on March 12, 2012, Mr. Campbell emailed the Fraudulent Audit Report to the NMFA’s Chief Financial Strategist. The Fraudulent Audit Report was posted to the NMFA website that same day. The Fraudulent Audit Report was subsequently accessed by and distributed to various third parties.<sup>75</sup> Additionally, members of NMFA management, certain NMFA staff, NMFA’s Audit Committee and NMFA Board members received and had access to the Fraudulent Audit Report after March 12, 2012.

The Fraudulent Audit Report went undetected by senior management, Clifton and the NMFA Board because individuals charged with governance did not question the Fraudulent Audit Report after it was created on March 12, 2012. Mr. Campbell admitted that he made representations to both executive management and the Audit Committee that the 2011 audit was complete. None of those charged with governance appeared to have questioned that assertion. Specifically:

- The Audit Committee did not meet between August 2011 and April 2012 (see **Exhibit D**).

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<sup>70</sup> Agenda for the April 23, 2012 meeting of the Audit Committee.

<sup>71</sup> Report of the April 23, 2012 Audit Committee meeting (notes believed to have been created by Mr. Campbell).

<sup>72</sup> Minutes to the April 27, 2012 meeting of the NMFA Board, page 18

<sup>73</sup> Section 2.2.2.10.J (3) NMAC.

<sup>74</sup> Minutes to the April 27, 2012 meeting of the NMFA Board, page 18

<sup>75</sup> See Exhibit B.

- None of the Audit Committee members carefully read the Fraudulent Audit Report. In particular, none noticed the inconsistency regarding the exit conference disclosure which purportedly occurred on December 10, 2011;<sup>76</sup>
- None of the Audit Committee members or Messrs. Duff or May questioned why an exit conference with external auditor was not held prior to the audit being finalized. In addition, no one on the Audit Committee challenged why Mr. Campbell misrepresented trying to arrange an exit conference with the auditor on April 23, 2012 after the Fraudulent Audit Report had already been issued;
- Neither Mr. May nor Mr. Duff were actively engaged in the external audit process and gave Mr. Campbell significant autonomy to manage the NMFA's accounting and external audit process;
- Neither Mr. Duff nor Mr. May questioned why they were not asked to sign a management representation letter in connection with the 2011 audit;
- Neither Mr. Duff nor Mr. May questioned why a "significant matters" meeting with Clifton never occurred in connection with the 2011 audit;
- No emails or other written communications were identified from Clifton with anyone at the NMFA for the period September 23, 2011 until the Fraudulent Audit Report was discovered in July 2012 regarding the 2011 audit remaining incomplete;
- Clifton did not appear to escalate the fact that the audit would not be complete by September 27, 2011 or December 15, 2011 to the Audit Committee;
- Clifton and the NMFA failed to notify the OSA that the NMFA would not complete its audit by the December 15, 2011 regulatory deadline.

The last page of the Fraudulent Audit Report contains the following information regarding an exit conference:<sup>77</sup>

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<sup>76</sup> Fraudulent Audit Report, page 60.

<sup>77</sup> Fraudulent Audit Report, Exit Conference, page 60. The name of Brett Woods is misspelled in the Fraudulent Audit Report (i.e. he is shown as Brent rather than Brett).

**NEW MEXICO FINANCE AUTHORITY**

**Exit Conference**

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An exit conference was held with the Authority on December 10, 2011. The conference was held at the Authority's offices in Santa Fe, New Mexico. In attendance were:

**NEW MEXICO FINANCE AUTHORITY**

William F. Fulginiti, Vice Chairman  
Lonnie Marquez, Chair of Audit Committee  
Brent Woods, Board Member  
John Duff, Chief Operating Officer  
Greg Campbell, Controller  
J. Michael Stephens, Clifton Gunderson LLP

As noted above, those interviewed stated that an exit conference never occurred even though the Fraudulent Audit Report contains a disclosure that the meeting occurred on December 10, 2011 (which happens to have fallen on a Saturday). The individuals who were interviewed who are referenced in this disclosure did not question this assertion.

For the 2011 audit, NMFA did not provide Clifton with a management representation letter. This letter had been signed by Messrs. Campbell and Duff for the 2010 audit and Mr. May had signed a management representation letter for the 2011 audit for Finance New Mexico (a NMFA related entity audited by a separate audit firm).

With regards to Clifton, no email or other written correspondence has been identified to indicate that Clifton notified the Audit Committee or the OSA that the 2011 audit would not be completed by the agreed upon deadline of September 27, 2011 or the OSA filing deadline of December 15, 2011. Clifton's Audit Partner represented in his interview with the OSA that he sent an email in January to Messrs. Campbell, Duff and the Interim Board Vice-Chair stating that the audit remained incomplete but the Clifton Audit Partner was unable to provide a copy of the email and our investigation did not locate any such document in the NMFA's email archive. The Clifton Audit Partner admitted that Clifton failed to notify the OSA in writing that the audit would be late pursuant to the statutory requirement.

#### **4.8. To What Third Parties was the Fraudulent Audit Report Directly Presented as Being the NMFA's Audited Financial Statements?**

The Fraudulent Audit Report was provided to various NMFA stakeholders and was presented as having been audited by Clifton and released by the OSA. At a minimum, the Fraudulent Audit Report was presented to the parties identified below.

#### ***4.8.1. The Department of Finance and Administration***

The DFA's FCD is responsible for compiling the CAFR for the State of New Mexico.<sup>78</sup> This report presents the financial statements and other statistical information for the various departments and funds of the State as well as its component units. Because NMFA is a component unit of the State of New Mexico, its financial information is discretely presented in the CAFR.<sup>79</sup>

On December 13, 2011, FCD's CAFR Unit Manager, who had worked with Mr. Campbell the prior year to get NMFA's financial information for the CAFR, contacted Mr. Campbell via email to get NMFA's financial information for FY 2011. We did not locate a response from Mr. Campbell to this email. On December 27, 2011, the CAFR Unit Manager contacted the OSA to obtain a listing of the agencies that had not yet submitted their FY 2011 audit reports. The OSA provided this listing on January 11, 2012 and it indicated that the NMFA had not submitted its audit report. Therefore, on December 28, 2011, the CAFR Unit Manager again contacted Mr. Campbell via email to request the audit report. In this email, the CAFR Unit Manager also indicated that it did not appear that NMFA had submitted its audit report to the OSA yet. Again, we did not locate a response to this second request for the audit report.

On January 3, 2012, the CAFR Unit Manager sent a request to Mr. Campbell asking for the name of the NMFA's FY 2011 auditors and their contact information. It appears that she asked for this information so that the State's IPA for the CAFR could obtain an independence letter from the NMFA's auditors. After receiving no response to this request, the CAFR Unit Manager then sent an email to Mr. Duff on January 5, 2012. In her email, she indicated that she was having trouble getting information and wanted to find out the status of the audit and the contact information for the NMFA's auditors. That same day, Mr. Duff forwarded the CAFR Unit Manager's email to Mr. Campbell and asked if he could answer her questions. On January 9, 2012, Mr. Campbell responded to the CAFR Unit Manager's email with the contact information for Clifton's Audit Partner. In this email, Mr. Campbell also attached a "draft of the final audited financial statements." The attached files included a set of financial statements (i.e. Statement of Net Assets; Statement of Revenues, Expenditures and Changes in Net Assets; and Combined Statement of Cash Flows) that were marked "DRAFT," as well as a set of notes to the financial statements related to Bonds Payable. The information Mr. Campbell sent did not include Independent Auditor Reports, Supplementary Schedules, full notes to the financial statements or a disclosure about the exit conference.

On January 12, 2012, the CAFR Unit Manager followed up with Mr. Campbell via email to ask when DFA would receive a complete draft of the audit report, as she would need the report to complete the CAFR. We did not locate a response to this email. Therefore, on January

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<sup>78</sup> Section 6-5-4.1 NMSA 1978.

<sup>79</sup> State of New Mexico Comprehensive Annual Financial Report for the Year Ended June 30, 2011.

26, 2012, the CAFR Unit Manager sent another email to Mr. Campbell, this time copying both Mr. May and Mr. Duff. In this email, the CAFR Unit Manager stated, “I haven’t received an update and the State Auditor’s Office does not have any info [sic] your NMFA. We need the entire draft to complete the CAFR. Please let me know, I may have to reschedule the auditors arrival because the CAFR is still missing the complete information for NMFA.” He also stated “Let’s talk briefing [sic] on Monday morning.” On January 27, 2012, Mr. May emailed FCD stating “If you have not heard back from Greg Campbell yet, you will on Monday morning. I did not realize that the Finance Authority’s audit was part of the CAFR.” That same day, Mr. May emailed Mr. Campbell and Mr. Duff asking why the NMFA is part of the “State’s CAFR” when it is “not a state agency.”

On February 1, 2012, FCD emailed Mr. May stating “I haven’t heard from Greg yet... This is the third year that the NMFA has been a significant contributing factor on the lateness of the CAFR. The other concern that I have is if there isn’t a problem, why isn’t the audit done? This concern has also been raised by the CAFR auditors, which I have been unable to provide them with an adequate answer... In fairness, Greg has already provided the financial statements (balance sheet and income statements) and debt information. However, the entire draft is necessary because we mesh most of NMFA’s draft into the CAFR’s footnotes to disclose NMFA’s accounting policies and composition of many balances on the balance sheet. I have made it a practice to not rely on someone’s word, when I can rely on a document supporting the information being presented to me by an individual... I just want to complete the CAFR in a timely manner and can’t do it without NMFA’s help.” We did not locate a response from Mr. May to this email.

On February 3, 2012, Mr. Campbell sent a “final draft of the Audit Report” to the CAFR Unit Manager. In this email, Mr. Campbell states that he needed to “touch base with the State Auditor’s Office regarding the report submitted by our auditors.” The audit report attached to this email is the first iteration of the Fraudulent Audit Report, as described in Section 4.1 of this Special Audit Report, and it did not include the Clifton letterhead, footer, or signature. The financial information included in the Fraudulent Audit Report was incorporated into the State’s CAFR.

#### ***4.8.2. The Environmental Protection Agency***

The NMFA’s DWSRLF provides financial assistance to public water systems to enable them to comply with the federal Safe Drinking Water Act (SDWA). As part of the SWDA, the EPA provides grants for projects that are administered by the NMFA. Since the NMFA expended more than \$500,000 in federal funds through this program, it was subject to certain

audit requirements under OMB Circular A-133 as well as EPA reporting requirements.<sup>80</sup> These reporting requirements included submitting the NMFA's Audit Report to the EPA.

On March 21, 2012, a staff member from the NMFA's Water Department asked Mr. Campbell for a copy of the audit report. The staff member stated that when the NMFA had submitted the DWSRLF Annual Report in October 2011, the NMFA Audit Report was not available, but now the EPA had responded with comments to the report and therefore an Audit Report was required. Mr. Campbell emailed the Fraudulent Audit Report to the staff member later that day. On March 21, 2012, the NMFA staff member emailed the Fraudulent Audit Report to the EPA, noting that the submission of the report satisfied the EPA's comments regarding the NMFA's DWSRLF FY 2011 Annual Report and the EPA's Program Evaluation Report.

### **4.8.3. General Public**

The Fraudulent Audit Report was available to the public both through the NMFA's own website and through the EMMA website, which is a website of the MSRB.

- **NMFA Website**

During our investigation, we obtained a log from the web server for the NMFA website to identify how many times the Fraudulent Audit Report had been accessed and the IP addresses that accessed it.<sup>81</sup> The Fraudulent Audit Report was posted to the NMFA website on March 12, 2012. The Fraudulent Audit Report was accessed by individuals from various entities prior to July 5, 2012, including Wells Fargo, Bank of America, JPMorgan Chase, State Street Bank and Trust, the Royal Bank of Canada (RBC), Harris Trust and Savings Bank, and KPMG. Some of these individuals were directed to the website by NMFA's Chief Financial Strategist.

- **EMMA Website**

EMMA houses Official Statements and other disclosures for municipal bonds. The Official Statement for the 2012A bond offering was posted to the EMMA website on April 3, 2012. The Fraudulent Audit Report was included as Appendix A to this Official Statement.<sup>82</sup> On March 12, 2012, Mr. Campbell emailed a copy of the Fraudulent Audit Report to NMFA's Disclosure Counsel for the 2012A bond offering. The Fraudulent Audit Report was then incorporated into the Offering Statement.

Additionally, prior NMFA bond offerings are also included on the EMMA website. In the Official Statements for these bonds (as well as the 2012A) bond offering, there is a section

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<sup>80</sup> Federal Audit Clearinghouse Frequently Asked Questions, Question 2.

<sup>81</sup> See Exhibit B.

<sup>82</sup> Official Statement for the Senior Lien Public Project Revolving Fund Revenue Bonds Series 2012A, page 31.

on the Continuing Disclosure Undertaking for the bonds. This section states that the NMFA will provide annual audited financial statements for the NMFA (as well as certain borrowers under the bonds) to the MSRB for as long as the bond is outstanding. Typically, these audited financial statements are to be provided by March 31 of each fiscal year, but unaudited financial statements may be provided if audited financial statements are not available.<sup>83</sup> On January 31, 2012, DAC Bond, an investor relations company that posts the NMFA's disclosures to EMMA, sent 60 day notices that the NMFA needed to file audited financial statements by March 31, 2012. The emails were sent to various individuals including Mr. Duff, Mr. Campbell, NMFA's Investment Manager, NMFA's Chief of Programs, and NMFA's financial advisor from Western Financial. The notices indicated that the NMFA was required to file this continuing disclosure for the following bonds:

Bond Type	Bond Series
PPRF	<ul style="list-style-type: none"> <li>• 2002A</li> <li>• 2003A, 2003B</li> <li>• 2004A, 2004B, 2004C</li> <li>• 2005A, 2005B, 2005C, 2005D, 2005E, 2005F</li> <li>• 2006A, 2006B, 2006C, 2006D</li> <li>• 2007A, 2007B, 2007C, 2007E</li> <li>• 2008A, 2008B, 2008C</li> <li>• 2009A, 2009B, 2009C, 2009D, 2009E</li> <li>• 2010A, 2010B</li> </ul>
State Transportation	<ul style="list-style-type: none"> <li>• 2004A, 2004B, 2004C</li> <li>• 2006A, 2006B, 2006C, 2006D</li> <li>• 2008C, 2008D</li> <li>• 2010A, 2010B</li> </ul>
Certificates of Participation (COPS)	<ul style="list-style-type: none"> <li>• 1995A</li> <li>• 1996A</li> </ul>
Cigarette Tax	<ul style="list-style-type: none"> <li>• 2004A, 2004B</li> </ul>
Workers' Compensation Administration Building	<ul style="list-style-type: none"> <li>• 1996</li> </ul>

DAC Bond sent additional reminders to these individuals on March 1, 2012, March 16, 2012, and March 24, 2012. The Fraudulent Audit Report was posted as a disclosure for the above-listed bonds on March 26, 2012.

#### 4.8.4. Others

- **Ratings Agencies**

<sup>83</sup> Official Statement for the Senior Lien Public Project Revolving Fund Revenue Bonds Series 2012A, page 31.

The NMFA's bonds are rated by both Standard and Poor's and Moody's. On January 12, 2012, Standard and Poor's emailed NMFA's Chief Financial Strategist and requested a copy of the NMFA audited financial statements. The Chief Financial Strategist responded on January 12, 2012 that the NMFA expected the OSA to complete final review of the audited financial statements by February 1, 2012 and that he would send a copy of the audited financial statements once the review was complete. It appears that this statement was based on representations made by Mr. Campbell, because on January 12, 2012, NMFA's Chief Financial Strategist forwarded Standard and Poor's email to Mr. Campbell and asked him when the NMFA's FY 2011 audit would be released. On March 12, 2012, NMFA's Chief Financial Strategist sent a link to the Fraudulent Audit Report on the NMFA website to Standard and Poor's and also included a copy of the Fraudulent Audit Report as an attachment.

- **Wells Fargo**

On March 7, 2012, Wells Fargo contacted NMFA's Chief Financial Strategist and asked when NMFA's FY 2011 financials would be available. Wells Fargo indicated that the reason they needed the audited financials was for their annual review related to the PPRF line of credit. That same day, NMFA's Chief Financial Strategist responded that the NMFA had been told that the OSA would release them no later than that day (March 7, 2012). Additionally, the Chief Financial Strategist indicated that the NMFA had initially been told that the audited financials would be available by February 1, 2012 and explained the delay as a staffing issue at the OSA. The source for the Chief Financial Strategist's response regarding a March 7, 2012 release date was not identified, but it appears that Mr. Campbell may have been the source for the expected February 1, 2012 release date. On March 12, 2012, NMFA's Chief Financial Strategist sent a link to the Fraudulent Audit Report to Wells Fargo and also attached a copy of the Fraudulent Audit Report.

- **Government Finance Officers Association**

In March 2012, certain members of the NMFA accounting staff attended a GFOA accounting conference. The GFOA is a professional association of state and local government finance officers in the United States and Canada. The GFOA has an award program called the "Certificate of Achievement for Excellence in Financial Reporting Program." On March 29, 2012, a Senior Accountant II with NMFA submitted an on-line application for the Certificate of Achievement. Included with this application was the Fraudulent Audit Report.



#### **4.9. Have the Third Parties Identified Above Been Directly Notified by the NMFA: a) That the Fraudulent Audit Report was a Fake and Should Not be Relied Upon; and b) Instructed to Destroy or Return All Copies of the Fraudulent Audit Report?**

As described above, once the NMFA realized that the Audit Report had been fraudulent, the NMFA issued a press release that was posted to the NMFA website on July 12, 2012.<sup>84</sup> This section of the report describes what other steps NMFA took to notify third parties about the Fraudulent Audit Report.

##### **4.9.1. DFA**

On July 13, 2012, the NMFA's Chief Financial Strategist sent an email to the Deputy Director of DFA's FCD and instructed him to destroy or return all copies of the Fraudulent Audit Report.

##### **4.9.2. EPA**

On July 13, 2012, the NMFA's Chief Financial Strategist sent an email to representatives from the EPA instructing them to destroy or return all copies of the Fraudulent Audit Report.

##### **4.9.3. General Public**

- **NMFA Website**

As noted above, on July 12, 2012, the press release regarding the Fraudulent Audit Report was posted to the NMFA website. This press release does not instruct the reader to destroy or return copies of the Fraudulent Audit Report. On July 12, 2012 the NMFA removed the Fraudulent Audit Report from their website and indicated the report was "withdrawn." Later that day, the document was reposted to the NMFA's website. The Fraudulent Audit Report was made unavailable again on August 14, 2012, and has remained unavailable on the NMFA's website. The NMFA's website still indicates that the document was "withdrawn."

- **EMMA Website**

On July 20, 2012, the NMFA posted a voluntary disclosure statement to EMMA for both the 2012A and prior bond offerings. This statement indicated that the NMFA had discovered that its FY 2011 audit "was not completed properly," and therefore the NMFA was withdrawing the Fraudulent Audit Report. On this date, the NMFA also disclosed to investors through a "Material Event Notice" on the EMMA website that it had been placed

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<sup>84</sup> NMFA Press Release dated July 12, 2012, posted to the NMFA website.

under review for a credit rating downgrade by Moody's and had been placed on CreditWatch by Standard and Poor's.

#### **4.9.4. Others**

- **Ratings Agencies**

On July 12, 2012, NMFA's Chief Financial Strategist sent a copy of the NMFA press release to Standard and Poor's. Additionally, on July 13, 2012, the Chief Financial Strategist sent an email to Standard and Poor's which requested that Standard and Poor's remove the Fraudulent Audit Report from its files.

On July 12, 2012, NMFA's Chief Financial Strategist also sent a copy of the NMFA press release to Moody's.

The NMFA also contacted both ratings agencies to provide them with information about the Fraudulent Audit Report.

- **Wells Fargo**

A direct notice from the NMFA to Wells Fargo instructing them to return or destroy all copies of the Fraudulent Audit Report was not identified. However, as noted below, NMFA's Chief Financial Strategist sent an email to various members of the financial community, and representatives from Wells Fargo may have been included in this communication.

- **GFOA**

On July 13, 2012, NMFA's Chief Financial Strategist sent an email to a representative from the GFOA instructing the individual to return or destroy all copies of the Fraudulent Audit Report.

- **Members of the Financial Community**

On July 13, 2012, NMFA's Chief Financial Strategist sent an email to "undisclosed recipients" in the financial community. This email included an explanation of the circumstances of the Fraudulent Audit Report, and also the NMFA press release and a profile of an attorney from Steptoe.

#### **4.10. What Funds, If Any, Were Impacted by the Fraudulent Audit Report and To What Extent?**

As described earlier, various testing procedures were performed on NMFA financial transactions during the investigation, as well as an email and document review and witness

interviews. The procedures did not identify instances of missing funds or material errors with respect to account balances.

However, the NMFA's bond financing and lending operations have been impacted since the Fraudulent Audit Report was discovered. For example, when the Fraudulent Audit Report was discovered, the NMFA was planning for a 2012B bond offering on July 26, 2012. This bond offering was put on hold pending the outcome of the NMFA investigations and the FY 2011 audit. As a result of having to put the bond offering on hold, the NMFA put limits on its lending operations based on the availability of funds for lending. NMFA staff developed a lending protocol to determine which entities would or would not continue to receive loans. The proposed lending protocol in effect restricted lending to infrastructure projects less than \$5 million, unless there was some public health, safety or other compelling need. For loans that were already in the loan pipeline but were out of this protocol, the options for these projects would be to raise bonds individually or put the project on hold.

## 5. Risk Assessment

The second phase of the investigation was focused on performing a risk assessment of the NMFA's processes, identifying potential weaknesses, and developing suggestions for improvement. Our scope included conducting an analysis of (1) the NMFA's policies and procedures and; (2) the NMFA's policies and procedures as they relate to the NMFA's bond counsel, disclosure counsel, and financial advisors. As part of this analysis, transaction testing was performed in certain areas and this testing is described in further detail below.

### 5.1. Identify Risks to the NMFA, Including, But Not Limited To, the Following: a) Theft and Embezzlement; and b) Financial Misreporting

The investigation identified certain risks with regard to theft and embezzlement, financial misreporting, and certain other areas. Certain observations and recommendations are included below and the recommendations are described in more detail in **Exhibit E**.

#### 5.1.1. Financial Reporting Risk

As the events surrounding the Fraudulent Audit Report highlight, the NMFA faces several potential risks of financial misreporting. As is described elsewhere in this report, risk factors at the time of the Fraudulent Audit Report included missed deadlines, a lack of knowledge of the timing of the audit process and its requirements, overreliance on one individual and minimal supervision of that individual, and lack of communication between the Board, management, and the IPA. Recommendations in the area of financial reporting are included below.

- **Timely Completion of the External Audit**

The NMFA's policies related to audits emphasize the importance of the timely completion of audits.<sup>85</sup> The NMFA should consider holding management accountable for the timely completion of audits and should incorporate it as a factor in key employee's performance reviews. In addition, the Audit Committee should be provided with regular updates regarding its progress and notified as soon as possible regarding issues that could keep the audit from being completed on time.

- **Management**

- It appears that NMFA executive management, as well as some members of the Accounting Department, had limited knowledge of the OSA Audit Rule and its requirements. Every year, the OSA holds training throughout New Mexico on the Audit Rule and current year updates to it. The NMFA should consider requiring that

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<sup>85</sup> Financial Management Policy I – Audit Policies. Approved in the NMFA Board Meeting held on June 25, 2009

representatives from the NMFA attend the OSA's Audit Rule training each year. At a minimum, the CEO, CFO and Controller should attend this training, and the NMFA should consider allowing other members of the Accounting Department to attend the training to raise awareness of the requirements throughout the Department.

- For the FY 2011 audit, Clifton made several requests to both Mr. Campbell and Mr. Duff for the remaining documentation required to complete the audit. A key factor in completing an audit on time is providing the required documents to the IPA. As such, the NMFA should consider setting a response time limit for all audit requests. If the IPA does not receive a response to its requests after this defined period of time, it should contact a member of the Audit Committee who is designated to resolve such issues.
- The schedule and content of the NMFA Audit Committee meetings appears to have been directed by NMFA management. No Audit Committee meetings were held between August 2011 and April 2012. NMFA management should consider requiring that Audit Committee meetings are held at least once every quarter, and more frequently while the audit is ongoing. Approval should be obtained from the Chair of the Audit Committee if management wishes to cancel a scheduled Audit Committee meeting.
- For the FY 2011 "exit conference" that was held in April 2012, Mr. Campbell sent the meeting materials, which included the Fraudulent Audit Report, on the morning of the meeting. As such, the Audit Committee members did not have adequate time to review the materials prior to the meeting. The NMFA should consider providing materials to the Audit Committee a reasonable period of time prior to the meeting based on the content and volume of the materials. At a minimum, materials should be provided no later than 24 hours prior to a meeting.
- In the Fraudulent Audit Report, Mr. Campbell changed the method of accounting for the NMFA's reversions to the State.<sup>86</sup> Mr. Campbell stated in a meeting with the Board that he was struggling with how to account for this item, and Mr. Duff noted that, while he and Mr. Campbell discussed the issue, it was a very brief discussion. The NMFA should consider consulting with the IPA on accounting method or presentational changes to the financial statements. Management should consider documenting these consultations with the IPA and retaining this documentation.
- **Board and Audit Committee**
  - For the FY 2011 audit, the Audit Committee attended what was represented as an "exit conference" in April 2012.<sup>87</sup> At this meeting, Mr. Campbell represented that Clifton would not be attending because of a "schedule mix-up."<sup>88</sup> The Audit Committee then

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<sup>86</sup> Audio Recording of the August 11, 2011 meeting of the NMFA Board.

<sup>87</sup> Minutes to the April 27, 2012 meeting of the NMFA Board, page 18.

<sup>88</sup> Report of the April 23, 2012 Audit Committee meeting (notes believed to have been created by Mr. Campbell).

approved the Fraudulent Audit Report, even though the Audit Rule requires that the IPA present the Audit Report at the exit conference in person. It appears therefore that the Audit Committee may not have had a full understanding of the Audit Rule. The NMFA Board should consider requiring that the Audit Committee, as well as the Board Chair, attend training or otherwise be provided with information on the Audit Rule.

- Several members of the Board are appointed by the Governor. As such, there can be significant turnover in the Board when there is a new administration (as was the case for FY 2011). The NMFA provides some onboarding materials for new Board members. These materials provide background on the NMFA and PPRF, as well as high level roles and responsibilities for each of the Board committees.<sup>89</sup> However, they do not include detailed information on the Audit Rule. The NMFA should consider enhancing the onboarding package for new Board members and in particular, provide the Audit Committee with more information on the Audit Rule and other audit-related guidance, including a detailed outline of the Audit Committees responsibilities for the audit.
- For the FY 2011 audit, Clifton met with the Audit Committee as part of the audit planning activities, and it appears that a schedule was discussed for the audit that should have resulted in the audit being completed by September 27, 2011. The NMFA should consider distributing the audit timeline agreed to in audit planning meetings to the members of the Audit Committee, the Board Chair, and executive management. This timeline should also include key OSA requirements and deadlines (e.g. an exit conference). The NMFA Board should consider including this timeline in the meeting materials for all Audit Committee meetings that occur while the audit is ongoing and should incorporate a standing agenda item during this period to discuss the progress of the audit against the timeline. Additionally, the Board should consider incorporating a standing agenda item in the full Board meeting for the month after the targeted audit completion date (e.g. October) that relates to the status of the audit.

- **OSA**

- The OSA's "At Risk" program spotlights entities that have not filed a timely audit with the OSA and is a valuable tool for allowing oversight bodies to monitor the entities they are responsible for. However for FY 2011, the "At Risk" report was not distributed until May of 2012, several months after the due date for most entities.<sup>90</sup> The "At Risk" report could be more effective if it is distributed soon after the reporting deadline, for example in January of each year. It appears that the OSA is working towards this objective and should be able to issue the "At Risk" report for FY2012 audits in January 2013.

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<sup>89</sup> NMFA Board Onboarding Package from the June 13, 2011 Meeting: "Responsibilities of Committees," and "Board Orientation - June 13, 2011."

<sup>90</sup> OSA "At Risk" Letter dated May 23, 2012, "Re: GOVERNMENT AGENCIES DESIGNATED 'AT RISK'".

- As noted previously, the OSA tracks entities that have not yet submitted an OSA contract for their IPA. While this list is posted to the OSA website, the OSA should consider incorporating this list as part of its “At Risk” report so that oversight bodies can more easily monitor the entities they are responsible for.
- In May 23, 2012, the NMFA first appeared on the “At Risk” list for its FY 2011 audit.<sup>91</sup> As a result, the OSA sent a letter to Mr. May notifying him of the NMFA’s inclusion on the list and outlining certain reporting responsibilities the NMFA had as a result.<sup>92</sup> The OSA should consider sending notifications regarding entities appearing on the “At Risk” list not only to the entity’s CEO, but also to the Board Chair, Audit Committee Chair, and IPA.
- As mentioned above, each year, the OSA holds training courses throughout New Mexico on Audit Rule requirements and updates. These courses are typically aimed towards accounting staff, Controllers, and CFOs. However, it would be beneficial for Audit Committee members to also be familiar with the Audit Rule and their responsibilities with regards to the Rule. The OSA should therefore consider developing training content focused towards Audit Committee and Board Members. The OSA could consider providing this training using on-line methods to reduce costs and increase participation.

### ***5.1.2. Risks of Theft and Embezzlement***

The NMFA, along with other financial institutions with similar operations, faces the risk of possible theft or embezzlement in the following major areas where employees have access to cash.

- **Accounts Payable (AP)**

Potential methods of theft and embezzlement in the AP area generally include an employee creating a fictitious vendor to divert cash payments or an employee colluding with a vendor for inflated or non-legitimate products or services. In 2010, it was discovered that an NMFA employee who processed AP had been stealing funds from the NMFA between August and December 2009.<sup>93</sup> The former employee, Valerie Sandoval, allegedly stole funds by making payments to a friend who owned a gallery in Santa Fe. As part of this alleged theft, Ms. Sandoval photocopied signatures onto payment approval forms. As a result of the Sandoval alleged fraud, the NMFA adjusted some of their policies and procedures related to Accounts Payable. For example, approval signatures are required to be in blue pen.

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<sup>91</sup> OSA “At Risk” Letter dated May 23, 2012, “Re: GOVERNMENT AGENCIES DESIGNATED ‘AT RISK’”.

<sup>92</sup> OSA Letter to Richard May dated May 24, 2012, “Re: ‘AT RISK’ ENTITY DESIGNATION”.

<sup>93</sup> State of New Mexico Taxation and Revenue Department Press Release dated July 20, 2012, “Former New Mexico Finance Authority Employee Pleads Guilty to Fraud and Tax Evasion.”

As part of transaction testing, certain AP transactions were selected (see transaction testing section below). While all of the transactions that were selected appeared to have a legitimate business purpose, there were some exceptions from procedures. For example, some transactions appear to have been approved after the payment had been processed. Additionally, in most instances, the employee requesting the goods or services was the same individual who approved payment of the invoice. As a result of our testing and review of AP policies and procedures, the NMFA should consider increasing segregation of duties by also requiring a supervisor or other appropriate individual to approve the invoice for payment. Additionally, the NMFA should consider creating a formal signature approval matrix for both manual checks and wires. This matrix would identify which positions have authority for approving invoices within specified dollar ranges.

- **Payroll**

Potential methods of theft and embezzlement in the area of Payroll can include an employee creating a ‘ghost’ employee in order to receive the ghost employee’s pay. As part of transaction testing, a listing of employees as of October 4, 2012 was obtained. It was possible to confirm the existence of the employees on this list. Due to the relatively small size of the NMFA staff, it would appear that the risk of the creation of a ghost employee is relatively low.

- **Incoming Loan Payments**

Potential methods of theft and embezzlement in the area of loan payments generally include an employee diverting funds received for the payment of loans to a personal account. It appears that loan payments for PPRF loans and some non-PPRF loans are typically sent directly to the trustee for the NMFA accounts. Funds received in these NMFA trustee accounts are intended for bond-related payments. As such, it appears that it would require collusion with the Trustee for an employee to be able to divert loan payments sent to the Trustee. For loans not with the Trustee, the NMFA appears to have detailed procedures related to incoming payments which incorporate segregation of duties.<sup>94</sup> Therefore the risk of diversion of incoming payments would most likely be as a result of set procedures not being followed or an override of controls.

- **Loan and Grant Disbursements**

Potential methods of theft and embezzlement in the area of loan and grant disbursements generally include an employee creating a fictitious loan or grant and then funding that loan. Additionally, for loans that are funded over time as construction on the underlying project is completed, an employee could create a fraudulent request for reimbursement for items such as construction expenses.

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<sup>94</sup> New Mexico Finance Authority Accounting Procedures Manual dated July 7, 2009 (“Accounting Procedures Manual”), page 34-35.



For each loan issued, the NMFA is required to obtain Board approval. As part of transaction testing, loan agreements were obtained for each of the loans in the selection. The documentation included with the agreements was relatively detailed and did include Board approvals. Additionally, for PPRF loans and some non-PPRF loans, initial disbursements as well as ongoing loan draws typically flow through the BoNY trustee. It appears that the trustee checks for NMFA approval prior to making disbursements from NMFA accounts. Reconciliations performed by the NMFA for trustee bank accounts were obtained from the NMFA. Prior to June 2011, the NMFA used separate BoNY accounts for each loan, therefore resulting in several hundred bank accounts. In June 2011, the NMFA pooled these bank accounts into six BoNY bank accounts. The reconciliations related to these pooled accounts were complex and the reconciliation appeared to be a manual process. The NMFA should consider simplifying this reconciliation process and identifying portions of the reconciliation that could be automated. Additionally, the NMFA should consider building the reconciliation such that the calculations and activity can be easily traced and reviewed.

### ***5.1.3. Other Risks***

Documentation was requested from the NMFA regarding its accounting policies and procedures. The NMFA provided an Accounting Procedures Manual, as well as checklists for various areas and an AP procedures document.<sup>95</sup> The following observations were made with regard to the NMFA's policies and procedures documentation:

- The current Accounting Procedures Manual has not been updated to reflect the new GL system which was implemented in 2009.
- The Accounting Procedures Manual does not include procedures related to the external audit process or the process for creating audited financial statements.
- The Accounting Procedures Manual primarily includes information regarding closing the books (using the prior GL system) and reconciling cash accounts, but does not include sections on areas such as payroll processing, wire procedures, and AP. Instead, procedures related to these areas are documented in checklists or other informal documents separate from this manual.
- The checklists provided by the NMFA relate to areas such as payroll, setting up new employees, closing loans, and draw requests. Based on transaction testing, it appears that completed checklists are not typically included within the supporting documentation for the journal entries selected in these areas.

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<sup>95</sup> New Mexico Finance Authority Accounting Procedures Manual dated July 7, 2009 ("Accounting Procedures Manual"), page 34-35; Accounts Payable Procedures; Checklists.

- The Accounting Procedures Manual primarily documents the step by step instructions for completing certain tasks. However, documents that summarize Accounting Department policies were not identified.

The NMFA should consider developing a comprehensive and current Accounting Policies and Procedures manual. This manual should incorporate procedures related to the external audit and the preparation of audited financial statements. It should also consolidate the various checklists and other documents that are currently maintained separately. The Accounting Policies and Procedures manual should be evaluated for updates annually, or after significant changes in processes or systems. Additionally, the NMFA should consider consistently incorporating completed versions of the appropriate checklist as part of its documentation for the related journal entries.

**5.2. Analyze the Following Regarding the NMFA’s Bond Counsel, Disclosure Counsel, and Financial Advisors: a) Whether the NMFA’s Practices and Procedures Allowed the Fraudulent Audit Report to be Created or to Go Undetected; and b) Whether Reasonable Changes to the NMFA’s Practices and Procedures Would Reduce the Likelihood that Financial Reports Could be Falsely Presented as Being Audited in the Future.**

An analysis of the NMFA’s policies and procedures as it relates to its legal and financial advisors did not identify any specific obligation on behalf of their professional advisors to perform procedures to prevent or detect a fraudulent audit report from being included in a securities offering. However, the NMFA’s “Responsibilities of Bond Counsel” does include a procedure to “Prepare and assist in the preparation and review of all documents required to be adopted by the Authority and the State Transportation Commission for the issuance of bonds or other obligations.”<sup>96</sup>

It does not appear that there are any statutory, legal or professional obligations of counsel to independently test or perform diligence on disclosures made in an audited financial statement. Emedia review and interviews did not identify evidence to suggest that the NMFA’s legal and financial advisors knew that the Audit Report had been fraudulent. Based upon these initial findings, additional procedures related to the NMFA’s legal and financial advisors were not conducted.

With respect to suggestions to improve practices and procedures, one relatively easy additional procedure that could be adopted would be to have bond or disclosure counsel access

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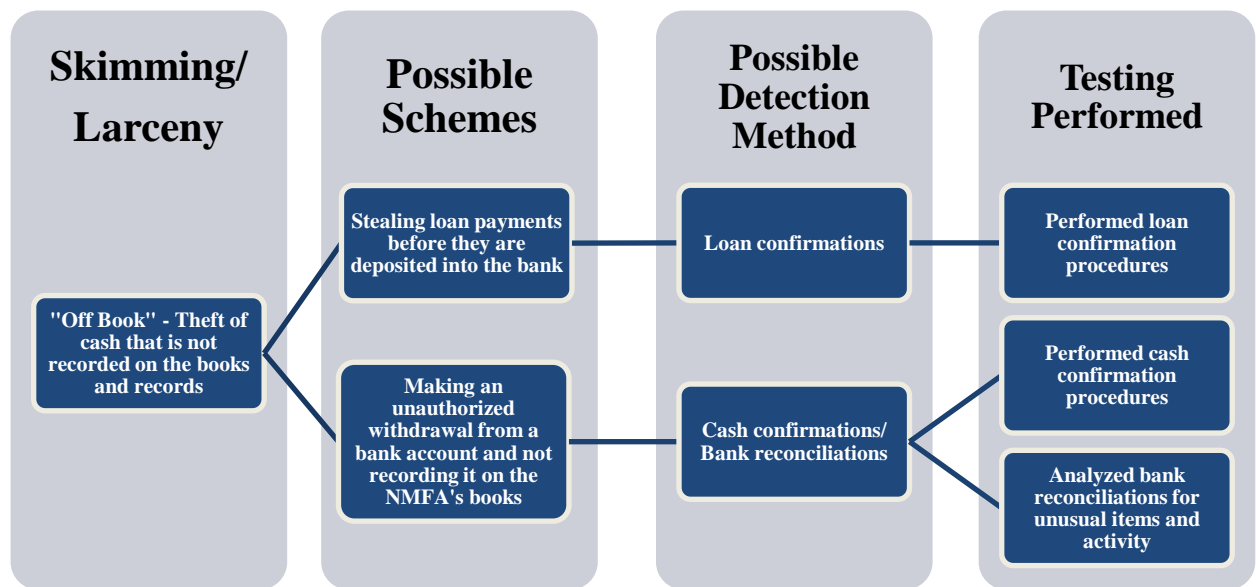
<sup>96</sup> Request for Proposals (RFP) for Contract Legal Services, dated September 23, 2011, Appendix C: Responsibilities of Bond Counsel, page 43.

the OSA’s website prior to issuing a Preliminary Offering Statement associated with a bond offering to ensure that the NMFA’s audit has been submitted to and approved by the OSA.

### 5.3. Transaction Testing

The scope of the Special Audit includes an assessment of the risks to the NMFA from theft, embezzlement and corruption. As part of our procedures, certain transactions were selected for testing.<sup>97</sup> Our transaction testing was designed to identify transactions based upon potential fraud risk. There are two broad areas of fraud risk associated with theft and embezzlement. The first type of fraud risk occurs from the potential to steal money before it is deposited in the bank or withdraw cash from a bank account without making an entry in the entity's accounting records. In these situations, the fraud is not recorded and is commonly referred to as “skimming” or “larceny.” The second area of fraud risk is stealing cash when there is a fraudulent entry created on the books and records. This type of fraud is referred to as “fraudulent disbursement.” The scope of the Special Audit considered both areas of possible fraud. The testing procedures performed and the associated observations are described below.

#### Skimming/Larceny



<sup>97</sup> Selections of General Ledger (GL) entries for testing were based on a GL extract for the period May 2010 through September 2011 that was provided by the current Controller (2011 GL Extract). The NMFA records journal entries based upon the GL account number and delineates entries using fund types, program codes, trustee codes, and bond issue codes as appropriate.

To test for the possibility for skimming and larceny, we performed transaction testing in several areas including those listed below.

### ***5.3.1. Skimming/Larceny – Loan Balance Confirmations***

- **Procedures Performed**

For the FY 2011 audit, Clifton selected 100 loans for testing. Documents provided by Clifton indicate that selections were made on a dollar value basis by selecting loans with balances over \$2,329,000. Clifton determined that the loans selected for confirmation covered approximately 80% of the dollar value of total loan balances outstanding. For the 100 loans selected, balances for 36 loans remained unconfirmed by Clifton as of July 2012. We selected these 36 loans for our initial transaction testing (initial loan selection).

To perform additional testing, we selected ten additional loans with an outstanding principal balance less than \$2,329,000 as of June 30, 2011 (additional loan selection). The ten additional loans were selected judgmentally and covered various NMFA loan programs including Behavioral Health Capital Fund, Drinking Water State Revolving Loan Fund, Primary Care Capital Fund, Water Trust Board and PPRF.

To confirm loan balances, the following procedures were performed for the 46 loans selected for testing:

- Requested copies of loan agreements and other loan related documentation.
- Obtained FY 2011 Audit Reports for borrowers from the OSA website to determine if the loans were recorded by the entity and the amount they were recorded for.
- Obtained borrower contact information from the NMFA or public sources (e.g. borrower website). Contacted borrowers by phone and left voicemails for borrowers who did not respond to the call. Sent a follow-up email to borrowers summarizing the phone call or voicemail and requesting a balance confirmation. Made follow-up phone calls and sent follow-up emails as necessary.

During testing, the following attributes were tested:

- Loan agreement is available and includes the signature of both parties.
- If an Audit Report is available on the OSA website, the loan balance agrees to the balance on Audit Report.
- Borrowers can be contacted, are aware of the loan and agree with the loan balance carried by the NMFA.

- **Observations**

The following was observed from the testing procedures performed:

- **Loan Agreements:** The NMFA provided loan agreement packages for each of the loans selected for testing. In addition to signed copies of the loan agreement, the packages included information such as loan-related correspondence, letters from outside counsel and Board meeting minutes approving the loan.
- **Audit Reports:** Outstanding balances for 15 of the 36 loans in the initial loan selection were confirmed by analyzing the borrower's audited financial statements. For the remaining 21 loans in the testing sample, the borrower's audited financial statements did not provide sufficient detail to confirm the outstanding balance or the entity did not have audited financial statements. For one of the loans, the outstanding balance on the audited financial statement differed from the outstanding balance provided by the NMFA. For these 21 loans, alternative procedures were performed to confirm the outstanding loan balances.

Not all of the outstanding balances for loans in the additional loan selection could be confirmed by analyzing the borrower's audited financial statements. This was due to (1) smaller loan balances which are not always broken out in the financial statements and (2) smaller borrowers who are not required to submit audited financial statements on an annual basis. As such, only one loan balance was verified through review of Audit Reports. Alternative procedures were performed over the other nine loans.

- **Borrower Confirmations:** For the 21 loans from the initial loan selection that could not be confirmed through Audit Reports, the borrowers were contacted as described above. Responses were received from 13 of the 21 borrowers who were contacted. Three of the loan balances confirmed by the borrower agreed to the NMFA's balance. Five of the borrowers confirmed balances, but as of the incorrect date. For these loans, it was possible to roll forward the balances provided to the NMFA's balance. For one loan (Gila Medical Center), the listed contact indicated that the loan was actually a grant to Gila from the DFA and it appears that this debt was backed by a portion of cigarette tax revenues that the NMFA receives from the State. For three loans (General Services Department (GSD) loans), the contact person indicated that the "loans" were actually intergovernmental receivables. For the GSD loans, the loans are backed by a portion of gross receipts tax revenues that the

NMFA receives from the State. For two of the loans, all of the funds were disbursed. For the third GSD loan, there are funds still available that are eligible for disbursement. Lastly, for the loan held with the Department of Health (“DOH”), the contact listed explained that the DOH is not responsible for repaying the debt as the original loan amount was given to the GSD Property Control Division. This loan is backed by a portion of cigarette tax revenues that are received by the NMFA from the State. These five loans are also discussed further in the ‘Intergovernmental Receivables’ section below.

- For the nine remaining loans from the additional loan selection that could not be confirmed through review of Audit Reports, the borrowers confirmed the loan balance for seven of the nine loans. Four of the loan balances confirmed by the borrowers agreed to the balance recorded by the NMFA. In one case, the balance was confirmed via phone and therefore, alternative procedures were also performed to assess the balance at June 30, 2011. For the three remaining loans confirmed by the borrower, the balance differed from the NMFA's recorded balance and thus, alternative procedures were performed.

After the above procedures were performed, the balances for 10 of the 46 loans remained unconfirmed. Alternative loan confirmation procedures were performed for these ten loans as well as the five loans secured by tax revenues, the one loan confirmed via phone and the three loans confirmed with the incorrect balance. The alternative confirmation procedures were as follows:

- Analyzed debt service payment schedules included with the loan agreement and performed a roll forward of the balance from the original loan amount to the balance outstanding as of June 30, 2011.
- Obtained loan histories for each of the loans and compared the FY 2011 ending balance included on the loan history to the loan balance included on the loan report used by Clifton.

Using these alternative testing procedures, it was possible to confirm the existence of each loan through analysis of the loan agreement in addition to confirming that the loan balance was carried correctly on the GL based on the debt service payment schedule and loan history. Four of the loans are intergovernmental receivables that are backed by revenues which the NMFA receives from the State. We performed alternative procedures on these loans given we were not able to receive confirmation directly from the borrower. These four loans are discussed further in the ‘Intergovernmental Receivables’ section below.

The table below summarizes the methods used to confirm loan balances as of June 30, 2011:

Method of Testing	Initial Loan Selection	Additional Loan Selection
	Number of Loans Tested	Number of Loans Tested
Confirmed through Audit Reports filed with the OSA	15	1
Confirmed through communication with borrowers (with no errors in the confirmed balances)	3	3
Confirmed through communication with borrowers (borrower confirmed balances as of the incorrect date but the FY 2011 balance could be recalculated)	5	0
Tested through analysis of loan agreements and loan histories (alternative procedures)	13	6
<b>Total</b>	<b>36</b>	<b>10</b>

- **Intergovernmental Receivables**

During the loan confirmation procedures discussed above, certain receivables were identified that are classified as “loans” on the balance sheet that are actually repaid directly through the appropriation of tax revenues. Therefore, rather than the entity listed in the accounting system as the borrower making payments directly on the loan, the NMFA receives tax revenues from the State to apply to the loan. The NMFA records some of these assets as “loans” but records others as “intergovernmental receivables.” While it does not appear that the NMFA’s total assets are misstated because of these classifications, the NMFA should consider establishing clear procedures based upon authoritative guidance when determining which of these assets should be classified as “loans” and which assets should be classified as “intergovernmental receivables.”

- **Additional Procedures**

To determine if any the new loans selected for confirmation by Clifton in FY 2011 could have caused Mr. Campbell to want to conceal the loan or delay the audit, we compared the loans selected by Clifton for confirmation in FY 2011 to the loans selected for FY 2010 to determine the new loans selected in FY 2011. Documentation provided by Clifton indicates that 100 loans were selected for confirmation in FY 2011. Of the 100 loans selected, 71 of the loans were also selected for confirmation in FY 2010. As such, 29 loans were selected in FY 2011 that were not selected in FY 2010.

Of the 29 new loans selected for confirmation in FY 2011, an analysis of documentation provided by Clifton indicates that 12 loans were confirmed to Clifton by the borrowers. Our analysis of these confirmations identified two issues for additional follow up. For one loan, Clifton noted that the confirmation was received via email; however, the borrower did not sign the confirmation and Clifton did not

include the accompanying email in its documentation. For this loan, the loan agreement and payment schedule were obtained to perform additional confirmation procedures. For the other loan, the borrower confirmed an amount that was different than what was recorded on the NMFA's books. This difference related to two loan payments made by the borrower which the NMFA did not appear to have applied to the loan balance. It appears no follow-up procedures were performed by Clifton on this confirmation. Upon further discussion with the NMFA, it appears that the borrower for this loan makes monthly payments on the loan but that the payments are applied to the loan semi-annually per the loan agreement. This was confirmed through analysis of the loan activity statement. After obtaining loan agreements and loan histories, the balances recorded by the NMFA for these two loans at June 30, 2011 appear reasonable. The remaining 17 loans were included in within the 36 loans for which confirmation was outstanding for the FY 2011 audit. As described above, procedures for these loans included reviewing loan agreements, audit reports, contacting the borrower via phone and email and performing alternative procedures as necessary.

- **Public Corruption**

Our email review and interviews also included search criteria and inquiries designed to identify evidence of public corruption. The receipt of kickbacks and bribes are additional examples of “off book” frauds that typically would not be recorded on an entities’ books and records. Our email review and interviews did not identify evidence to suggest that anyone at the NMFA had received kickbacks or bribes.

### ***5.3.2. Skimming/Larceny – Cash Confirmations***

- **Procedures Performed**

The Special Audit included requesting a list from the NMFA of all bank accounts held by the NMFA and the associated balances. We contacted each of the NMFA's banks (Wells Fargo, Bank of Albuquerque and BoNY) to obtain an independent confirmation of the balances held in the NMFA bank accounts. We also requested copies of bank statements from January 2010 to July 2011. The balances confirmed by the banks agreed to the balances provided by the NMFA.

Additionally, to analyze the cash balances included by Mr. Campbell in the Fraudulent Audit Report, we compared these balances to bank statements provided by the banks as well as confirmations obtained by Clifton as part of their FY 2011 audit. Cash is represented in the Fraudulent Audit Report under the following line items: Cash and Cash Equivalents, Restricted Cash, and Restricted Asset - Escrow. Additionally, cash held for the NMDOT is included in the ‘Cash at Trustee’ section



of the Agency Funds statement in the Fraudulent Audit Report. Documents obtained from the NMFA included a workbook that appears to have been used by Mr. Campbell to prepare the financial statements included in the Fraudulent Audit Report. We compared the NMFA bank accounts to the cash-related GL accounts (broken down by program and bond) included on a trial balance provided by the NMFA. We then compared the GL account balances to the amount included on the bank account confirmation provided by the banks to Clifton and/or the balance included on the relevant bank statement. Where there were differences, we reviewed the NMFA reconciliation for the account and/or the bank statement to determine the nature of the reconciling item.

- **Observations**

Using documents provided by Clifton and other relevant information, we were able to match each of the cash-related GL balances (broken down by program and bond) to their corresponding bank account(s). For the Wells Fargo accounts, the wire bank account balance as of June 30, 2011 agreed to the wire-related GL balance but the operating account balance differed from the operating-related GL balance. The reason for this difference, based on a review of the June 2011 reconciliation, was outstanding checks. For the Bank of Albuquerque accounts, the realized account balances as of June 30, 2011 agreed to the balances on the GL. For the BoNY accounts, we noted three differences between the June 30, 2011 confirmed balance and the GL. The first difference was included as a reconciling item on the NMFA trustee account reconciliation. The second difference appears to be an item from the bank statement that was not recorded to the GL in error. The third difference relates to an account which had a small balance that appeared to have been zeroed out during June but where the GL entry to reflect this transaction was not made until July. Two GL cash accounts relate to an account held with the State Treasurer's Office (STO). We did not obtain a statement from the STO, but were able to obtain other corroborating documentation from the NMFA that supported the GL balance.

### ***5.3.3. Skimming/Larceny – Bank Reconciliations***

- **Procedures Performed**

The NMFA has one Wells Fargo account that is used for operational activities (e.g. AP, payroll, etc.) and one Wells Fargo account that is used for wire transactions (both sending and receiving wire transfers).<sup>98</sup>

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<sup>98</sup> Based on the NMFA Chart of Accounts and discussion with the current NMFA Controller.

<b>Bank Account Name</b>	<b>Bank Account No.</b>	<b>GL Account No.</b>
Wells Fargo NMFA Operating Fund	XXXXXXX399	1001
Wells Fargo NMFA PPRF (Wire Account)	XXXXXXX373	1002

Monthly bank reconciliations were obtained for both of the above accounts for FY 2011 from the NMFA (24 reconciliations in total). These reconciliations were provided in Excel format and included a worksheet listing checks issued including details such as the check date, the check number, the check amount and the payee. The corresponding month's bank statement which Wells Fargo makes available to the NMFA on a monthly basis was also obtained. Additionally, a trial balance from the Sage accounting system for each month in FY 2011 was obtained. During testing, the following attributes were tested:

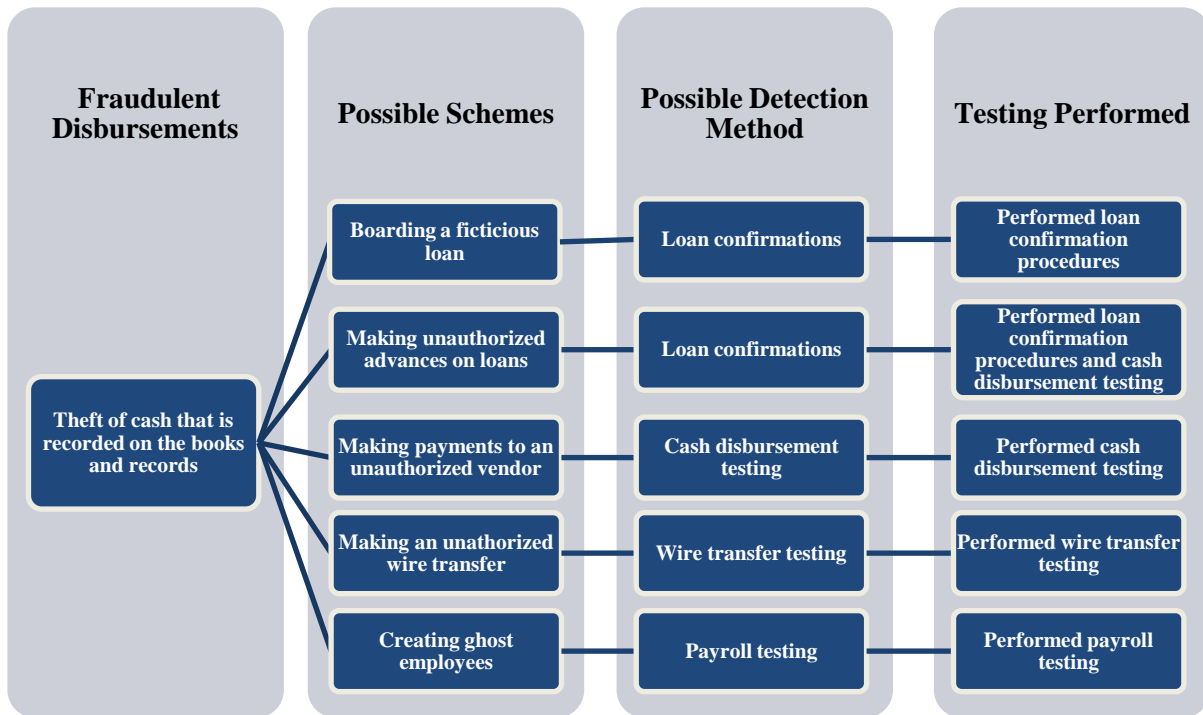
- The GL balance entered on the reconciliation agrees to the corresponding GL account in the trial balance and the bank balance entered on the reconciliation agrees to the bank statement.
- The reconciling items on the reconciliation appear reasonable and are adequately supported.
- The listing of outstanding checks for the operating account agrees to the difference between the operating bank account and operating GL account ending balance.

- **Observations**

Based on analysis of the operating and wire bank account reconciliations, the reconciling items appear reasonable. There was one instance where the GL balance and bank balance had not been updated from the prior month's reconciliation, one instance where the bank balance on the reconciliation had been entered incorrectly and one instance, which continued for five months, where the GL balance entered on the reconciliation, differed from the trial balance. The reason for this difference was a voided check that was not properly voided in the system. After correcting for these differences, the GL could be reconciled to the bank statement.

It appears these bank reconciliations were not typically reviewed by an appropriate individual after they were prepared each month. As such, going forward the NMFA should consider establishing procedures to review bank account reconciliations to reduce the risk of errors.

## Fraudulent Disbursements



The second broad area of possible fraud involves a “fraudulent disbursement” where the theft of cash is actually recorded on the entity’s books and records. To test for the possibility of this type of fraud occurring, we performed independent loan confirmations on a variety of loans as described above. In addition to loan confirmations, the Special Audit tested for other common frauds including unauthorized wire transfers, unauthorized cash disbursements via check and testing to determine if ghost employees had been created.

### 5.3.4. Fraudulent Disbursement – Wire Transfers

- **Procedures Performed**

To select wire transfers for testing, we sorted the 2011 GL Extract for transactions recorded in GL account 1002 (Cash – Wire Transfers). We further reduced the list to reflect only credits to cash (i.e. wire transfers out), which identified a population of 135 transactions for possible testing.

We judgmentally selected 20 wire transfers for testing. For each of the transactions selected, we requested supporting documentation. During testing, the following attributes were tested:

- Journal entries were created and approved with proper segregation of duties.

- Wire transfers were initiated and approved with proper segregation of duties.
- Documentation provided supports the amount and nature of the transaction.

- **Observations**

Documentation the NMFA provided in support of the selections typically included the journal entry voucher form with evidence of review and approval, requisition forms, letters from borrowers requesting draws on their account, third party invoices and other documentation supporting the entry. One instance was identified where the sign-off on the wire transfer appears to have occurred after the wire payment had been completed. Additionally, there was one selection where the only supporting documentation available was the wire transfer instructions. Based on review of the support provided and further inquiry with the NMFA, the transactions selected for testing appeared to have a valid business purpose and included appropriate supporting documentation. We also noted that Mr. Campbell had the ability to approve wire transfers without any approval limits or additional approvals required.

### ***5.3.5. Fraudulent Disbursement – Operating Account Cash Disbursements***

- **Procedures Performed**

The NMFA records transactions related to its Wells Fargo operating bank account in GL account 1001. To determine testing selections with regards to operating cash, the 2011 GL Extract was sorted for transactions recorded in GL account 1001 (Cash – Checking). This list was further reduced to reflect only credits to this account (i.e. cash payments), leaving a population of approximately 1,800 transactions for possible testing. The majority of these transactions were AP related and were excluded as these transactions were tested separately (see ‘Unauthorized Vendors’ testing below). After the AP transactions were removed from the population, 204 transactions remained. The descriptions included in the 2011 GL Extract indicated that these transactions related to items such as payroll and payroll related fees, bank payments and bank fees. Ten transactions were judgmentally selected from this population and supporting documentation was requested. During testing, the following attributes were tested:

- Journal entries were created and approved with proper segregation of duties.
- Documentation provided supports the amount and nature of the transaction.

- **Observations**

Documentation the NMFA provided in support of the selected transactions typically included the journal entry voucher form with evidence of review and approval, bank statements and other supporting documentation based on the nature of the transaction. There were four instances where the journal voucher did not include sign-off on the entry. For the payroll-related entries selected, the NMFA indicated that the journal entry process is automated and therefore, payroll entries are not manually entered into the GL. The NMFA creates a journal voucher form as an additional check, but this voucher does not typically include sign-offs on the entry. Based on review of the support provided and further inquiry with the NMFA, the transactions selected appeared to have a valid business purpose and appropriate supporting documentation.

### **5.3.6. *Fraudulent Disbursement – Subsequent Cash Disbursements***

- **Procedures Performed**

The NMFA's GL accounts include various cash-related accounts. To determine testing selections related to subsequent cash disbursements (i.e., disbursements made after the end of the fiscal year), these cash GL accounts were considered for testing. Through analysis of the chart of accounts, GL account numbers 1000 - 1040 were listed as NMFA cash accounts and were included in the testing population. The GL Extract, which included transactions through September 30, 2011, was sorted for transactions recorded after June 30, 2011 impacting GL account numbers 1000 - 1040. This list was further reduced to reflect only credits to these accounts (i.e. cash payments or transfers out), leaving approximately 640 transactions. The majority of these transactions were AP related. Since AP related transactions were tested separately, these transactions were excluded from the population. After excluding such transactions, approximately 230 entries remained. The descriptions included in the GL Extract indicated these transactions related to items such as payroll and payroll related fees, debt service payments, bank payments and bank fees. Ten transactions were judgmentally selected from this population and supporting documentation was requested. The following attributes were tested:

- Journal entries were created and approved with proper segregation of duties.
- Documentation provided supports the amount and nature of the transaction.

- **Observations**

Documentation the NMFA provided in support of the transactions selected for testing included the journal entry voucher form with evidence of review and approval,

various funding related documentation and other support specific to the transaction. There was one instance noted where no journal entry voucher or supporting documentation could be located for the transaction. However, this entry appeared to be a reclass between cash GL accounts and did not reflect a reduction to cash. Based on review of the support provided and inquiry with the NMFA, the remaining transactions selected appeared to have a valid business purpose and appropriate supporting documentation.

### ***5.3.7. Fraudulent Disbursement – Payroll Testing***

- **Procedures Performed**

A Personnel Register dated October 4, 2012 was provided by the NMFA. This Personnel Register listed 78 current and former employees and included information for each employee such as home address, job title, department, hire date, and termination date (if applicable). The NMFA uses a third-party payroll provider (Paychex) to process employee payroll.

To assess the validity of employees included on the Personnel Register, organization charts for FY 2009, 2010 and 2011 were obtained from documentation provided to Clifton and from an employee listing provided to the OSA. Each employee on the Personnel Register was traced to these documents and 59 of the 78 employees were located. For the remaining 19 employees, we asked the NMFA to verify that the employees had previously worked at the NMFA. The NMFA's current Controller was able to confirm that the remaining 19 employees were previously employed by the entity. Additionally, a search was performed in the Emedia Review Tool to locate emails to or from these employees. Through this search, it was possible to locate emails to or from 17 of the employees and an email was also located discussing the remaining two employees (who were only employed by the NMFA for a few months).

- **Observations**

Based on the procedures performed, it appears that all of the employees listed on the Personnel Register were valid employees.

### ***5.3.8. Fraudulent Disbursement – Unauthorized Vendors***

- **Procedures Performed**

A listing of payments made to NMFA vendors for FY 2010, 2011 and 2012 was obtained from the NMFA. A master vendor listing which included vendor address information was also provided. Per discussion with the current Controller, a check cannot be processed through AP until a vendor has been entered into the system. To assess vendor activity, the amounts paid to vendors over each of the three years was compared. For expense reimbursement purposes, employees are set up as vendors in the system.

Based on analysis of the activity in the vendor listing, ten vendors who received payments in FY 2011 were judgmentally selected for additional testing. These selections were focused on one-off or unusual vendors. For these vendors, supporting documentation was requested for all payments made to the vendor in FY 2011. During testing, the following attributes were tested:

- An invoice or other supporting documentation was obtained from the vendor.
- Approval was obtained to pay the invoice.
- The business purpose of the transaction appears appropriate.

- **Observations**

Vendor expenses remained relatively consistent between FY 2010 and FY 2011 (a 5% decrease in expenses was noted). Vendor expenses in FY2012 as compared to FY 2011 were significantly higher, primarily due to a payment of approximately \$2.5 million to the United States Treasury. This payment was related to arbitrage earnings on various bonds and was supported by a letter from a third party indicating the amount owed. After excluding this one-time payment, expenses increased approximately 9% from FY 2011 to FY 2012.

Documentation the NMFA provided in support of the testing selections included vendor invoices, copies of check remittances and registration forms for trainings and corporate sponsorships. Based on the documentation provided for the vendors selected for testing, the vendors appeared to have a reasonable business purpose. There were two instances where vendor payments were made without approval or where approval was received after the payment was processed. It was observed that the employee who requests the goods or services is typically the individual who approves the invoice for payment.

### ***5.3.9. Fraudulent Disbursement – Journal Entries Related to LTIF and GRIP II***

- **Procedures Performed**

The Local Transportation Infrastructure Fund (LTIF) and Governor Richardson's Infrastructure Partnership II (GRIP II) programs were created through a partnership between the NMFA and the NMDOT and are used to fund local road improvements and various transportation projects. The NMFA currently manages a portion of the NMDOT's funds and invests these funds on behalf of the DOT. The NMFA receives a fee from the NMDOT of 0.5% of the funds managed and is required to place half of this fee (0.25%) in the LTIF to invest in future transportation projects.<sup>99</sup> Since the NMFA manages these funds, transactions involved in these programs were selected for testing.

To determine GL transactions that related to the LTIF and GRIP II, we reviewed the NMFA chart of accounts. Program code 21 is used for GRIP II transactions and program code 26 is used for LTIF transactions. The 2011 GL Extract was sorted for transactions using program codes 21 and 26, leaving approximately 17,500 transactions. Approximately 17,000 of these transactions are non-cash and relate to monthly overhead allocations used to allocate costs such as rent, utilities and office supplies by program code and fund type. One overhead allocation entry was selected for testing. The 424 non-overhead allocation transactions related to items such as payroll, monthly program activity and interest. The funds that are invested on behalf of the NMDOT are not accounted for by the NMFA and therefore were not part of these GL transactions. Eleven transactions were judgmentally selected from the population of non-overhead allocation transactions and supporting documentation was requested.

- **Observations**

Documentation the NMFA provided in support of these transactions included the journal entry voucher form with evidence of review and approval, bank statements, payroll uploads, various funding related documentation and other support specific to the nature of the transaction. As noted above, payroll journal entries are automated and therefore the journal voucher does not include evidence of approval. There were five instances where signoff was not included on the journal voucher or where supporting documentation included in the original journal entry packet was limited, requiring additional requests for supporting documentation. For each of these transactions, the subsequent documentation provided was sufficient to validate that

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<sup>99</sup> Section 6-21-6.8(B) NMSA



the transactions were legitimate. The remaining transactions tested appeared to have a valid business purpose and appropriate supporting documentation.

## 6. Findings

### 6.1. Finding 01 - NMFA Controller, Greg Campbell, Created and Issued a Fraudulent Audit Report of the NMFA's Financial Statements for the Fiscal Year Ended 2011

#### *Condition:*

In February, March and April of 2012 the NMFA's Controller, Greg Campbell, disseminated a fraudulent audit report for the NMFA's fiscal year ended 2011. Mr. Campbell fraudulently and improperly indicated that the NMFA FY 2011 audit report had been authored by the NMFA's IPA (Clifton). Furthermore, during Mr. Campbell's multiple communications in which he distributed the audit report, he deceptively indicated that the OSA had released the audit report prior to his distribution of the Fraudulent Audit Report.

On February 3, 2012 Mr. Campbell emailed the DFA a "final draft" of the Audit Report indicating that he needed to "touch base with the State Auditor's Office regarding the report submitted by our auditors." On March 12, 2012 Mr. Campbell sent a copy of the NMFA FY 2011 Audit Report to the NMFA's Chief Financial Strategist who then posted the Fraudulent Audit Report on the NMFA's website the very same day and emailed the Fraudulent Audit Report to Standards and Poor's bond rating company. On March 12, 2012 Mr. Campbell also provided the Fraudulent Audit Report to the NMFA's Disclosure Counsel for purposes of the upcoming bond sale. On April 23, 2012 Mr. Campbell presented the Fraudulent Audit Report to the NMFA's Audit Committee.

#### *Criteria:*

The New Mexico Uniform Securities Act provides for criminal sanctions for the conduct perpetrated by Mr. Campbell in the creation and publication of the Fraudulent Audit Report, including:

- **Section 58-13C-501 NMSA 1978:** "It is unlawful for a person, in connection with the offer, sale or purchase of a security, directly or indirectly: (A) to employ a device, scheme or artifice to defraud; (B) to make an untrue statement of a material fact or to omit to state a material fact necessary in order to make the statement made, in the light of the circumstances pursuant to which it is made, not misleading; or (C) to engage in an act, practice or course of business that operates or would operate as a fraud or deceit upon another person."
- **Section 58-13C-508(A) NMSA 1978:** "A person who "willfully" violates Section 501 [58-13C-501 NMSA 1978] or 502 [58-13C-502 NMSA 1978] of the New Mexico Uniform Securities Act is guilty of a third degree felony and, upon

conviction, shall be fined not more than five thousand dollars (\$5,000) or imprisoned not more than three years, or both, for each violation.”

- **Section 58-13C-508(E):** “An individual convicted of violating a rule or order pursuant to the New Mexico Uniform Securities Act may be fined, but shall not be imprisoned, if the individual did not have knowledge of the rule or order.”
- **Section 58-13C-508(F):** “For the purposes of this section, “willfully” means purposely or intentionally committing the act or making the omission and does not require an intent to violate the law or knowledge that the act or omission is unlawful.”
- **Section 58-13C-508(G):** “Each offense shall constitute a separate offense, and a prosecution for any one of such offenses shall not bar prosecution or conviction for any other offenses.”
- **Section 58-13C-508 (H):** “All persons convicted of criminal violations of the New Mexico Uniform Securities Act shall be sentenced in accordance with the Criminal Sentencing Act [31-18-12 NMSA 1978] or its successor statute.”
- **Section 58-13C-508(I):** “No indictment or information may be brought pursuant to this section more than five years after the alleged violation.”

***Effect:***

On July 12, 2012, the OSA designated the NMFA for a Special Audit. On July 13, 2012, the New Mexico Regulation and Licensing Department Securities Division began an investigation and subsequently executed search warrants on the NMFA offices. As a result of the Securities Division’s investigation, Mr. Campbell was arrested, indicted and subsequently pled guilty to one count of Forgery (Make or Alter), one count of Forgery (Issue or Transfer) and one count of Securities Fraud. Additionally, on July 13, 2012 and July 18, 2012, respectively, Moody’s placed the NMFA under review for downgrade and S&P placed the NMFA on CreditWatch with negative implications.

***Cause:***

The Fraudulent Audit Report was perpetrated by Mr. Campbell. The systemic issues that existed to allow Mr. Campbell to commit the fraud are discussed throughout this report.

***Recommendation:***

There does not appear to be any other state statutes Mr. Campbell may have violated when he issued the Fraudulent Audit Report. However, based upon the ramifications of issuing a Fraudulent Audit Report, there should be criminal penalties for falsely issuing an audit report, obstructing an audit, deceitfully using an IPA's name for purposes of issuing an audit report, and falsely indicating that the OSA released an audit report it did not.

## **6.2. Finding 02 - The NMFA Failed to Submit an Audit Recommendation and Audit Contract to the OSA for Approval for the NMFA's FY 2011 Financial Audit**

### ***Condition:***

The financial affairs of every agency shall be thoroughly examined and audited each year by the OSA or by an IPA approved by the OSA. In order to initiate the audit process, in mid-February of each year, the OSA instructs certain government agencies subject to the Audit Act to begin the process of procuring their IPA for their annual audit. Upon procurement of their IPA, the agency shall deliver a fully completed and signed IPA recommendation form and the completed audit contract to the OSA by its respective deadline.

Each contract for auditing entered into between an agency and an independent auditor must be approved in writing by the OSA prior to the IPA conducting the audit. On February 15, 2011 the OSA emailed the notification letter to begin the audit process for its FY 2011 financial audit to the NMFA CFO, John Duff. The NMFA's audit recommendation and audit contract was due to the OSA by June 1, 2011. However, the NMFA did not submit an audit recommendation and audit contract to the OSA for approval by the regulatory due date of June 1. There is no evidence that the NMFA submitted an audit recommendation and audit contract to the OSA at all for the FY 2011 audit.

On August 9, 2012, the NMFA Controller, Greg Campbell received an email from a Clifton Senior Associate inquiring as to the status of the audit contract. There is no evidence that Mr. Campbell responded to the email. However, on the very same day, Mr. Duff signed an engagement letter with Clifton dated May 9, 2011. There is no evidence that the engagement letter was submitted to the OSA.

### ***Criteria:***

The NMFA is subject to the jurisdiction of the State Auditor. When read together, the Audit Act and the enabling legislation that created the NMFA (NMFA Act) explicitly require the NMFA to conduct an annual financial audit. Specifically, the Audit Act provides as follows:

- **12-6-2(A) NMSA 1978:** "agency" means: "(3) any entity or instrumentality of the state specifically provided for by law, including the New Mexico finance authority."
- **12-6-3(A) NMSA 1978:** "Except as otherwise provided ... the financial affairs of every agency shall be thoroughly examined and audited each year by the state auditor, personnel of the state auditor's office designated by the state auditor or independent auditors approved by the state auditor."

- **12-6-14(A) NMSA 1978:** “The state auditor shall notify each agency designated for audit by an independent auditor, and the agency shall enter into a contract with an independent auditor of its choice in accordance with procedures prescribed by rules of the state auditor... Each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the state auditor.”

In addition, the enabling legislation that created the NMFA provides that:

- **6-21-4(F) NMSA 1978:** “The chief executive officer of the authority shall direct the affairs and business of the authority, subject to the policies, control and direction of the authority.”
- **6-21-21(D) NMSA 1978:** “The authority shall have an audit of its books and accounts made at least once each year by the state auditor or by a certified public accounting firm whose proposal has been reviewed and approved by the state auditor.”

Finally, the Audit Act’s implementing regulations, known as the “Audit Rule,” Section 2.2.2 NMAC, provide detailed requirements for the process that state agencies and political subdivisions of the state are required to use to complete their audit. These regulations include the following requirement that agencies specifically engage an IPA through an approved contract:

- **2.2.2.8.B(6)(a) NMAC:** “Agencies shall complete the IPA recommendation form for audits (the form) provided at [www.osanm.org](http://www.osanm.org). Agencies shall print the form on agency letterhead.
  - (b) Agencies shall complete the applicable audit contract form provided at [www.osanm.org](http://www.osanm.org), obtain the IPA’s signature on the contract, and submit the completed and signed audit contract to the office with the completed IPA recommendation form.
  - (c) The agency shall deliver the fully completed and signed IPA recommendation form for audits and the completed audit contract to the state auditor by the following deadline, depending on the type of agency: (v) councils of governments, district courts, district attorneys, and state agencies - June 1.”

In addition to the statutes and regulations described above, NMFA’s own internal policies address the need to conduct an annual financial audit, and the importance of that audit to the NMFA’s core operations. Specifically, those policies provide:

- **NMFA Financial Management Policy I - Audit Policies**

“The NMFA recognizes the importance of its annual audit to its bond rating and overall ability to assist New Mexico agencies, counties, municipalities and other entities in obtain low-cost financing for infrastructure and other capital and constructions projects. To this end, the NMFA’s audit policies specifically provide as follows:

*Overview*

The NMFA recognizes the importance of achieving an unqualified or “clean” audit opinion on our financial statements from our independent auditors each fiscal year. Our audit opinion impacts the ratings assigned by nationally recognized rating agencies on our bond issues and also reflects the financial soundness of the NMFA and the fiscal policies that guide our financial management and accounting practices.

As a frequent issuer of tax-exempt bonds, the Authority also understands the critical importance of being able to provide its audited financial statements on a timely basis to financial markets participants including ratings agencies, underwriters and investors.

*General Considerations*

In order to achieve and maintain the unqualified audit opinion each fiscal year, agency staff will take the following steps:

1. Maintain all accounting records in accordance with applicable Governmental Accounting Standards Board (GASB) pronouncements.
2. Seek professional advice as appropriate in recording complex and unusual transactions.
3. Maintain year-round communication with the independent auditors and provide them with all necessary documents and schedules as agreed in order to complete the audit efficiently and on schedule.
4. Take all necessary steps to ensure that the State Auditor approved contract is in place prior to commencement of any audit fieldwork performed by the auditors.
5. Contract with an accounting firm whose work will be directed by the NMFA Audit Committee, to provide internal audit services to further enhance the quality of the accounting records and minimize the possibilities of reportable findings by the external auditors.
6. Meet with the NMFA Audit Committee monthly to report on issues concerning financial reporting and audit matters. The external and internal auditors should also meet with the Committee as appropriate to report on the

progress of their work and to bring any issues they may have to the attention of the Committee.

7. The Audit Committee will report to the full NMFA Board on all matters discussed in Committee meetings.

In carrying out this policy, the NMFA will achieve the following goals:

1. An unqualified audit opinion each fiscal year, with no reportable and unreportable findings.
2. Complete the annual audit and file the audited financial statements with the State Auditor as soon as practical each year. The goal for filing with the Auditor will vary from year to year depending on circumstances, but should not be later than November 15.”

- **NMFA Standing Committees Description**

“So significant to the NMFA’s mission is the annual audit of its financial statements that it has an Audit Committee whose responsibilities include ensuring the NMFA’s audit is completed on a timely basis, and recommending operational measures that would enhance positive audit results.

More specifically, the purpose of the Audit Committee is to oversee the financial reporting and disclosure activity of the Authority. Its responsibilities include (1) oversight of financial reporting and accounting (2) oversight of the external auditor (3) oversight of regulatory compliance (in our case – governmental and financial reporting requirements) (4) monitoring the effectiveness of the internal control processes under which the Authority operates (5) oversight of risk management for the Authority (6) Audit Committees typically acquire consultants and experts in these areas to assist the Committee with its responsibilities. Currently, the Authority’s Audit Committee has the NMFA Standing Committees external auditors (Clifton) and the internal auditors (KPMG) report to the Committee on the aspects of the Authority’s financial reporting and accounting, effectiveness of internal control processes, regulatory compliance as well as areas of risk as it relates to the operations of the Authority.”

***Effect:***

The NMFA violated the Audit Act and Audit Rule with regards to the contracting process. The NMFA also failed to comply with the NMFA Act which requires an annual audit be conducted by either the OSA or an IPA approved by the OSA. Furthermore, the NMFA violated its own internal policies to ensure “all necessary steps” were taken to make sure the



OSA audit contract was approved “prior to commencement of any audit fieldwork performed by the auditors.” Moreover, the Audit Committee failed in its duties and responsibilities as delineated in the NMFA internal document on standing committees.

***Cause:***

The NMFA failed to submit the IPA recommendation form or an audit contract to the OSA. During our investigation we did not identify any NMFA internal communications regarding the IPA recommendation form or audit contract prior to June 2011. However, on August 9, 2011, a Clifton Senior Associate sent an email to Mr. Campbell asking if the audit contract had been approved by the OSA. Mr. Campbell did not respond to Clifton’s email. However, on the same day Mr. Duff signed an engagement letter with Clifton dated May 9, 2011.

There is no evidence that Mr. Duff inquired of Mr. Campbell as to the status of the audit contract even though Mr. Duff signed the audit contracts for fiscal years ended 2009 and 2010. There is also no evidence that the NMFA CEO, Rick May, inquired as to the status of the audit contract even though his role as CEO required him to “direct the affairs and business of the authority, subject to the policies, control and direction of the authority.” Mr. May did not ensure compliance with the NMFA financial management policy in order that “all necessary steps” were taken “to ensure that the State Auditor approved contract” was in place “prior to commencement of any audit fieldwork performed by the auditors.”

There is no evidence that the NMFA Audit Committee inquired of management as to the status of the audit contract with Clifton even though the Audit Committee was responsible for overseeing the financial reporting and accounting for the NMFA, the external auditors, and compliance of regulatory oversight such as the OSA. Furthermore, there is no indication that the Board asked about the audit contract even though statutorily they were required to ensure the NMFA books were audited on an annual basis by either the OSA or “a certified public accounting firm whose proposal has been reviewed and approved by the state auditor.”

***Recommendation:***

Executive management and the Board should become familiar with statute, regulation and policy related to the contracting process. Members of executive management and members of the Board should consider attending the OSA’s annual Audit Rule training to make certain they understand the OSA contracting requirements. Furthermore, executive management should create a reminder system prior to the June 1 deadline to ensure that the NMFA submits an audit recommendation and contract to the OSA for approval on a timely basis. Moreover, the NMFA Audit Committee, and possibly the NMFA Board, should have a discussion topic on their

## Findings

meeting agenda to guarantee that the NMFA submits an audit recommendation and contract to the OSA for approval prior to June 1.

### **6.3. Finding 03 - Clifton Failed to Complete Certain Statutory and Regulatory Audit Process Requirements for the NMFA's FY 2011 Financial Audit.**

#### ***Condition:***

The NMFA did not submit an IPA recommendation form or an audit contract to the OSA for the FY 2011 audit. These forms were due to the OSA by June 1, 2011. In fiscal years ended 2009 and 2010, the NMFA did submit an audit recommendation form and audit contract to the OSA for approval prior to the June 1 deadline. In both years, the audit contract was signed by the NMFA CFO, John Duff, and the Clifton Audit Partner. On August 9, 2011 Clifton emailed the NMFA's Controller, Greg Campbell to ask if their contract with the OSA was approved. Mr. Campbell did not respond to the email, but on the same day Mr. Duff signed an engagement letter dated May 9, 2011. There is no evidence that Clifton followed up regarding the audit contract or that they provided the engagement letter to the OSA pursuant to the Audit Rule. Furthermore, Clifton received \$67,600 in audit fees for the NMFA's FY 2011 audit even though there was not a signed and approved contract between the NMFA and Clifton.

On May 23, 2011, Clifton and the NMFA held a planning meeting for the FY 2011 audit. In attendance were Mr. Campbell, Mr. Duff and several members of Clifton's audit team. Clifton also had a meeting with the Audit Committee on May 23, 2011. In attendance were the NMFA Board Chair, the Chairman of the Audit Committee and Mr. Campbell. Documents received from Clifton indicate that they were targeting a September 27, 2011 date of completion for the audit.

Other than the May 2011 planning meeting, we did not identify any evidence that Clifton met with the NMFA Audit Committee to report on the progress of their work or to notify them of the delay in the audit after performing their field work in August 2011. Furthermore, there appears to have been no communication between the NMFA and Clifton between September 23, 2011 and July 2012.

Additionally, we did not identify any evidence to indicate that Clifton communicated with the OSA that the NMFA's FY 2011 audit report would not meet the regulatory due date of December 15, 2011. The Audit Rule requires IPAs to provide written notification to the State Auditor "as soon as the auditor becomes aware that circumstances exist that will make an agency's audit report late." Clifton failed to comply with this requirement.

Our investigation found that Clifton never held an exit conference with the NMFA for the FY 2011 audit. Communication between Clifton and the NMFA ceased after September 23, 2011, and Clifton did not complete fieldwork or finalize an audit report. Management for the NMFA also never signed a management representation letter for the FY 2011 audit. These failures were in contrast to what occurred during the FY 2009 and FY 2010 audits.

**Criteria:**

- **Section 12-6-14(B) NMSA 1978:** “The state auditor or personnel of the state auditor's office designated by the state auditor shall examine all reports of audits of agencies made pursuant to contract. Based upon demonstration of work in progress, the state auditor may authorize progress payments to the independent auditor by the agency being audited under contract. Final payment for services rendered by an independent auditor shall not be made until a determination and written finding that the audit has been made in a competent manner in accordance with the provisions of the contract and applicable rules by the state auditor.”
- **2.2.2.8.B(6)(a) NMAC:** “Agencies shall complete the IPA recommendation form for audits (the form) provided at [www.osanm.org](http://www.osanm.org). Agencies shall print the form on agency letterhead.
  - (b) Agencies shall complete the applicable audit contact form provided at [www.osanm.org](http://www.osanm.org), obtain the IPA's signature on the contract, and submit the completed and signed audit contract to the office with the completed IPA recommendation form.
  - (c) The agency shall deliver the fully completed and signed IPA recommendation form for audits and the completed audit contract to the state auditor by the following deadline, depending on the type of agency: (v) councils of governments, district courts, district attorneys, and state agencies - June 1.”
- **2.2.2.8.L(3) NMAC:** “To fulfill communication requirements, IPAs shall prepare a written and dated engagement letter during the planning stage of a financial audit, addressed to the appropriate officials of the agency, keeping a photocopy of the signed letter as part of the audit documentation.”
- **2.2.2.8.L(6) NMAC:** “Within 10 days of the entrance conference, the IPA shall submit to the state auditor an electronic copy of the signed and dated engagement letter and a list of client prepared documents with expected delivery dates, which should facilitate meeting the audit due date in Subsection A of 2.2.2.9 NMAC. A separate engagement letter and list of client prepared documents is required for each fiscal year audited.”
- **2.2.2.9.A NMAC:** “The auditor shall deliver the organized and bound annual financial audit report to the state auditor by 5:00 p.m. on the date specified in the audit contract or send it post marked by the due date.
  - (1) The audit report due dates are as follows:

- (g) state agency reports are due no later than 60 days after the financial control division of the department of finance and administration provides the state auditor with notice that the agency's books and records are ready and available for audit; see Paragraph (1) of Subsection A at 2.2.2.12 NMAC for additional details regarding due dates for state agencies;
- (2) If an audit report is not delivered on time to the state auditor, the auditor must include this instance of noncompliance with Subsection A of 2.2.2.9 NMAC as an audit finding in the audit report. This requirement is not negotiable. If appropriate, the finding should also be reported as an instance of deficiency, significant deficiency, or material weakness in the operation of internal control in the agency's internal controls over financial reporting.
- (3) An organized bound hard copy of the report should be submitted for review by the office with the following: a copy of the signed management representation letter; a list of the passed audit adjustments, clearly labeled "passed adjustments" (or memo stating there are none); and a copy of the completed state auditor report review guide (available at [www.saonm.org](http://www.saonm.org)). An electronic copy of the signed and dated engagement letter should also be submitted if it was not previously submitted pursuant to Paragraph (6) of Subsection L of 2.2.2.8 NMAC. A report will not be considered submitted to the office for the purpose of meeting the deadline until an electronic copy of the signed engagement letter (if not previously submitted), a copy of the signed management representation letter, the list of passed adjustments, and the completed report review guide are also submitted to the office.
- (4) SAS No. 103 requires the auditor's report to be dated after audit evidence supporting the opinion has been obtained and reviewed, the financial statements have been prepared and the management representation letter has been signed. SAS No. 113 Paragraph 14 requires the management representation letter to be dated the same date as the independent auditor's report.
- (5) As soon as the auditor becomes aware that circumstances exist that will make an agency's audit report late, the auditor shall notify the state auditor and oversight agency of the situation in writing. There must be a separate notification for each late audit report. The notification must include a specific explanation regarding why the report will be late, when the IPA expects to submit the report and a concurring signature by the agency. A copy of the letter must be sent to the legislative finance committee and the applicable oversight agency: public education department, DFA's financial control division, DFA's local government division, or the higher education department. At the time the audit report is due, if circumstances still exist that will make the report late, the IPA

or agency may consult the state auditor regarding the opinion to be rendered, but such a discussion should occur no later than the date the audit report is due. It is not the responsibility of the auditor to go beyond the scope of auditing standards generally accepted in the United States of America, or the audit report due date, to assure an unqualified opinion.”

- **2.2.2.10.I(2) NMAC:** “GAGAS Section 4.09 (July 2007 Revision) requires auditors to "evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives." In addition to this standard, the IPA will report the status of all prior-year findings in the current year audit report including the prior year number, the title of the finding, and whether the finding has been resolved or repeated in the current year. Findings from Special Audits performed by the state auditor must be included in the findings of the annual financial and compliance audits of the related fiscal year.”
- **2.2.2.10.I(4) NMAC:** “Failure to file the audit report by the due date set in 2.2.2.9 NMAC is considered noncompliance with this rule and shall be reported as a current year compliance finding. If appropriate in the auditor's professional judgment, the finding should also be reported as a significant deficiency in the operation of internal control over financial reporting.”
- **2.2.2.10.I(7) NMAC:** “A release of the audit report by the IPA or agency prior to being officially released by the state auditor is a violation Section 12-6-5(A) NMSA 1978 and will require an additional finding in the audit report.”
- **2.2.2.10.J(1) NMAC:** “The IPA must hold an exit conference with representatives of the agency's governing authority and top management including representatives of any component units (housing authorities, charter schools, hospitals, foundations, etc.) if applicable. The exit conference must be held in person; a telephone or webcam exit conference will not meet this requirement unless a telephonic or webcam exit conference is approved in writing by the state auditor prior to the exit conference. The date of the conference(s) and the names and titles of personnel attending must be stated in the last page of the audit report.”

- **2.2.2.10.J(2) NMAC:** “The IPA shall deliver to the agency a complete and accurate draft of the audit report (stamped "draft"), a list of the "passed audit adjustments," and a copy of all the adjusting journal entries before the exit conference. The draft audit report shall include the MD&A, independent auditor's report, a complete set of financial statements, notes to the financial statements, required schedules, audit findings that include responses from agency management, status of prior-year audit findings, and the reports on internal control and compliance required by government auditing standards and the Single Audit Act. The agency will have at least five (5) business days to review the draft audit report and respond to the IPA regarding any issues that need to be resolved prior to the agency accepting responsibility for the financial statements by signing and dating the management representation letter.”
- **2.2.2.10.J(3)(d) NMAC:** “Once the audit report is officially released to the agency by the state auditor (by an authorizing letter) and the required waiting period of five calendar days has passed, unless waived, the audit report shall be presented by the IPA, to a quorum of the governing authority of the agency at a meeting held in accordance with the Open Meeting Act, if applicable. The presentation of the audit report should be documented in the minutes of the meeting. See SAS 114 Paragraph 34 through 36 for information that should be communicated to those charged with governance.”
- **2.2.2.12.A(1) NMAC:** “Due dates for agency audits: Section 12-6-3(C) NMSA 1978 states that state agency reports are due no later than 60 days after the financial control division of DFA provides the state auditor with notice that the agency's books and records are ready and available for audit. ... The sixty days to the audit deadline will be based on the date of the financial control division's notification to the state auditor, which will be based on input from the agency to the financial control division and the agency's schedule of deliverables and milestones; however, the deadline cannot extend beyond December 15.”

***Effect:***

Clifton failed to follow steps in the audit process and they failed to follow up with executive management, the Audit Committee and the Board regarding the status of the audit and the delay in completing the FY 2011 audit. Had Clifton had better communication with the NMFA as a whole, Mr. Campbell may not have disseminated a Fraudulent Audit Report and deceptively claimed it was authored by Clifton and reviewed and released by the OSA.

***Cause:***

Clifton failed to follow certain steps in the audit process such as completing an audit contract, informing the OSA that the NMFA FY 2011 audit would be late, meeting with the NMFA on a regular basis, and communicating the status of the audit and the delay in completing the FY 2011 audit process to the Audit Committee and Board. There is no evidence that Clifton communicated with anyone at the NMFA regarding the FY 2011 audit after September 2011 until the discovery of the Fraudulent Audit Report in July 2012.

***Recommendation:***

The IPA should have more communication with the agency and when they are not receiving information on a timely basis they should communicate with other members of the NMFA staff and the Board. The NMFA should consider setting time limits for audit requests and if no response is received within this time frame, the auditor should contact a member of the Audit Committee designated to handle such issues.

The NMFA should consider having the IPA directly report to the Audit Committee so that the Audit Committee can closely monitor the audit process and have the sole responsibility for hiring, paying, retaining, overseeing, and if necessary, firing the IPA. The Audit Committee should ensure they have regular communication with the IPA. This may include having the IPA attend Audit Committee meetings while the audit is ongoing. The Audit Committee should consider having standing agenda items involving: (1) timing and status of the audit (2) difficulties in performing the audit or obtaining information and (3) significant accounting policy changes. There should be minutes maintained of these Audit Committee meetings.

Furthermore, executive management should have a reminder system and the Audit Committee, and possibly the Board, should have an agenda item at their meetings so that both the executive management and the governing authority can flag the approval of an audit contract, existence of an exit conference, when the audit report is submitted for review to the OSA, when the audit report is released by the OSA and when the Board should hold a meeting of the quorum in which the IPA presents the final audit report.



#### **6.4. Finding 04 - Clifton Failed to Communicate with the NMFA for Months While Conducting its FY 2011 Financial Audit**

***Condition:***

In accordance with the Audit Act and the Audit Rule, the annual audit must be conducted in accordance with governmental auditing, accounting and financial reporting standards. In addition, there are certain auditing standards IPAs must comply with when communicating with their client. Based upon our evidence, Clifton failed to meet certain standards.

On May 23, 2011, Clifton and the NMFA held a planning meeting for the FY 2011 audit. In attendance were NMFA Controller, Greg Campbell, NMFA CFO John Duff, and several members of Clifton's audit team. Clifton also had a meeting with the Audit Committee on May 23, 2011. In attendance were the NMFA Board Chair, the Chairman of the Audit Committee and Mr. Campbell. Documents received from Clifton indicate that they were targeting a September 27, 2011 date of completion for the audit.

On August 9, 2011, Mr. Duff signed an engagement letter (dated May 9, 2011) with Clifton to conduct the NMFA's FY 2011 financial audit. The engagement letter and the attached professional services agreement were provided to the NMFA to "clarify the nature, extent and limitations of the auditing and non-attest services to be provided."

On September 23, 2011, Clifton emailed Mr. Campbell and Mr. Duff that they were trying to obtain a "reasonable idea" of when Clifton would be able to "wrap up this audit." Clifton indicated that they had not "received correspondence from anyone for several weeks and are concerned about the deadline of September 30, 2011. After last years [sic] missed date, the Audit Committee requested that we communicate with them ahead of time if the due date was going to be missed. At this point, we think we need to contact someone and inform them of the status..." There is no evidence that Mr. Campbell or Mr. Duff responded to this email or that Clifton contacted the Audit Committee or the Board about the delay in the audit.

We did not identify any evidence that Clifton met with the NMFA Audit Committee to report on the progress of their work or to notify them of the delay in finalizing the audit after performing their fieldwork in August 2011. Furthermore, there appears to have been no communication between the NMFA and Clifton on the FY 2011 audit between September 23, 2011 and July 2012.

Moreover, our investigation found that Clifton never held an exit conference with the NMFA for the FY 2011 audit. Communication between Clifton and the NMFA ceased after September 23, 2011, and Clifton did not complete fieldwork or finalize an audit report. Management for the NMFA also never signed a management representation letter for the FY 2011 audit. These failures were in contrast to what occurred during the FY 2009 and FY 2010 audits.

Finally, after learning that Mr. Campbell issued the Fraudulent Audit Report, on August 31, 2012, the NMFA terminated its relationship with Clifton. There is no evidence that Clifton documented the reason for the termination of the agreement, or communicated the results of their work through the date of termination.

***Criteria:***

There are a number of audit standards that require an auditor to maintain communication with its client, the audited entity. They include:

- **GAGAS (July 2007 version) Section 4.05:** “Under AICPA standards and GAGAS, auditors should communicate with the audited entity their understanding of the services to be performed for each engagement and document that understanding through a written communication. GAGAS broadens the parties included in the communication and the items for the auditors to communicate.”
- **GAGAS Section 4.06:** “Under GAGAS, when planning the audit, auditors should communicate certain information in writing to management of the audited entity, those charged with governance, and to the individuals contracting for or requesting the audit. When auditors perform the audit pursuant to a law or regulation and they conduct the work directly for the legislative committee that has oversight of the audited entity, auditors should communicate with the legislative committee. In those situations where there is not a single individual or group that both oversees the strategic direction of the entity and the fulfillment of its accountability obligations or in other situations where the identity of those charged with governance is not clearly evident, the auditor should document the process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications. Auditors should communicate the following additional information under GAGAS:
  - a. The nature of planned work and level of assurance to be provided related to internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.
  - b. Any potential restriction on the auditors' reports, in order to reduce the risk that the needs or expectations of the parties involved may be misinterpreted.”
- **GAGAS Section 4.07:** “Under AICPA standards and GAGAS, tests of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements in a financial statement audit contribute to the evidence supporting the auditors' opinion on the financial statements or other

conclusions regarding financial data. However, such tests generally are not sufficient in scope to provide an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant agreements. To meet the needs of certain audit report users, laws and regulations sometimes prescribe supplemental testing and reporting on internal control over financial reporting and compliance with laws, regulations, and provisions of contracts and grant agreements.”

- **GAGAS Section 4.08:** “If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the audit, and other appropriate officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment.”
- **SAS 114 Paragraph 3(a):** “Those charged with governance means the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. For entities with a Board, this term encompasses the term Board of Directors or Audit Committee used elsewhere in generally accepted auditing standards.”
- **SAS 114 Paragraph 7:** “The principal purposes of communication with those charged with governance are to: (a) communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the scope and time of the audit; (b) obtain from those charged with governance information relevant to the audit; and (c) provide those charged with governance with timely observations arising from the audit that are relevant to their responsibilities in overseeing the financial reporting process.”
- **SAS 114 Paragraph 112:** “The auditor should determine appropriate person(s) within the entity’s governance structure with whom to communicate. The appropriate person(s) may vary depending on the matter to be communicated.”
- **SAS 114 Paragraph 114:** “In most entities, governance is the collective responsibility of a governing body, such as a Board of Directors. When governance is a collective responsibility, a subgroup, such as an Audit Committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities.”

- **SAS 114 Paragraph 117:** “Good governance principles suggest that: (a) the auditor have access to the Audit Committee as necessary; (b) the chair of the Audit Committee and, when relevant, the other members of the Audit Committee, meet with the auditor periodically; and (c) the Audit Committee meets with the auditor with management present at least annually.”
- **SAS 114 Paragraph 20:** “Before communicating matters with those charged with governance, that auditor may discuss them with management unless that it is inappropriate.”
- **SAS 114 Paragraph 26:** “The auditor should communicate with those charged with governance that auditor’s responsibilities under generally accepted auditing standards, including that: (a) the auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles; and (b) the audit of the financial statements does not relieve management or those charges with governance of their responsibilities. These responsibilities may be communicated through the engagement letter, or other form of contract that records the terms of the engagement.”
- **SAS 114 Paragraph 29:** “The auditor should communicate with those charged with governance an overview of the planned scope and timing of the audit.”
- **SAS 114 Paragraph 39:** “The auditor should inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit. Significant difficulties encountered during the audit may include such matters as: (a) significant delays in management providing required information; and (b) extensive unexpected effort required to obtain sufficient appropriate audit evidence.”
- **SAS 114 Paragraph 48:** “The auditor should communicate with those charged with governance the form, timing and expected general content of communications. Clear communications of the auditor’s responsibilities, an overview of the planned scope and timing of the audit, and the expected general criteria of communications help establish the basis for effective two-way communication.”
- **SAS 114 Paragraph 56:** “The auditor should communicate with those charged with governance on a sufficiently timely basis to enable those charged with governance to take appropriate action.”

- **SAS 114 Paragraph 59:** “The auditor should evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor should take appropriate action to address the effectiveness of the communication process.”
- **SAS 114 Paragraph 60:** “Inadequate two-way communication may indicate an unsatisfactory control environment, which will influence the auditor’s assessment of the risks of material misstatements.”
- **SAS 114 Paragraph 62:** “If in the auditor’s judgment, the two way communication between the auditor and those charged with governance is not adequate, there is a risk the auditor may not have obtained all the audit evidence required to form an opinion on the financial statements.”

***Effect:***

Clifton failed to communicate with those charged with governance, including the NMFA Audit Committee and the NMFA Board, that the FY 2011 audit was delayed and ultimately never completed by Clifton. In early 2012, Mr. Campbell fabricated the audit report and disseminated the Fraudulent Audit Report to many external parties alleging the audit report was authored by Clifton and reviewed and released by the OSA.

***Cause:***

There were many systemic issues at the NMFA that contributed to the environment which allowed Mr. Campbell to create the Fraudulent Audit Report. Clifton contributed to the environment by not timely communicating with those charged with governance as to the delay in completing the FY 2011 audit. There was no communication between Clifton and the NMFA between September 23, 2011 and July 2012. Furthermore, there is no evidence that Clifton communicated with the Audit Committee or Board outside the May 2011 planning committee.

***Recommendation:***

The auditor needs to ensure they are adequately and timely communicating with their client. Furthermore, the NMFA Audit Committee and the NMFA Board should ensure they are communicating with their IPA on a timely and regular basis, especially while the audit is being conducted. The Board should consider making the Audit Committee directly responsible for their external auditors. This would include having the auditor attend the Audit Committee meetings while the audit is ongoing.

## Findings

Furthermore, executive management should have a reminder system, and the Audit Committee and possibly the Board should have an agenda item at their meeting, in which both the executive management and the Board can flag the approval of an audit contract, existence of an exit conference, when the audit report is submitted for review to the OSA, when the audit report is released by the OSA and when the Board should hold a meeting of the quorum in which their IPA presents the final audit report.

Finally, the auditor should be required to maintain all communications regarding previous audit findings and compliance with the OSA's Audit Rule in their working papers.

## **6.5. Finding 05 - The NMFA Failed to Detect That an Exit Conference Was Not Held with Its Independent Public Accountant Prior to the Release of the Audit Report**

### ***Condition:***

NMFA Controller, Greg Campbell, issued a Fraudulent Audit Report for the NMFA's fiscal year ended 2011. In the furtherance of issuing the Fraudulent Audit Report, Mr. Campbell deceptively included a page in the Fraudulent Audit Report stating that an exit conference was held on Saturday December 10, 2011. The audit report stated Mr. Campbell, NMFA CFO, John Duff, the Audit Committee, and the Audit Partner from Clifton attended the audit exit conference.

There is no evidence to indicate that the exit conference on December 10, 2011 ever occurred. Furthermore, there is no evidence that the individuals listed as attending the exit conference actually detected that the information provided in the audit report was inaccurate. There is also no evidence that members of executive management, the Audit Committee or the Board detected the discrepancy in the audit report even when a meeting with the Audit Committee was coordinated in April 2012 to be the exit conference.

On April 23, 2012, Mr. Campbell coordinated a meeting of the NMFA's Audit Committee during which an exit conference on the FY 2011 audit was scheduled, despite the fact that Mr. Campbell had represented, and Mr. May had reported to the Board, that the OSA approved and officially released the audit report. The meeting agenda indicated that Clifton would present the FY 2011 audit report at the meeting. On the morning of the meeting, the Fraudulent Audit Report was distributed to the Audit Committee as well as other materials for the meeting. However, once the meeting began, Mr. Campbell represented to the Audit Committee that there had been a "schedule mix-up" and that Clifton could not attend the meeting. It appears that there was minimal discussion about the audited financial statements, and then the Audit Committee moved to accept the Fraudulent Audit Report.

At the April 27, 2012 meeting of the NMFA Board, the Chair of Audit Committee reported on the Audit Committee's April 23, 2012 meeting. The April 27, 2012 Board meeting minutes state the following: "Staff presented the 2011 financial audit. [The Audit Committee Chair] said the Committee accepted the Audit Report with an unqualified opinion and zero findings."

### ***Criteria:***

- **Section 2.2.2.10.J(1) NMAC:** "The IPA must hold an exit conference with representatives of the agency's governing authority and top management including representatives of any component units (housing authorities, charter schools,

hospitals, foundations, etc.) if applicable. The exit conference must be held in person; a telephone or webcam exit conference will not meet this requirement unless a telephonic or webcam exit conference is approved in writing by the state auditor prior to the exit conference. The date of the conference(s) and the names and titles of personnel attending must be stated in the last page of the audit report.”

***Effect:***

The NMFA’s Controller, Greg Campbell, issued a Fraudulent Audit Report for the NMFA’s fiscal year ended 2011. Mr. Campbell was able to perpetrate the fraud without any members of the NMFA executive management, Audit Committee or the Board detecting the fraud.

***Cause:***

There is no evidence that Mr. Duff or members of the Audit Committee inquired of Mr. Campbell about the exit conference supposedly held on Saturday December 10, 2011, even though they were listed as attending the exit conference. There is also no evidence of the executive management, the Audit Committee or members of the Board inquired about the exit conference even when it was listed as occurring on a weekend. Moreover, no one questioned Clifton not being present at the April “exit conference” or that this exit conference occurred months after the audit had supposedly been submitted to the OSA. A close review of the audit report was not conducted by all parties involved.

***Recommendation:***

Executive management and the Board should become familiar with the OSA Audit Rule by reading its contents and possibly attending the OSA’s annual Audit Rule training. NMFA staff should provide audit reports to the Audit Committee and the Board in advance so that they have sufficient time to review them in detail. Additionally, before an audit report is released to investors and other stakeholders, members of executive management and the Board should review the report closely. If there are areas of the report that appear to have discrepancies, executive management, the Audit Committee and the Board should investigate the discrepancies prior to the report being distributed.



## **6.6. Finding 06 - The NMFA Failed to Submit Its FY 2011 Audit Report by the Required Due Dates**

### ***Condition:***

The NMFA established an internal policy in which their annual audit report would be submitted to the OSA no later than November 15. Furthermore, the OSA has a regulation that state agencies, including, the NMFA must submit their annual audit report to the OSA no later than December 15. The NMFA did not submit their fiscal year ended 2011 financial audit report by either the November 15, 2011 or December 15, 2011 deadlines.

On December 19, 2011, Greg Campbell told the NMFA CFO, John Duff that the audit report had been submitted to the OSA on December 10, 2011. There is no evidence that members of the NMFA management or Board questioned Mr. Campbell's assertion that the NMFA FY 2011 audit report was submitted on December 10, 2011 even though certain communications indicated otherwise.

For instance:

On September 23, 2011, Clifton emailed Mr. Campbell and Mr. Duff, that the FY 2011 audit was not complete and that they had not received correspondence from the NMFA for "several weeks." There is no evidence that Mr. Campbell or Mr. Duff responded to the email.

On January 5, 2012, the DFA emailed Mr. Duff to let him know that Mr. Campbell was not providing requested information related to the FY 2011 audit. Mr. Duff forwarded the email to Mr. Campbell and asked him to respond to DFA.

On January 26, 2012, DFA emailed Mr. Campbell, Mr. Duff and NMFA CEO, Rick May, and requested an update on the FY 2011 audit. DFA indicated that the OSA did not have information relating to the NMFA's FY 2011 audit and that DFA would have to reschedule the CAFR review because the NMFA's audit report was not yet submitted.

On January 27, 2012, Mr. May emailed Mr. Campbell and Mr. Duff asking why DFA needed the information related to the NMFA's FY 2011 audit. There is no evidence that he questioned why the OSA had no information related to the FY 2011 audit. On the same day, Mr. May emailed DFA that Mr. Campbell would provide the requested information.

On February 1, 2012, DFA responded to Mr. May informing him that the NMFA's late audits had been "significant contributing factor on the lateness of the CAFR."

On February 3, 2012, Mr. Campbell emailed DFA the "final draft" of the FY 2011 audit report.

On February 22, 2012, Mr. Campbell emailed an unsigned draft of the Fraudulent Audit Report to Mr. Duff. There is no evidence that Mr. Duff questioned why Mr. Campbell was

sending an unsigned draft of the audit report approximately two months after Mr. Campbell said the audit report was submitted to the OSA for review and release.

On March 22, 2012, during an NMFA Board meeting Mr. May “reported the State Auditor has approved the NMFA audit with zero findings,” even though the Fraudulent Audit Report erroneously contained a late audit finding that Mr. Campbell copied from the NMFA’s 2010 audit report.

On April 23, 2012, Mr. Campbell coordinated a meeting of the NMFA’s Audit Committee during which an exit conference on the FY 2011 audit was scheduled, despite the fact that Mr. Campbell had represented, and Mr. May had reported to the Board, that the OSA approved and officially released the audit report. The meeting agenda indicated that Clifton would present the FY 2011 audit report at the meeting. On the morning of the meeting, the Fraudulent Audit Report was distributed to the Audit Committee as well as other materials for the meeting. However, once the meeting began, Mr. Campbell represented to the Audit Committee that there had been a “schedule mix-up” and that Clifton could not attend the meeting. It appears that there was minimal discussion about the audited financial statements, and then the Audit Committee moved to accept the Fraudulent Audit Report.

At the April 27, 2012 meeting of the NMFA Board, the Chair of Audit Committee reported on the Audit Committee’s April 23, 2012 meeting. The April 27, 2012 Board meeting minutes state the following: “Staff presented the 2011 financial audit. [The Audit Committee Chair] said the Committee accepted the Audit Report with an unqualified opinion and zero findings.”

On May 23, 2012, the OSA issued its first “At Risk” list that included agencies that had not submitted audit reports for FY 2011 and earlier fiscal years. The NMFA appeared on this list, which the OSA initially sent to its standard distribution list of oversight agencies. As such, the OSA sent the list to the NMFA by fax, specifically to Mr. May.

On May 24, 2012, the OSA sent a second letter directly to Mr. May notifying him that the OSA had designated the NMFA “at risk” because the agency’s FY 2011 audit report had not been submitted to the OSA by the applicable deadline pursuant to the Audit Act and Audit Rule.

Upon receipt of this list on May 24, 2012, Mr. May and Mr. Duff met with Mr. Campbell to find out why the NMFA was on the list. Mr. Campbell has indicated that he conveyed to Mr. May and Mr. Duff that the FY 2011 audit report had been filed and he would follow up with the OSA. Mr. Campbell also has indicated that later that afternoon he represented to both Mr. May and Mr. Duff that he had followed up with the OSA and that the NMFA would be taken off the ‘At Risk’ list.

On June 26, 2012, the OSA issued its next “At Risk” list and the NMFA again appeared on the list. The OSA again faxed the list directly to Mr. May as well as the standard distribution list for oversight agencies.

On July 3, 2012, a staff member from the LFC sent an email to Mr. May and Mr. Duff inquiring as to the status of the NMFA's FY 2011 audit and indicating that she had received a legislative inquiry because the NMFA appeared on the "At Risk" list.

On July 10, 2012, Clifton confirmed to Mr. Duff and Mr. May that the NMFA's FY 2011 audit was never issued.

The trigger which ultimately led to the identification of the Fraudulent Audit Report was the "At Risk" list published by the OSA for FY 2011 government agency audit reports, beginning in May 2012. Even after multiple notifications from multiple sources to NMFA executive management that the NMFA audit had not been completed, Mr. Campbell managed to maintain his deception of management. It wasn't until after the LFC inquired of the NMFA in July 2012 as to the NMFA being on OSA's June 2012 "At Risk" list did NMFA executive management begin investigating the Fraudulent Audit Report.

After the discovery of the Fraudulent Audit Report, the NMFA Board terminated their agreement with Clifton and subsequently hired the audit firm of REDW, LLC to complete the FY 2011 audit. REDW's anticipated completion for the audit is December 2012.

***Criteria:***

- **12-6-3(D) NMSA 1978:** "Annual financial and compliance audits of agencies under the oversight of the financial control division of the department of finance and administration shall be completed and submitted by an agency and independent auditor to the state auditor no later than sixty days after the state auditor receives notification from the financial control division to the effect that an agency's books and records are ready and available for audit."
- **2.2.2.12.A(1):** "Section 12-6-3(D) NMSA 1978 states that state agency reports are due no later than 60 days after the financial control division of DFA provides the state auditor with notice that the agency's books and records are ready and available for audit. The sixty days to the audit deadline will be based on the date of the financial control division's notification to the state auditor, which will be based on input from the agency to the financial control division and the agency's schedule of deliverables and milestones; however, the deadline cannot extend beyond December 15."

- **NMFA Financial Management Policy I - Audit Policies**

"The NMFA recognizes the importance of its annual audit to its bond rating and overall ability to assist New Mexico agencies, counties, municipalities and other entities in obtain low-cost financing for infrastructure and other capital and

constructions projects. To this end, NMFA's audit policies specifically provide as follows:

*Overview*

The NMFA recognizes the importance of achieving an unqualified or "clean" audit opinion on our financial statements from our independent auditors each fiscal year. Our audit opinion impacts the ratings assigned by nationally recognized rating agencies on our bond issues and also reflects the financial soundness of the NMFA and the fiscal policies that guide our financial management and accounting practices.

As a frequent issuer of tax-exempt bonds, the Authority also understands the critical importance of being able to provide its audited financial statements on a timely basis to financial markets participants including ratings agencies, underwriters and investors.

*General Considerations*

In order to achieve and maintain the unqualified audit opinion each fiscal year, agency staff will take the following steps:

1. Maintain all accounting records in accordance with applicable Governmental Accounting Standards Board (GASB) pronouncements.
2. Seek professional advice as appropriate in recording complex and unusual transactions.
3. Maintain year-round communication with the independent auditors and provide them with all necessary documents and schedules as agreed in order to complete the audit efficiently and on schedule.
4. Take all necessary steps to ensure that the State Auditor approved contract is in place prior to commencement of any audit fieldwork performed by the auditors.
5. Contract with an accounting firm whose work will be directed by the NMFA Audit Committee, to provide internal audit services to further enhance the quality of the accounting records and minimize the possibilities of reportable findings by the external auditors.
6. Meet with the NMFA Audit Committee monthly to report on issues concerning financial reporting and audit matters. The external and internal auditors should also meet with the Committee as appropriate to report on the progress of their work and to bring any issues they may have to the attention of the Committee.
7. The Audit Committee will report to the full NMFA Board on all matters discussed in Committee meetings.

In carrying out this policy, the NMFA will achieve the following goals:

1. An unqualified audit opinion each fiscal year, with no reportable and unreportable findings.
2. Complete the annual audit and file the audited financial statements with the State Auditor as soon as practical each year. The goal for filing with the Auditor will vary from year to year depending on circumstances, but should not be later than November 15.”

- **NMFA Standing Committees Description**

“So significant to NMFA’s mission is the annual audit of its financial statements that it has an Audit Committee whose responsibilities include ensuring NMFA’s audit is completed on a timely basis, and to recommending operational measures that would enhance positive audit results.

More specifically, the purpose of the Audit Committee is to oversee the financial reporting and disclosure activity of the Authority. Its responsibilities include (1) oversight of financial reporting and accounting (2) oversight of the external auditor (3) oversight of regulatory compliance (in our case – governmental and financial reporting requirements) (4) monitoring the effectiveness of the internal control processes under which the Authority operates (5) oversight of risk management for the Authority (6) Audit Committees typically acquire consultants and experts in these areas to assist the Committee with its responsibilities. Currently, the Authority’s Audit Committee has the NMFA Standing Committees external auditors (Clifton) and the internal auditors (KPMG) report to the Committee on the aspects of the Authority’s financial reporting and accounting, effectiveness of internal control processes, regulatory compliance as well as areas of risk as it relates to the operations of the Authority.”

***Effect:***

The NMFA violated its own internal policy and OSA regulation when it failed to submit its FY 2011 audit report to the OSA by September 27, 2011, November 15, 2011 and December 15, 2011, respectively. Furthermore, because of the NMFA’s lack of oversight, The NMFA’s Controller, Greg Campbell, was able to issue the Fraudulent Audit Report without any detection by members of the NMFA for almost seven months.

***Cause:***

The NMFA failed to submit its FY 2011 audit by the OSA's regulatory due date of December 15, 2011. During our investigation we did identify that Mr. Campbell deceitfully told Mr. Duff that the FY 2011 audit report was submitted on December 10, 2011. There is no evidence that Mr. Duff questioned Mr. Campbell's assertion even though Mr. Duff was sent an email by Clifton on September 23, 2011 stating that the audit was not complete and that Clifton had not received correspondence from the NMFA for "several weeks."

Furthermore, there were other communications that occurred after December 19, 2011 with Mr. Duff that indicated the audit was not submitted as previously stated by Mr. Campbell. For example, DFA sent an email to Mr. Campbell, Mr. Duff and Mr. May in January 2012 indicating that the OSA did not have the NMFA's FY 2011 Audit Report. Moreover, Mr. Duff did not question that he was provided a draft report by Mr. Campbell months after Mr. Campbell represented that the final audit report had been submitted to the OSA. Additionally, Mr. Duff failed to question why Clifton was not present at the April 2012 exit conference which Mr. Campbell fabricated. Mr. Duff was not closely monitoring the audit process. Had he been, he may have been able to prevent the creation and publication of the Fraudulent Audit Report that was ultimately disseminated to outside parties.

There is no evidence of the NMFA CEO, Rick May, questioning that the NMFA FY 2011 audit report was submitted timely even though the NMFA missed its internal deadline of November 15. Furthermore, there is no evidence that Mr. May even questioned the submission of the audit report despite receiving multiple communications from DFA and OSA after the December deadline clearly indicating the audit report had not been submitted. Mr. May was not closely monitoring the audit process. Had he been, he may have been able to prevent the creation and publication of the Fraudulent Audit Report that was ultimately disseminated to outside parties.

Lastly, despite the institutionally recognized importance of the annual financial audit to the NMFA's core operations, there is no evidence that the Audit Committee paid any attention to the FY 2011 audit process. Instead the evidence demonstrates that the Audit Committee failed to meet for months during the period of time in which the FY 2011 report was supposedly being generated. In addition to this obvious failing by the Audit Committee, the NMFA Board failed to question why they were presented with the audit report five months late (at the Campbell-contrived exit conference in April 2012), nor did they question why they were told the report contained no findings, when in fact a quick glance at the Fraudulent Audit Report would have disclosed the existence of a finding. There is no evidence that the Audit Committee or the Board questioned the existence of the finding, but instead accepted the Fraudulent Audit Report as presented. Moreover, the Board did not question why the IPA did not show up for a meeting with the quorum of the Board to present the final audit report.

***Recommendation:***

Executive management and the Board should become familiar with statute, regulation and policy related to the audit report submission process. Members of executive management and members of the Board should consider attending the OSA's annual Audit Rule training to make certain they understand the OSA audit reporting requirements. Furthermore, executive management and members of the Board should review NMFA policies on an annual basis to become familiar with them and ensure their policies are obtainable and current.

Additionally, executive management should create a reminder system prior to the December 15 deadline to ensure that the NMFA submits the audit report prior to the regulatory due date. The Audit Committee and possibly the Board should have an item on their meeting agenda, to guarantee the NMFA submits its audit report by the regulatory due date of December 15.

Executive management, the Audit Committee and the Board should closely monitor the audit process, closely review their audit report, and should question inconsistencies and irregularities. Included in this would be clearly defining the roles and responsibilities of NMFA staff and management with regard to the audit. For example, the NMFA should consider requiring the CFO and CEO to review and sign off on the Audit Report and should document evidence of this review prior to submitting the Audit Report to the OSA. The NMFA should document the Audit Committee's approval of the Audit Report at the exit conference and the Board's approval of the Audit Report after it has been released by the OSA. Lastly, the NMFA should consider incorporating into staff and management's performance reviews the timely completion of its annual financial audit and adequate communication regarding the audit process.

## **6.7. Finding 07 - The NMFA Failed to Submit Its Financial Statements to DFA FCD in a Timely Fashion and the NMFA Provided DFA FCD Unaudited Financial Statements**

### ***Condition:***

Under state law, the Department of Finance and Administration's Financial Control Division (FCD) is responsible for compiling the Comprehensive Annual Financial Report (CAFR) and each state agency is required to assist in the compilation of the CAFR by providing its financial statements to the FCD. The CAFR presents the financial statements and other statistical information for the various department and funds of the State of New Mexico, including the State's component units. As a component unit of the State of New Mexico, the NMFA's financial information is discretely presented in the CAFR. It is expected that the agencies will provide financial statements to FCD on a timely basis for purposes of the CAFR. That was not the case with the NMFA for purposes of their FY 2011 audit.

An FCD CAFR Unit Manager initially sent an email to the NMFA's Controller, Greg Campbell, on December 13, 2011 requesting the NMFA's financial information so that it may be incorporated into the CAFR. Following various requests by the FCD CAFR Unit Manager over the ensuing several weeks (which are discussed in detail below), on February 3, 2012, Mr. Campbell emailed the FCD CAFR Unit Manager a document which he represented to be the "final draft of the Audit Report."

Below is the sequence of communications between the NMFA, the FCD, and the OSA:

On December 13, 2011, the FCD emailed Mr. Campbell to get the NMFA's FY 2011 draft financial statements. There is no evidence that Mr. Campbell responded to this email.

On December 27, 2011, the FCD emailed the OSA to obtain a listing the agencies that had not yet submitted their FY 2011 audit reports. The OSA provided a listing that indicated the NMFA had not submitted their FY 2011 audit report.

On December 28, 2011, the FCD emailed Mr. Campbell asking when the NMFA's draft financial statements would be available. The email also indicated that the OSA did not have the NMFA's audit report yet. There is no evidence that Mr. Campbell responded to the email.

On January 3, 2012, the FCD emailed Mr. Campbell asking for the contact information for the NMFA's auditors. The email was sent high priority.

On January 5, 2012, the FCD emailed the NMFA CFO, John Duff, asking for his assistance in getting the NMFA's draft financial statements and their auditors' contact information. The email was sent high priority.



On January 5, 2012, Mr. Duff forwarded the FCD CAFR Unit Manager's email to Mr. Campbell and asked him to answer the CAFR Unit Manager's questions.

On January 9, 2012, Mr. Campbell emailed the FCD the contact information for the NMFA's auditors. Mr. Campbell also attached "a draft of the final audited financial statements."

On January 12, 2012 the FCD emailed Mr. Campbell asking when they should expect "a complete draft." "You have provided enough information for us [to] move forward, however, we will still need a complete draft to complete the work on the CAFR." The email was sent high priority. There is no evidence that Mr. Campbell responded to the email.

On January 26, 2012, the FCD emailed Mr. Campbell, Mr. Duff, and NMFA CEO, Rick May asking for an "update on the 2011 audit." "I haven't received an update and the State Auditor's Office does not have any info your NMFA [sic]. We need the entire draft to complete the CAFR. Please let me know, I may have to reschedule the auditors arrival because the CAFR is still missing the complete information for NMFA."

On January 27, 2012, Mr. May emailed Mr. Campbell and Mr. Duff asking why the NMFA is part of the "State's CAFR" when it is "not a state agency." He also stated "Let's talk briefing [sic] on Monday morning."

On January 27, 2012, Mr. May emailed the FCD stating "If you have not heard back from Greg Campbell yet, you will on Monday morning. I did not realize that the Finance Authority's audit was part of the CAFR."

On February 1, 2012, the FCD emailed Mr. May stating "I haven't heard from Greg yet... This is the third year that the NMFA has been a significant contributing factor on the lateness of the CAFR. The other concern that I have is if there isn't a problem, why isn't the audit done? This concern has also been raised by the CAFR auditors, which I have been unable to provide them with an adequate answer... In fairness, Greg has already provided the financial statements (balance sheet and income statements) and debt information. However, the entire draft is necessary because we mesh most of NMFA's draft into the CAFR's footnotes to disclose NMFA's accounting policies and composition of many balances on the balance sheet. I have made it a practice to not rely on someone's word, when I can rely on a document supporting the information being presented to me by an individual... I just want to complete the CAFR in a timely manner and can't do it without NMFA's help."

On February 3, 2012, Greg Campbell emailed the FCD stating "Attached is the final draft of the Audit Report. I need to touch based with the State Auditor's Office regarding the report submitted by our auditors."

The file Mr. Campbell sent to the FCD CAFR Unit Manager on February 3, 2012 was a PDF document with the NMFA financial statements, notes, supplementary schedules, Independent Auditor Reports, and exit conference disclosure. This document reflected a date of

December 10, 2011 on each of the Independent Auditor Reports and represented that an exit conference between Clifton and the NMFA was held on December 10, 2011. However, the report sent to the FCD CAFR Unit Manager did not include the official Clifton letterhead, footer, or signature. Additionally, some of the financial information included in the report differed from the financial information included in the final Fraudulent Audit Report. Based on the metadata in the document sent to FCD, it appears that Mr. Campbell printed the report from a Microsoft Word file to PDF format shortly before he emailed it to the FCD on the morning of February 3, 2012. The financial information in this version of the Fraudulent Audit Report appears to have been incorporated into the CAFR and the CAFR has not been revised as of the date of this Special Audit Report.

***Criteria:***

- **Section 6-5-4.1 NMSA 1978:** “FCD shall compile a comprehensive annual financial report. To assist in the compilation of the report, each state agency shall compile, in accordance with generally accepted accounting principles, its financial statements on a schedule established by FCD.”
- **Section 12-6-5(A) NMSA 1978:** “The state auditor shall cause a complete written report to be made of each annual or Special Audit and examination made. Each report shall set out in detail, in a separate section, any violation of law or good accounting practices found by the audit or examination. A copy of the report shall be sent to the agency audited or examined; five days later, or earlier if the agency waives the five-day period, the report shall become a public record, at which time copies shall be sent to: (1)the secretary of finance and administration; and (2)the legislative finance committee.”
- **Section 2.2.2.12.A(16) NMAC:** “An agency shall provide a copy of its draft audited financial statements to financial control division in order that the division may compile the CAFR. This specific requirement can be viewed as an exception to the general requirement of Section 12-6-5 NMSA 1978. However, the agency may only release that information to the financial control division and not the public. The agency's audit report also is not public record unless released in accordance with Section 12-6-5 NMSA 1978.”

***Effect:***

The NMFA’s failure to provide the FCD financial statements on a timely basis caused FCD to spend unnecessary time trying to obtain financial statements from the NMFA. In several

communications from the FCD to the NMFA, the FCD indicated that the NMFA's lack of cooperation caused delay in compiling the CAFR. The FCD also indicated they may be required to delay the CAFR auditors because of the NMFA's lack of cooperation. Furthermore, when the NMFA did finally provide the FCD information, it was the Fraudulent Audit Report created by Mr. Campbell.

***Cause:***

Mr. Campbell ignored the FCD's request for the NMFA draft financial statements for several months until the FCD reached out to the NMFA executive management for their help. When Mr. Campbell finally did provide information to FCD, it was the Fraudulent Audit Report with unaudited financial statements.

There is evidence that Mr. Duff did email Mr. Campbell once asking him to answer the FCD's questions. Mr. Duff's email to Mr. Campbell occurred after FCD emailed Mr. Duff asking for his help. There is no evidence that Mr. Duff ever questioned Mr. Campbell about his delay in providing the information to the FCD if the audit report was submitted on December 10, 2011. Furthermore there is no evidence that Mr. Duff questioned Mr. Campbell about the FCD's January 26, 2012 email that the OSA did not have the NMFA's FY 2011 audit report.

Mr. May provided a response email to the FCD's January 26, 2012 email, informing them that they would be hearing from Mr. Campbell no later than Monday January 30, 2012. However, Mr. May did not respond to FCD's statement that the OSA did not have the NMFA's FY 2011 audit. On February 1, 2012, the FCD emailed Mr. May informing them they had not heard from Mr. Campbell. In the email FCD expressed concern that "if there isn't a problem, why isn't the audit done?" A response to this email was not located.

Executive management was given information in January 2012 that the OSA had not received the NMFA's financial audit and that the FCD was repeatedly requesting the NMFA's financial statements from Mr. Campbell. Yet they never questioned Mr. Campbell or asked him to produce proof of the audit. Furthermore, they never followed up with the OSA or Clifton, as to the status of the FY 2011 audit. The first time executive management inquired of the OSA or Clifton was July 2012.

***Recommendation:***

Executive management, the Audit Committee and possibly the Board should make it a priority to ensure the NMFA provides its draft financial statements to the FCD on a timely basis. It may be helpful for them to create a reminder system and include it as possible discussion item during their meetings to ensure the financial statements are provided to the FCD timely.

## Findings

Furthermore, the Audit Committee may consider taking responsibility for the submission of draft financial statements to the FCD.

## **6.8. Finding 08 - The NMFA Violated State Law by Disbursing Public Funds to Clifton for Audit Fees Without an Audit Contract**

### ***Condition:***

On four separate occasions from May 2011 through October 2011, NMFA Controller, Greg Campbell authorized payment to Clifton for audit fees related to the NMFA's fiscal year ended 2011 financial audit report. The amount of audit fees paid to Clifton by the NMFA totaled \$67,600. It appears that the payments to Clifton were approved manually by Mr. Campbell rather than going through the normal electronic approval process. These payments were made even though the NMFA and Clifton did not enter into a signed and executed audit contract that had to be approved in writing by the OSA. The only agreement between the NMFA and Clifton was an engagement letter signed by NMFA CFO, John Duff, on August 9, 2011.

### ***Criteria:***

- **Section 12-6-14(A) NMSA 1978:** "Pursuant to the Audit Act, specifically §12-6-14(A) NMSA 1978, each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the state auditor." The Audit Act further provides that "payment of public funds may not be made to an independent auditor unless a contract is entered into and approved by the state auditor."

### ***Effect:***

Clifton received \$67,600 in audit fees even though an audit contract was not entered into between the NMFA and Clifton for the FY 2011 financial audit.

### ***Cause:***

The NMFA failed to submit the IPA recommendation form or an audit contract to the OSA. During our investigation we did not identify any NMFA internal communications regarding the IPA recommendation form or audit contract prior to June 2011. However, on August 9, 2011, a Clifton Senior Associate sent an email to Mr. Campbell, asking if the audit contract had been approved by the OSA. Mr. Campbell did not respond to Clifton's email. However, on the same day, Mr. Duff, signed an engagement letter dated May 9, 2011.

There is no evidence that Mr. Duff inquired of Mr. Campbell as to the status of the audit contract even though Mr. Duff signed the audit contracts for fiscal years ended 2009 and 2010.

There is also no evidence that NMFA CEO, Rick May, inquired as to the status of the audit contract even though his role as CEO required him to “direct the affairs and business of the authority, subject to the policies, control and direction of the authority.” As such, the NMFA did not ensure compliance with its Audit Policies that require “all necessary steps” be taken “to ensure that the State Auditor approved contract” was in place “prior to commencement of any audit fieldwork performed by the auditors.”

There is no evidence that the NMFA Audit Committee inquired of executive management as to the status of the audit contract with Clifton even though the Audit Committee was responsible for overseeing the financial reporting and accounting for the NMFA, the external auditors, and compliance of regulatory oversights such as the OSA. Furthermore, there is no indication that the Board asked about the audit contract even though, statutorily, they were required to make certain the NMFA books were audited on an annual basis by either the OSA or “a certified public accounting firm whose proposal has been reviewed and approved by the state auditor.”

Furthermore, Mr. Campbell authorized payments to Clifton for audit fees even though the NMFA did not have an executed and approved audit contract.

***Recommendation:***

NMFA executive management and the Board should become familiar with statute, regulation and policies related to the contracting process to ensure compliance. Members of executive management and members of the Board should attend the OSA’s annual Audit Rule training to make sure they understand the OSA contracting requirements. Furthermore, before a payment is made to the IPA for audit services executive management and the Board should make certain that the audit contract has been executed and approved by the OSA.

## **6.9. Finding 09 - The NMFA's Audit Committee and Board Failed to Detect the Fraudulent Audit Report for Fiscal Year Ended 2011**

### ***Condition:***

In February, March and April of 2012 the NMFA's Controller, Greg Campbell, disseminated a Fraudulent Audit Report for the NMFA's fiscal year ended 2011. Mr. Campbell falsely represented that the NMFA FY 2011 Audit Report had been authored by the audit firm Clifton. Furthermore, during Mr. Campbell's multiple communications in which he distributed the audit report, he deceptively indicated that the OSA had released the audit report prior to his distribution of the Fraudulent Audit Report. Evidence suggests that the Audit Committee and the Board had very little interaction with NMFA management about the NMFA's FY 2011 audit. As a result, the Audit Committee and the Board failed to detect the issuance of the Fraudulent Audit Report by Mr. Campbell.

The Audit Committee should participate in both an entrance conference and an exit conference. We did not identify any evidence that Clifton met with the NMFA Audit Committee to report on the progress of completing their work or to notify them of a delay in finalizing the audit after performing their field work in August 2011. The Audit Committee did not participate in an exit conference for the FY 2011 audit on the date indicated in the Fraudulent Audit Report (December 10, 2011). In fact, the Audit Committee did not meet between August 2011 and April 2012.

However, on April 23, 2012, the Audit Committee did meet and the FY 2011 audit was one of the agenda items. Mr. Campbell coordinated this meeting and its agenda, and in the agenda indicated that Clifton would be presenting the FY 2011 audit at the meeting. On the morning of the meeting, the Fraudulent Audit Report was distributed to the Audit Committee as well as other materials for the meeting. However, once the meeting began, Mr. Campbell represented to the Audit Committee that there had been a 'schedule mix-up' and that the audit partner from Clifton could not attend the meeting. It appears that there was minimal discussion about the audited financial statements, and then the Audit Committee moved to accept the Fraudulent Audit Report.

In addition to an exit conference, once the audited financial statements are officially released the IPA should present them to a quorum of the Board. In the April 27, 2012 Board meeting, as part of the Report from the Chairperson of the Audit Committee reported on the April 23, 2012 Audit Committee meeting. The Chairperson reported that "staff presented the 2011 financial audit." The Chairperson also noted that the Audit Report included an "unqualified opinion and zero findings." However, for FY 2011 no evidence was identified to indicate that Clifton presented the Audit Report to the Board as required by the Audit Rule.

**Criteria:**

- **6-21-21(D) NMSA 1978:** “The authority shall have an audit of its books and accounts made at least once each year by the state auditor or by a certified public accounting firm whose proposal has been reviewed and approved by the state auditor. The cost of the audit shall be an expense of the authority. Copies of the audit shall be submitted to the governor and the New Mexico finance authority oversight committee and made available to the public.”
  
- **2.2.2.8.J(2) NMAC:** “The financial statements are the responsibility of the agency. The agency shall maintain adequate accounting records, prepare financial statements in accordance with accounting principles generally accepted in the United States of America, and provide complete, accurate, and timely information to the IPA as requested to meet the audit report due date deadline imposed in Subsection A of 2.2.2.9 NMAC.”
  
- **2.2.2.10.J(1) NMAC:** “The IPA must hold an exit conference with representatives of the agency's governing authority and top management including representatives of any component units (housing authorities, charter schools, hospitals, foundations, etc.) if applicable. The exit conference must be held in person; a telephone or webcam exit conference will not meet this requirement unless a telephonic or webcam exit conference is approved in writing by the state auditor prior to the exit conference. The date of the conference(s) and the names and titles of personnel attending must be stated in the last page of the audit report.”
  
- **2.2.2.10.J(3)(d) NMAC:** “Once the audit report is officially released to the agency by the state auditor (by an authorizing letter) and the required waiting period of five calendar days has passed, unless waived, the audit report shall be presented by the IPA, to a quorum of the governing authority of the agency at a meeting held in accordance with the Open Meeting Act, if applicable. The presentation of the audit report should be documented in the minutes of the meeting. See SAS 114 Paragraph 34 through 36 for information that should be communicated to those charged with governance.”
  
- **NMFA Financial Management Policy I - Audit Policies**  
  
“The NMFA recognizes the importance of its annual audit to its bond rating and overall ability to assist New Mexico agencies, counties, municipalities and other entities in obtain low-cost financing for infrastructure and other capital and constructions projects. To this end, NMFA’s audit policies specifically provide as follows:



*Overview*

The NMFA recognizes the importance of achieving an unqualified or “clean” audit opinion on our financial statements from our independent auditors each fiscal year. Our audit opinion impacts the ratings assigned by nationally recognized rating agencies on our bond issues and also reflects the financial soundness of the NMFA and the fiscal policies that guide our financial management and accounting practices.

As a frequent issuer of tax-exempt bonds, the Authority also understands the critical importance of being able to provide its audited financial statements on a timely basis to financial markets participants including ratings agencies, underwriters and investors.

*General Considerations*

In order to achieve and maintain the unqualified audit opinion each fiscal year, agency staff will take the following steps:

1. Maintain all accounting records in accordance with applicable Governmental Accounting Standards Board (GASB) pronouncements.
2. Seek professional advice as appropriate in recording complex and unusual transactions.
3. Maintain year-round communication with the independent auditors and provide them with all necessary documents and schedules as agreed in order to complete the audit efficiently and on schedule.
4. Take all necessary steps to ensure that the State Auditor approved contract is in place prior to commencement of any audit fieldwork performed by the auditors.
5. Contract with an accounting firm whose work will be directed by the NMFA Audit Committee, to provide internal audit services to further enhance the quality of the accounting records and minimize the possibilities of reportable findings by the external auditors.
6. Meet with the NMFA Audit Committee monthly to report on issues concerning financial reporting and audit matters. The external and internal auditors should also meet with the Committee as appropriate to report on the progress of their work and to bring any issues they may have to the attention of the Committee.
7. The Audit Committee will report to the full NMFA Board on all matters discussed in Committee meetings.

In carrying out this policy, the NMFA will achieve the following goals:

1. An unqualified audit opinion each fiscal year, with no reportable and unreportable findings.
2. Complete the annual audit and file the audited financial statements with the State Auditor as soon as practical each year. The goal for filing with the Auditor will vary from year to year depending on circumstances, but should not be later than November 15.”

- **NMFA Standing Committees Description**

“So significant to NMFA’s mission is the annual audit of its financial statements that it has an Audit Committee whose responsibilities include ensuring NMFA’s audit is completed on a timely basis, and to recommending operational measures that would enhance positive audit results.

More specifically, the purpose of the Audit Committee is to oversee the financial reporting and disclosure activity of the Authority. Its responsibilities include (1) oversight of financial reporting and accounting (2) oversight of the external auditor (3) oversight of regulatory compliance (in our case – governmental and financial reporting requirements) (4) monitoring the effectiveness of the internal control processes under which the Authority operates (5) oversight of risk management for the Authority (6) Audit Committees typically acquire consultants and experts in these areas to assist the Committee with its responsibilities. Currently, the Authority’s Audit Committee has the NMFA Standing Committees external auditors (Clifton) and the internal auditors (KPMG) report to the Committee on the aspects of the Authority’s financial reporting and accounting, effectiveness of internal control processes, regulatory compliance as well as areas of risk as it relates to the operations of the Authority.”

***Effect:***

A Fraudulent Audit Report was distributed by the NMFA Controller, Greg Campbell, without the Audit Committee or the Board detecting the Fraudulent Audit Report.

***Cause:***

There were many systemic issues creating the environment for Mr. Campbell to draft and publish the Fraudulent Audit Report. The Audit Committee and the Board contributed to the environment by failing in their duties and responsibilities related to the FY 2011 audit. There is no evidence that the NMFA Audit Committee inquired of management as to the status of the audit with Clifton even though the Audit Committee was responsible for overseeing the financial

reporting and accounting for the NMFA, the external auditors, and compliance of regulatory oversight such as the OSA. Furthermore, the Audit Committee did not adequately communicate with Clifton while the FY 2011 was being conducted nor did they closely read the FY 2011 Fraudulent Audit Report. The Audit Committee failed to detect that Mr. Campbell had deceptively indicated that they participated in an exit conference on December 10, 2011. Furthermore, the Audit Committee did not ensure that an exit conference was held between the NMFA and Clifton for the FY 2011 audit. At the April 23, 2012 meeting of the Audit Committee in which Mr. Campbell stated that Clifton could not attend the meeting, no member of the Audit Committee questioned Mr. Campbell about the “schedule mix-up” or suggested a rescheduling of the meeting when the auditors could attend.

Moreover, there is no indication that the Board asked about the audit even though statutorily they were required to ensure the NMFA books were audited on an annual basis by either the OSA or “a certified public accounting firm whose proposal has been reviewed and approved by the state auditor.” The Board also did not read the Fraudulent Audit Report closely nor did they question why a meeting of the quorum of the Board where Clifton would present the final Audit Report did not occur. The Board failed to detect in the Fraudulent Audit Report that members of the Board were listed as attending an exit conference on Saturday December 10, 2011. Furthermore, at the April 27, 2012 meeting, when the Chairperson of the Audit Committee announced that there were no findings in the Fraudulent Audit Report, no member of the Board questioned that there was actually a finding contained in the Fraudulent Audit Report they received. Mr. Campbell had apparently carried it over from the FY 2012 Audit Report by mistake.

***Recommendation:***

The NMFA should consider requiring the Audit Committee to meet at least quarterly and more frequently while the financial audit is being conducted. Minutes should be kept from these meetings (including the entrance and exit conferences), and approved at the subsequent Audit Committee meeting. Furthermore, the NMFA may want to consider having the external auditors report directly to the Audit Committee so that the Audit Committee has the sole responsibility for hiring, paying, retaining, overseeing, and if necessary, firing the external auditors. This would include having the auditors attend Audit Committee meetings while the audit is ongoing.

The Board should revisit and revise, if necessary, the NMFA’s audit policy and its description on standing committees so that it understands its duties and responsibilities with regard to the NMFA’s financial audit process. Furthermore, NMFA staff should provide audit reports to the Audit Committee and the Board in advance so that they have sufficient time to review them in detail. The NMFA may also want to consider providing Audit Committee members, and possibly the Board, information in their Board packets on the Audit Rule and other audit-related guidance.

## Findings

Finally, the Audit Committee and possibly the Board should have an discussion item on their meeting agenda to guarantee that an exit conference with the external auditors occurs, the audit report is submitted to the OSA, the audit report is released by the OSA, and a meeting of the quorum of the Board occurs in which the external auditor presents the final Audit Report.

## **6.10. Finding 10 - The NMFA's Accounting Policy and Procedure Documents Are Not comprehensive and Are Outdated**

### ***Condition:***

The NMFA provided their Accounting Procedures manual, along with checklists and an AP Procedures document. We noted that the Accounting Procedures manual had not been updated to reflect the NMFA's current GL system, which has been in use since 2009 or the reconciliation process for the Bank of New York Mellon accounts since the accounts were pooled. Additionally, this document did not include procedures related to items such as the external audit process or creating the financial statements for the audit report. Procedures related to other processes, e.g. disbursements, are primarily documented through checklists that are maintained separately. Completed checklists are only inconsistently included within journal entry supporting documentation.

### ***Criteria:***

- **NMSA 1978 6-21-6(F):** "The authority shall establish fiscal controls and accounting procedures that are sufficient to assure proper accounting for public project revolving fund payments, disbursements and balances."
- **GFOA Best Practice – Documentation of Accounting Policies and Procedures:**

**“Background:** Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.

**Recommendation:** Every government should document its accounting policies and procedures. Traditionally, such documentation has taken the form of an accounting policies and procedures manual. Thanks to advances in technology, even more effective methods are now also available for this purpose.

An appropriate level of management to emphasize their importance and authority should promulgate accounting policies and procedures. The documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years, according to a predetermined schedule. Changes in policies and procedures that occur between these periodic

reviews should be updated in the documentation promptly as they occur. A specific employee should be assigned the duty of overseeing this process. Management is responsible for ensuring that this duty is performed consistently.

The documentation of accounting policies and procedures should be readily available to all employees who need it. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the documentation of accounting policies and procedures should indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed rather than in some idealized form. Also, the documentation of accounting policies and procedures should explain the design and purpose of control related procedures to increase employee understanding of and support for controls.”

***Effect:***

Lack of documented policies and procedures may lead to inconsistencies in practice between employees, and may mean that certain steps are not completed in accordance with policy. Additionally, the new employee onboarding process relies on training provided by other employees as they are unable to refer to documented procedures. Finally, if a key employee were to leave, remaining employees may not be aware of how to perform certain procedures. For example, Mr. Campbell was the main individual at the NMFA who knew how to complete the financial statements for the audit report. While Mr. Campbell walked through this process with his successor before he left, there were no documented procedures his successor could refer to if he had questions. NMFA Accounting Staff noted several other areas where Mr. Campbell was the only employee knowledgeable about procedures.

***Cause:***

It appears that documenting Accounting Department policies and procedures was not a priority. Attention was diverted to various other areas and the need for documented policies and procedures was likely put on the back burner. Additionally, there does not appear to have been a requirement for checklists to be included in journal entry packets, and therefore this practice was inconsistently applied.

***Recommendation:***

The NMFA should develop a comprehensive and current Accounting Policies and Procedures manual or repository. This manual should include policies and procedures related to

## Findings

the external audit, as well as other accounting procedures such as daily and monthly reconciliations, cash receipts, journal entry documentation, etc. The manual should also integrate the procedures currently included in separate documents and checklists, e.g. AP.

The Audit Committee, Executive Management, and the Accounting Department should be responsible for reviewing the Accounting Policies and Procedures manual on annual basis, or after a significant change in process or system, and ensuring that policies and procedures are updated as necessary.

Additionally, procedures should be implemented to require the consistent use and review of checklists in areas such as disbursements and month-end.

## **6.11. Finding 11 - Errors Were Noted in Bank Reconciliations Performed by the NMFA**

### ***Condition:***

During bank reconciliation testing, we reviewed the monthly bank reconciliations for the operating and wire accounts. Through this review, three errors were found in the reconciliations which may have been caught if the reconciliations had been timely reviewed by appropriate personnel. One of these errors related to a voided check that was not correctly cancelled in the system. As a result, there was a variance from the general ledger for several months until the system was updated to reflect the cancelled check.

### ***Criteria:***

- **NMSA 1978 6-21-6(F):** “The authority shall establish fiscal controls and accounting procedures that are sufficient to assure proper accounting for public project revolving fund payments, disbursements and balances.”
- Proper internal controls require that an organization compare their books and records to balances held at the banks. Additionally, voided checks should be tracked so that they cannot be used inappropriately.

### ***Effect:***

The individual responsible for bank reconciliations could incorrectly complete the reconciliation to conceal theft. Alternatively, the individual completing the reconciliation could incorrectly complete the reconciliation leading to an undetected accounting error. In the instance of the voided check, the general ledger was misstated for a period of time as it reflected a check payment that had been voided.

### ***Cause:***

Bank reconciliations were being prepared but were not being reviewed by an appropriate individual. Additionally, it does not appear that the NMFA was tracking voided checks.



***Recommendation:***

Appropriate personnel should review monthly bank reconciliations. The review should be documented on the hard copy bank reconciliation which should contain corresponding support (i.e. bank statement, details regarding reconciling items, etc.). Additionally, the NMFA should consider creating a voided check log to help ensure voided checks are also cancelled in the system.

## **6.12. Finding 12 - Instances Were Noted Where Accounts Payable Invoices Lacked Approval or Were Approved After Payment**

### ***Condition:***

During vendor testing, we judgmentally selected vendors for testing and requested supporting documentation for all payments made to the selected vendors during FY 2011. In this documentation, we noted two instances where the invoice lacked approval or was approved after the check or wire transfer was processed. We also observed that it is NMFA policy that the employee who requested the goods or service would typically approve the invoice for payment. The CFO, CEO or Controller would then sign the check for payment.

### ***Criteria:***

- **NMSA 1978 6-21-6(F):** “The authority shall establish fiscal controls and accounting procedures that are sufficient to assure proper accounting for public project revolving fund payments, disbursements and balances.”
- NMFA procurement policies require all invoices to be reviewed or approved prior to being submitted for payment. Proper internal controls require a segregation of duties between preparation and approval of procurement requests.

### ***Effect:***

Payments could have been issued for unauthorized expenses and employees can potentially make inappropriate or fraudulent purchases that they can then approve for payment.

### ***Cause:***

Proper procurement procedures were not followed for selected invoices. Additionally, NMFA policies stated that the same individual who requested the services should approve payment of invoices based on their familiarity with the expense.

### ***Recommendation:***

Documentation for invoices approved for payment should include the check remittance, invoice and evidence of invoice approval. Additionally, the NMFA should consider

## Findings

implementing approval limits for invoices. Evidence of approval and the date approved should be documented on the invoice and obtained prior to payment.

The NMFA should segregate the preparation and approval of procurement requests. Approvals should be made by those with proper authority. In addition, those that prepare or approve the request should not approve the cash disbursement.

### **6.13. Finding 13 – Intergovernmental Receivables are Not Tracked Outside of the NMFA and Instances were Noted where Loan information was Incomplete.**

#### ***Condition:***

During loan confirmation testing, we requested contact information for borrowers included in our selected in order to obtain balance confirmations. We found that borrower contact information for several the loans selected was out-of-date, requiring additional research to identify the correct contact person.

During our testing, we also noted that certain loans that are included within the loans receivable balance on the financial statements had the characteristics of intergovernmental receivables, i.e. the obligation was with another state entity and was backed by allocated tax revenues. While we noted that the NMFA does carry certain loans on its financial statements as intergovernmental receivables, we were not able to determine the methodology used by the NMFA for characterizing certain obligations as loans rather than intergovernmental receivables. For these loans, the agency provided as the point of contact (e.g. GSD) was aware that they had received funds for their project, but were not actively monitoring the related obligation or the remaining balance of the obligation. Through our inquiries, we were not able to identify a point of contact at another agency who was tracking the outstanding balance on these obligations other than the NMFA.

#### ***Criteria:***

- **NMSA 1978 6-21-6(F):** “The authority shall establish fiscal controls and accounting procedures that are sufficient to assure proper accounting for public project revolving fund payments, disbursements and balances.”
- Best practices would recommend that borrower information be kept up to date.
- The NMFA is required to accurately classify its assets and liabilities. For each loan or intergovernmental receivable, there should be a responsible party appointed from the borrower or debtor to track the obligation.

#### ***Effect:***

A fraudulent loan could have been created in the system with an incorrect contact. Additionally, certain obligations may be misclassified as loans rather than intergovernmental receivables on the NMFA's financial statements. As there does not appear to be another party

## Findings

tracking the outstanding balance of these ‘intergovernmental receivables,’ incoming funds could be fraudulently diverted or fraudulent disbursements could be made.

### ***Cause:***

The NMFA did not update loan system contact information on a regular basis.

Certain intergovernmental receivables may be classified as loans on NMFA's books. Additionally, it is not clear if the borrowers/debtors are properly tracking the obligations.

### ***Recommendation:***

The NMFA should review borrower contact information on a regular basis and update as needed. Additionally, the NMFA should establish clear criteria based upon authoritative guidance when determining which assets should be classified as “loans” and which assets should be classified as “intergovernmental receivables.” For intergovernmental receivables, a responsible party should be appointed to track the obligation and confirm the outstanding balance.

#### **6.14. Finding 14 - Instances Were Noted Where Journal Entry Supporting Documentation Was Not Complete or Did Not Adequately Explain the Purpose of the Entry**

***Condition:***

For the purposes of transaction testing, we requested supporting documentation from the NMFA for journal entries in our testing selections. The NMFA stores journal entry documentation packets in its document management system and provided us the documentation packets for our selections. Upon review of these documents, we noted instances where journal entries did not have proper approval, as well as instances where additional documentation needed to be obtained in order to determine the purpose of the entry and support the journal entry amount. For example, for one of our selections, the journal entry documentation included only the wire authorization form. For automated transactions such as payroll, the NMFA indicated that the entry went through a review and approval process. However, documentation of this review and approval was not included with the journal entry documentation.

***Criteria:***

- **NMSA 1978 6-21-6(F):** “The authority shall establish fiscal controls and accounting procedures that are sufficient to assure proper accounting for public project revolving fund payments, disbursements and balances.”
- Proper internal controls require journal entries to be sufficiently supported, and for a separation of duties between the individual entering and approving the journal entry.

***Effect:***

Journal entries could be entered without (1) sufficient, supporting documentation, (2) adequate review or (3) authorized approval.

***Cause:***

The NMFA did not consistently follow best practices for certain types of journal entries (e.g. payroll).

***Recommendation:***

The NMFA should consistently segregate duties between journal entry preparation and approval. Approvals should be evidenced on the journal entry packet. Approvals should also be documented for automated entries such as payroll and evidence of review and approval retained with the journal entry packet.

The NMFA scans journal entry documentation and stores it in its document management system, which greatly simplifies the process for obtaining journal entry information. However, the NMFA should consistently include sufficient supporting documentation for each journal entry. Supporting documentation should include information on the business purpose of the entry as well as the amount.

The NMFA should implement a journal entry numbering system so that duplicate journal entry numbers are not used. For example, the fiscal year could be used as the prefix for each journal entry number.

## 7. Exit Conference

An exit conference to discuss the contents of the report was held at the New Mexico Finance Authority in Santa Fe, New Mexico on Wednesday, December 12, 2012 and attended by the following:

### **New Mexico Finance Authority:**

Nann Winter, Board Chair  
Paul Gutierrez, Board Vice-Chair  
Tom Clifford, Board Member  
Ricky Bejarano, Board Member (Designee)  
John Bemis, Board Member  
Brett Woods, Board Member (Designee)  
John Gasparich, Chief Executive Officer  
Dora Cde Baca, Chief Administrative Officer  
Dan Opperman, General Counsel  
Michael Zavelle, Chief Financial Strategist  
Donna Trujillo, Chief Financial Officer  
Robert Brannon, Controller

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

Hector Balderas, State Auditor  
Carla Martinez, Deputy State Auditor  
Evan Blackstone, Chief of Staff  
Shawna Maestas, Investigator

### **PricewaterhouseCoopers, LLP:**

Charles Reddin, Partner  
Peter Brown, Director  
Saleema Damji, Manager



# Appendices

**Appendix A. Acronym List**

**Appendix B. Documents Provided**

**Appendix C. Emedia Collected**

## Appendix A. Acronym List

Acronym	Name
AP	Accounts Payable
BoNY	Bank of New York Mellon
CAFR	Comprehensive Annual Financial Report
CLA	Contingent Liquidity Account
DFA	New Mexico Department of Finance and Administration
DWSRLF	Drinking Water State Revolving Loan Fund
EEREP	Energy Efficiency and Renewable Energy Projects
EMMA	Electronic Municipal Market Access
EMNRD	New Mexico Energy, Minerals, and Natural Resources Department
EPA	Environmental Protection Agency
FCD	DFA Financial Control Division
FOS	Final Official Statement
GGRT	Governmental Gross Receipts Tax
GL	General Ledger
GRIP	Governor Richardson's Investment Partnership
IPA	Independent Public Accountant
LFC	New Mexico Legislative Finance Committee
LOC	NMFA Legislative Oversight Committee
LTIF	Local Transportation Infrastructure Fund
MSRB	Municipal Securities Rulemaking Board
NMDOT	New Mexico Department of Transportation
NMED	New Mexico Environment Department
NMEDD	New Mexico Economic Development Department
NMFA	New Mexico Finance Authority
OSA	New Mexico Office of the State Auditor
PBC	Provided by Client List
POS	Preliminary Official Statement
PPRF	Public Project Revolving Fund
PwC	PricewaterhouseCoopers, LLP
RLD	New Mexico Regulation and Licensing Division
WTB	Water Trust Board

## Appendix B. Documents Provided

Document Type	Source
<b>Documents Provided by the NMFA:</b>	
Folders titled "FY 2009 AUDIT," "FY 2010 AUDIT," and "FY 2011 AUDIT" from the NMFA Accounting Shared Drive	NMFA
NMFA Accounting Procedures Manual and other Accounting Department procedures	NMFA
NMFA Financial Management Policies	NMFA
Greg Campbell Personnel File	NMFA
Excerpt from John Duff Personnel File	NMFA
NMFA Credit Card Statements	NMFA
NMFA Board Board Books and Meeting Audio Transcripts for 2010 to 2012	NMFA
Greg Campbell's Notes from the April 23, 2012 Audit Committee Meeting	NMFA
Timetable for 2012A Bond Offering with List of Responsible Parties	NMFA
Excerpts from NMFA RFP for Legal Services Outlining Responsibilities of Bond Counsel, Issuer Counsel, Disclosure Counsel, etc.	NMFA
EPA Grant Payment Detail	NMFA
KPMG Internal Audit Reports	NMFA
<b>Documents Provided by the OSA:</b>	
2011 Audit Rule	OSA
NMFA's FY 2009 Audit Submission to the OSA and related Correspondence	OSA
NMFA's FY 2010 Audit Submission to the OSA and related Correspondence	OSA
May and June 2012 'At Risk' reports with Fax Transmittal Letter	OSA
OSA Correspondence To and Regarding the NMFA for FY 2011	OSA
<b>Documents Provided by Third Parties:</b>	
Clifton NMFA Audit Workpapers for FY 2009 and FY 2010	Clifton
Clifton FY 2011 Audit-related Documents	Clifton
Transcripts and Audio Recordings for Interviews Conducted by Securities Division	Securities Division
Bank Statements for NMFA Accounts Held by Wells Fargo	Wells Fargo
Bank Statements for NMFA Accounts Held by Bank of Albuquerque	Bank of Albuquerque
Bank Statements for NMFA Accounts Held by Bank of New York Mellon (BoNY)	BoNY
NMFA Trustee, Paying Agent and Loan Services Agreements with BoNY	BoNY
Information regarding NMFA Funds Withdrawn from State Treasurer's Office ("STO")	STO
Documents provided by Rick May and Mr. May's Counsel, including:	
Rick May's Presentation to the NMFA's Executive Committee on September 24, 2012 and Attachments ("13-Point Memo," Organization Chart, and Transcripts of Excerpts of March 22 and April 27, 2012 Board Meetings).	Rick May

Document Type	Source
Letter from Rick May dated October 10, 2012	Rick May
Statement Prepared by Rick May on October 12, 2012 Regarding Issues Raised at the October 11, 2012 Legislative Oversight Committee	Rick May
Resume of Rick May	Rick May
<b>Documents Provided in Response to Transaction Testing Requests, including:</b>	
NMFA Chart of Accounts	NMFA
General Ledger Activity from July 2009 to Present	NMFA
Monthly Trial Balances from July 2010 to June 2012	NMFA
Vendor Activity Reports for FY 2010, 2011, and 2012	NMFA
Loan Balance Report as of June 30, 2011	NMFA
Loan Agreements for Testing Selections	NMFA
Loan History Reports for Selected Loans	NMFA
Bank Statements (Wells Fargo, Bank of New York Mellon)	NMFA
Bank Reconciliations (Wells Fargo, Bank of New York Mellon)	NMFA
FY 2011 Intergovernmental Receivables Reconciliation	NMFA
Other documents requested through follow-up questions	NMFA

## Appendix C. Emedia Collected

### Hard Drive Images

No.	System Type	Media Type	Size (GB)	Date Imaged
1	Desktop	HD	80	9/18/2012
2	Laptop	HD	250	9/18/2012
3	Desktop	HD	80	9/12/2012
4	Laptop	HD	250	9/17/2012
5	Desktop	HD	80	9/18/2012
6	Laptop	HD	250	9/17/2012
7	Laptop	HD	250	9/17/2012
8	Desktop	HD	80	9/18/2012
9	Laptop	HD	250	9/17/2012
10	Desktop	HD	80	9/12/2012
11	Desktop	HD	160	9/18/2012
	Laptop	HD	250	9/18/2012
12	Laptop	HD	80	9/18/2012
13	Desktop	HD	80	9/18/2012
	Virtual Machine		50.2	9/12/2012
14	Laptop	HD	250	9/17/2012
15	Laptop	HD	250	9/17/2012
16	Desktop	HD	80	9/12/2012
17	Desktop	HD	80	9/12/2012
18	Laptop	HD	250	9/12/2012
19	Laptop	HD	100	9/18/2012
20	Virtual Machine		35.1	9/12/2012
21	Laptop	HD	160	9/18/2012
22	Laptop	HD	250	9/17/2012
23	Desktop	HD	160	9/18/2012
24	Virtual Machine		25	9/12/2012
25	Laptop	HD	250	9/12/2012
26	Desktop	HD	80	9/18/2012
27	Desktop	HD	80	9/18/2012
28	Desktop	HD	160	9/12/2012
29	Desktop	HD	80	9/18/2012
	Desktop	HD	80	9/12/2012
30	Laptop	HD	120	9/18/2012
31	Desktop	HD	160	9/12/2012
32	Desktop	HD	160	9/12/2012
	Laptop	HD	80	9/12/2012

## Other Data

No.	Data Collected	Data Type	Size (GB)
1	Mimecast Data	RAR Files (75 RAR files)	89.5
2	File Server - NMFAG01	NTBackup	321
3	File Server - NMFAG02	NTBackup	76.8
4	Exchange Server - NMFAEXCH01	NTBackup	67.3
5	Accounting Server - NMFAACCT01	NTBackup	50.3
6	Accounting Server	Evidence	195
7	Docuware Files - NMFAGP02	NTBackup	161
8	Web Server Logs	LOG Files (1,073 files)	0.667

## Data Provided by DHS

No.	Custodian	Data Type	Media Type	Contents	Size (GB)
1	Greg Campbell		HD of desktop computer	User files: project folders, financial statements folders, personnel folder, etc.	80
2	NMFAGP01 - Server 1	Raw Files	Server	NMFA Public shared drive containing Accounting Forms & Procedures; Annual Reports; Cash Flow; Budget data; User folders; other financial and project data	400
3	NMFAGP02_File Server volatile data - Server 2	Raw Files	Server	Shared drive containing directors' folders, Docuware, NetworkScans; NMFA_Library that contains Board meeting agendas and notes, policies, project information, etc.	300
4	Application Server	AD Files	Server	Electronic_Board_Books folder containing Board Meeting Audio recordings; Pep2002 application, Acucobol application	19.8
5	NMFA ACCT01_F Drive_Accounting Server	AD Files	Server	Folders of terminated employees; User folders	11.7
6	NMFA_SQL_D Drive_SQL Server	AD Files	Server	MSSQL folder containing .MDF files and .LDF files; .RPT files for payroll and cash flows, HR .RPT files, DocuWare, etc.	20.5
7	NMFA_SQL_F Drive_SQL Server	AD Files	Server	Database MSSQL with .MDF and .LDF files of DebtAnalysis, NMFA_EMAIL_AUDIT, WTB_Data, etc.	3.81
8	NMFA_Web Server	AD Files	Server	Annual Reports folder; Applications; contains many .ASP files and Web server logs	7.8
9	NMFAACCT01-clone-	Raw Files	Server	Folders of terminated employees; User folders; NetworkScans	50
10	NMFAACCT01-clone-C-E	Raw Files	Server	Accounting folder containing financial information for various years; Financial Statement Components; Board Packet Financials; General Accounting folder containing information on financials, loans and projects; Budget information for various years	50
11	NMFAECH01_E	AD Files	Server	Folder of terminated employees and a few user	71.9

No.	Custodian	Data Type	Media Type	Contents	Size (GB)
	Drive_Exchange Server			folders of employees	
12	NMFAEXCH01_F Drive_Exchange Server	AD Files	Server	Exchange Server storage group logs	0.62
13	SQL_01	AD Files	Database	aspnet_client application; database backup logs; MSSQL Server; VMware	40.5

# Exhibits

- Exhibit A. NMFA Management Timeline**
- Exhibit B. Report from the NMFA Webserver**
- Exhibit C. Comparison of Fraudulent Audit Report to Audit Report Sent to DFA**
- Exhibit D. FY 2011 and FY 2012 Audit Committee Meetings**
- Exhibit E. Risk Assessment – List of Observations and Recommendations**





## **Exhibit A. NMFA Management Timeline**

State of New Mexico  
Office of the State Auditor  
NMFA Special Audit

Exhibit A: NMFA Management Timeline

Date	Greg Campbell	John Duff	Rick May	Bill Sisneros
June 2004				Mr. Sisneros is hired as NMFA Executive Director (a position that later became Chief Executive Officer).
May 2005	Mr. Campbell begins working at NMFA as a temporary employee. His duties include entering journal entries; preparing cash transfer paperwork, and accounting for fixed assets.			
October 2005	Mr. Campbell is hired for the full-time position of "Accountant II," after applying for "Senior Accountant I" the prior month. His duties include accounting for loan payments to bond holders as well as multiple trust accounts.			
February 2006		Mr. Duff is hired as the Chief Investment Officer.		
April 2007		Mr. Duff is temporarily assigned the position and responsibilities of Chief Operating Officer (COO).		
December 2007	Mr. Campbell assumes the position of Controller.	Mr. Duff is appointed Chief Financial Officer ("CFO").		
January 2008				
March 2010		Mr. Duff maintains his CFO responsibilities and concurrently assumes the COO position following the departure of the former COO.		
January 2011			Mr. May begins serving on the NMFA Board as the Department of Finance and Administration (DFA) member.	Mr. Sisneros tenders his resignation to the Board. The January Board meeting minutes note that his final day as CEO would be based on discussions with the Board taking into consideration the change in administration.
March 2011		Mr. Duff is approved by the Board to serve as acting Interim CEO. It appears that he held this position in addition to his roles as CFO and COO.		Mr. Sisneros' resignation as CEO becomes effective. He continues serving as a consultant with the NMFA through June 30, 2011, to assist with the transition.
June 2011				Mr. Sisneros' working relationship with NMFA ends.
September 2011		Mr. Duff continues with NMFA as the COO after Mr. May is hired. An Organizational Chart dated September 6, 2011, shows a vacant CFO position, but the 2012A Bond Offering Statement posted to EMMA in April 2012 listed Mr. Duff as both COO and CFO.	Mr. May is approved by the Board to serve as the CEO, effective September 6, 2011.	
May 2012	Mr. Campbell submits his letter of resignation to be effective June 1, 2012.			
June 2012	Mr. Campbell submits a revised letter of resignation changing the effective date to June 8, 2012.			



## **Exhibit B. Report from the NMFA Webserver**

State of New Mexico  
Office of the State Auditor  
NMFA Special Audit

Exhibit B: Report of activity related to the Altered Audit Report on the NMFA website

Date	Time	cs-uri-stem	cs-uri-query	IP Address	IP Information <sup>11</sup>
3/12/2012	14:14	/NMFAInternet/admin/FileUploadSuccess.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
3/12/2012	16:37	/NMFAInternet/GetDoc.aspx	DocID=977	151.151.109.10	Wells Fargo
3/13/2012	01:42	/NMFAInternet/GetDoc.aspx	DocID=977	62.219.8.229	RIPE Network Coordination Centre
3/13/2012	01:48	/NMFAInternet/GetDoc.aspx	DocID=977	62.219.8.229	RIPE Network Coordination Centre
3/13/2012	01:52	/NMFAInternet/GetDoc.aspx	DocID=977	62.219.8.229	RIPE Network Coordination Centre
3/13/2012	13:47	/NMFAInternet/GetDoc.aspx	DocID=977	159.53.78.141	JPMorgan Chase
3/14/2012	16:59	/NMFAInternet/GetDoc.aspx	DocID=977	65.47.230.110	XO Communications
3/14/2012	17:44	/NMFAInternet/GetDoc.aspx	DocID=977	205.181.240.195	State Street Bank and Trust Company
3/15/2012	23:26	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.72.69	Google, Inc.
3/16/2012	15:41	/NMFAInternet/GetDoc.aspx	DocID=977	46.4.95.140	RIPE Network Coordination Centre
3/20/2012	16:22	/NMFAInternet/GetDoc.aspx	DocID=977	174.28.149.177	Qwest Communications
3/20/2012	16:26	/NMFAInternet/GetDoc.aspx	DocID=977	174.28.149.177	Qwest Communications
3/21/2012	11:15	/NMFAInternet/GetDoc.aspx	DocID=977	180.76.5.95	Baidu
3/21/2012	15:55	/NMFAInternet/GetDoc.aspx	DocID=977	171.159.194.11	Bank of America
3/21/2012	17:10	/NMFAInternet/GetDoc.aspx	DocID=977	171.159.192.10	Bank of America
3/23/2012	05:03	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.72.4	Google, Inc.
3/23/2012	20:54	/NMFAInternet/GetDoc.aspx	DocID=977	64.80.146.66	Barrister Executive Suites-Westlake Village
3/26/2012	16:22	/NMFAInternet/GetDoc.aspx	DocID=977	198.74.176.100	The Bank of Tokyo-Mitsubishi UFJ
3/26/2012	20:54	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
3/28/2012	03:57	/NMFAInternet/GetDoc.aspx	DocID=977	71.228.103.131	Comcast Cable Communications
3/28/2012	03:57	/NMFAInternet/GetDoc.aspx	DocID=977	71.228.103.131	Comcast Cable Communications
3/28/2012	03:57	/NMFAInternet/GetDoc.aspx	DocID=977	71.228.103.131	Comcast Cable Communications
3/28/2012	06:27	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.67.227	Google, Inc.
3/29/2012	20:00	/NMFAInternet/GetDoc.aspx	DocID=977	148.129.129.168	U.S. Bureau of the Census
3/29/2012	21:07	/NMFAInternet/GetDoc.aspx	DocID=977	23.20.232.201	Amazon Web Services
3/31/2012	05:20	/NMFAInternet/GetDoc.aspx	DocID=977	23.20.225.239	Amazon Web Services
4/1/2012	08:52	/NMFAInternet/GetDoc.aspx	DocID=977	107.22.41.3	Amazon Web Services
4/3/2012	12:07	/NMFAInternet/GetDoc.aspx	DocID=977	107.20.26.207	Amazon Web Services
4/3/2012	21:23	/NMFAInternet/GetDoc.aspx	DocID=977	180.76.5.63	Baidu
4/4/2012	04:35	/NMFAInternet/GetDoc.aspx	DocID=977	23.20.169.83	Amazon Web Services
4/4/2012	15:42	/NMFAInternet/GetDoc.aspx	DocID=977	151.151.109.14	Wells Fargo
4/4/2012	22:29	/NMFAInternet/GetDoc.aspx	DocID=977	164.64.0.19	State of New Mexico
4/4/2012	22:48	/NMFAInternet/GetDoc.aspx	DocID=977	164.64.0.19	State of New Mexico
4/6/2012	13:48	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
4/6/2012	13:48	/NMFAInternet/GetDoc.aspx	DocID=977	69.7.211.194	GFOA
4/7/2012	08:22	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.67.151	Google, Inc.
4/9/2012	21:14	/NMFAInternet/GetDoc.aspx	DocID=977	160.254.108.24	The Bank of New York Mellon
4/12/2012	11:37	/NMFAInternet/GetDoc.aspx	DocID=977	85.17.29.107	RIP Mean
4/12/2012	16:18	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
4/12/2012	23:53	/NMFAInternet/GetDoc.aspx	DocID=977	180.76.5.88	Baidu
4/13/2012	09:37	/NMFAInternet/GetDoc.aspx	DocID=977	188.138.86.35	RIPE Network Coordination Centre
4/18/2012	16:15	/NMFAInternet/GetDoc.aspx	DocID=977	206.169.65.254	TW Telecom Holdings, Inc
4/18/2012	16:28	/NMFAInternet/GetDoc.aspx	DocID=977	142.245.59.16	Royal Bank of Canada
4/18/2012	16:28	/NMFAInternet/GetDoc.aspx	DocID=977	142.245.59.16	Royal Bank of Canada
4/18/2012	16:30	/NMFAInternet/GetDoc.aspx	DocID=977	142.245.59.16	Royal Bank of Canada
4/18/2012	16:36	/NMFAInternet/GetDoc.aspx	DocID=977	142.245.59.16	Royal Bank of Canada
4/18/2012	16:40	/NMFAInternet/GetDoc.aspx	DocID=977	142.245.59.15	Royal Bank of Canada
4/26/2012	15:10	/NMFAInternet/GetDoc.aspx	DocID=977	159.53.46.142	JPMorgan Chase
4/27/2012	02:54	/NMFAInternet/GetDoc.aspx	DocID=977	208.115.111.75	Dotnetdotcom.org
4/27/2012	18:11	/NMFAInternet/GetDoc.aspx	DocID=977	72.84.93.56	Verizon Online
4/27/2012	18:17	/NMFAInternet/GetDoc.aspx	DocID=977	72.84.93.56	Verizon Online
4/29/2012	14:41	/NMFAInternet/GetDoc.aspx	DocID=977	208.115.113.91	Dotnetdotcom.org
5/2/2012	08:57	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.67.183	Google, Inc.
5/2/2012	14:31	/NMFAInternet/GetDoc.aspx	DocID=977	164.64.0.19	State of New Mexico
5/3/2012	05:33	/NMFAInternet/GetDoc.aspx	DocID=977	173.193.219.168	Hosting Services, Inc.
5/4/2012	17:05	/NMFAInternet/GetDoc.aspx	DocID=977	208.115.113.91	Dotnetdotcom.org
5/7/2012	20:03	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
5/8/2012	17:12	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
5/12/2012	12:33	/NMFAInternet/GetDoc.aspx	DocID=977	176.9.9.79	Hetzner Online
5/13/2012	06:54	/NMFAInternet/GetDoc.aspx	DocID=977	176.9.9.79	Hetzner Online
5/13/2012	07:15	/NMFAInternet/GetDoc.aspx	DocID=977	176.9.9.79	Hetzner Online
5/15/2012	16:38	/NMFAInternet/GetDoc.aspx	DocID=977	171.159.64.10	Bank of America
5/17/2012	23:39	/NMFAInternet/GetDoc.aspx	DocID=977	151.151.109.5	Wells Fargo
5/18/2012	16:24	/NMFAInternet/GetDoc.aspx	DocID=977	151.151.109.22	Wells Fargo
5/18/2012	23:17	/NMFAInternet/GetDoc.aspx	DocID=977	151.151.109.25	Wells Fargo
5/19/2012	11:47	/NMFAInternet/GetDoc.aspx	DocID=977	50.57.83.13	Rackspace Cloud Servers

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Exhibit B: Report of activity related to the Altered Audit Report on the NMFA website

Date	Time	cs-uri-stem	cs-uri-query	IP Address	IP Information <sup>[1]</sup>
5/20/2012	00:29	/NMFAInternet/GetDoc.aspx	DocID=977	195.42.102.21	RIPE Network Coordination Centre
5/21/2012	04:49	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.73.219	Google, Inc.
5/24/2012	20:43	/NMFAInternet/GetDoc.aspx	DocID=977	67.0.156.20	Owest Communications
5/30/2012	06:05	/NMFAInternet/GetDoc.aspx	DocID=977	23.20.126.138	Amazon Web Services
5/30/2012	06:51	/NMFAInternet/GetDoc.aspx	DocID=977	23.20.126.138	Amazon Web Services
6/1/2012	04:51	/NMFAInternet/GetDoc.aspx	DocID=977	180.76.6.225	Baidu
6/4/2012	11:59	/NMFAInternet/GetDoc.aspx	DocID=977	199.21.99.124	Yandex, Inc.
6/4/2012	16:57	/NMFAInternet/GetDoc.aspx	DocID=977	176.9.51.205	Hetzner Online
6/4/2012	20:55	/NMFAInternet/GetDoc.aspx	DocID=977	180.76.5.180	Baidu
6/5/2012	11:16	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.72.119	Google, Inc.
6/8/2012	15:25	/NMFAInternet/GetDoc.aspx	DocID=977	199.181.201.5	Harris Trust & Savings Bank
6/11/2012	15:16	/NMFAInternet/GetDoc.aspx	DocID=977	199.21.99.124	Yandex, Inc.
6/14/2012	15:40	/NMFAInternet/GetDoc.aspx	DocID=977	67.134.153.196	San Felipe Pueblo
6/21/2012	23:55	/NMFAInternet/GetDoc.aspx	DocID=977	199.21.99.124	Yandex, Inc.
6/22/2012	12:55	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.71.206	Google, Inc.
6/27/2012	03:12	/NMFAInternet/GetDoc.aspx	DocID=977	74.105.210.11	Verizon Online
6/27/2012	15:15	/NMFAInternet/GetDoc.aspx	DocID=977	161.231.132.15	Wachovia
6/29/2012	04:02	/NMFAInternet/GetDoc.aspx	DocID=977	208.115.113.91	Dotnetdotcom.org
6/29/2012	11:42	/NMFAInternet/GetDoc.aspx	DocID=977	208.115.113.91	Dotnetdotcom.org
6/29/2012	19:55	/NMFAInternet/GetDoc.aspx	DocID=977	199.207.253.101	KPMG LLP
6/30/2012	12:56	/NMFAInternet/GetDoc.aspx	DocID=977	85.17.29.107	RIP Mean
7/1/2012	10:26	/NMFAInternet/GetDoc.aspx	DocID=977	85.17.29.107	RIP Mean
7/2/2012	14:43	/NMFAInternet/GetDoc.aspx	DocID=977	50.57.83.13	Rackspace Cloud Servers
7/5/2012	18:06	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/6/2012	17:27	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/6/2012	19:06	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/6/2012	19:10	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/6/2012	20:13	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/8/2012	16:53	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.68.183	Google, Inc.
7/9/2012	07:09	/NMFAInternet/GetDoc.aspx	DocID=977	207.46.13.93	Microsoft Corporation
7/9/2012	19:22	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/10/2012	05:38	/NMFAInternet/GetDoc.aspx	DocID=977	207.46.13.93	Microsoft Corporation
7/10/2012	16:35	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/10/2012	19:47	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/11/2012	12:18	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/11/2012	16:28	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	00:23	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	14:48	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	18:55	/NMFAInternet/GetDoc.aspx	DocID=977	209.136.181.131	KOB TV
7/12/2012	18:57	/NMFAInternet/GetDoc.aspx	DocID=977	209.136.181.131	KOB TV
7/12/2012	18:59	/NMFAInternet/GetDoc.aspx	DocID=977	209.136.181.131	KOB TV
7/12/2012	19:06	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	19:08	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	19:09	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	19:09	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	19:10	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	19:14	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	19:15	/NMFAInternet/admin/FileEditDetails.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	19:15	/NMFAInternet/admin/FileEditDetails.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	20:59	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	21:05	/NMFAInternet/GetDoc.aspx	DocID=977	209.136.181.131	KOB TV
7/12/2012	21:05	/NMFAInternet/GetDoc.aspx	DocID=977	209.136.181.131	KOB TV
7/12/2012	21:05	/NMFAInternet/GetDoc.aspx	DocID=977	209.136.181.131	KOB TV
7/12/2012	21:06	/NMFAInternet/GetDoc.aspx	DocID=977	209.136.181.131	KOB TV
7/12/2012	21:34	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/12/2012	22:27	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/13/2012	00:41	/NMFAInternet/GetDoc.aspx	DocID=977	76.26.100.161	Comcast Cable Communications
7/13/2012	01:46	/NMFAInternet/GetDoc.aspx	DocID=977	166.137.88.48	Service Provider Corporation
7/13/2012	04:15	/NMFAInternet/GetDoc.aspx	DocID=977	97.119.176.144	Owest Communications
7/13/2012	05:11	/NMFAInternet/GetDoc.aspx	DocID=977	173.174.54.236	Road Runner
7/13/2012	13:04	/NMFAInternet/GetDoc.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/13/2012	14:22	/NMFAInternet/GetDoc.aspx	DocID=977	66.98.99.155	RSM McGladrey
7/13/2012	15:29	/NMFAInternet/GetDoc.aspx	DocID=977	74.95.16.129	Comcast Cable Communications
7/13/2012	17:49	/NMFAInternet/GetDoc.aspx	DocID=977	65.200.45.194	Beasley, Mitchell & Co
7/13/2012	20:06	/NMFAInternet/GetDoc.aspx	DocID=977	171.159.64.10	Bank of America
7/13/2012	20:07	/NMFAInternet/GetDoc.aspx	DocID=977	171.159.64.10	Bank of America

[2]

[3]

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Exhibit B: Report of activity related to the Altered Audit Report on the NMFA website

Date	Time	cs-uri-stem	cs-uri-query	IP Address	IP Information <sup>11</sup>
7/13/2012	20:08	/NMFAInternet/GetDoc.aspx	DocID=977	171.159.64.10	Bank of America
7/14/2012	17:01	/NMFAInternet/GetDoc.aspx	DocID=977	162.138.1.3	U.S. Securities & Exchange Commission
7/14/2012	17:01	/NMFAInternet/GetDoc.aspx	DocID=977	162.138.1.3	U.S. Securities & Exchange Commission
7/16/2012	11:12	/NMFAInternet/GetDoc.aspx	DocID=977	205.204.248.83	Commonwealth of Kentucky
7/16/2012	11:12	/NMFAInternet/GetDoc.aspx	DocID=977	205.204.248.83	Commonwealth of Kentucky
7/16/2012	11:12	/NMFAInternet/GetDoc.aspx	DocID=977	205.204.248.83	Commonwealth of Kentucky
7/16/2012	14:57	/NMFAInternet/GetDoc.aspx	DocID=977	208.115.113.91	Dotnetdotcom.org
7/18/2012	22:45	/NMFAInternet/GetDoc.aspx	DocID=977	71.190.191.112	Verizon Online
7/21/2012	06:21	/NMFAInternet/GetDoc.aspx	DocID=977	208.115.111.75	Dotnetdotcom.org
7/22/2012	00:10	/NMFAInternet/GetDoc.aspx	DocID=977	213.186.119.133	RIPE Network Coordination Centre
7/24/2012	15:59	/NMFAInternet/admin/FileEditDetails.aspx	DocID=977	65.19.62.226	New Mexico Finance Authority
7/25/2012	06:11	/NMFAInternet/GetDoc.aspx	DocID=977	184.155.189.55	Cable One, Inc.
7/25/2012	06:13	/NMFAInternet/GetDoc.aspx	DocID=977	184.155.189.55	Cable One, Inc.
7/29/2012	16:45	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.72.83	Google, Inc.
7/30/2012	16:25	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.73.218	Google, Inc.
8/1/2012	01:13	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.72.83	Google, Inc.
8/2/2012	15:57	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.71.147	Google, Inc.
8/4/2012	07:50	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.72.83	Google, Inc.
8/5/2012	17:41	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.66.38	Google, Inc.
8/5/2012	17:53	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.66.212	Google, Inc.
8/6/2012	17:46	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.67.173	Google, Inc.
8/7/2012	17:09	/NMFAInternet/GetDoc.aspx	DocID=977	206.190.68.102	TW Telecom Holdings, Inc
8/7/2012	17:10	/NMFAInternet/GetDoc.aspx	DocID=977	206.190.68.102	TW Telecom Holdings, Inc
8/8/2012	23:20	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.67.173	Google, Inc.
8/13/2012	05:10	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.73.218	Google, Inc.
8/20/2012	03:43	/NMFAInternet/GetDoc.aspx	DocID=977	65.52.108.46	Microsoft Corporation
8/31/2012	16:53	/NMFAInternet/GetDoc.aspx	DocID=977	66.249.71.132	Google, Inc.

Notes:

- [1] Shading represents webcrawler activity (e.g. from search engines such as Google, Bing and Baidu to build search results).  
*Italics represents individuals accessing the report through internet service providers such as Comcast.*  
*Source: IIS logs from the NMFA webserver for document ID 977 (the Altered Audit Report was posted to the NMFA website with this ID number). The IIS logs included IP information for the entities that accessed the Audit Report.*
- [2] Beginning July 5, 2012, NMFA management began researching the Altered Audit Report.
- [3] On July 12, 2012, it was disclosed to NMFA employees and the public that the Audit Report had been altered.



**Exhibit C. Comparison of Fraudulent Audit Report to Audit Report Sent to DFA FCD**

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Exhibit C: Comparison of Fraudulent Audit Report to Draft Sent to DFA FCD on February 3, 2012  
As of June 30th, 2011

	Fraudulent Audit Report	Draft Sent to DFA FCD on 2/3/12	Difference
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 113,770,321	\$ 113,770,321	\$ -
Restricted cash	222,682,493	222,682,493	-
Tax revenue receivable	-	-	-
Interest receivable	9,077,480	9,077,480	-
Grant and other receivables	6,033,887	4,051,731	1,982,156
Due from/(to) other funds	-	-	-
Administrative fees receivable	401,114	401,114	-
Loans receivable, current, net	84,034,901	84,034,901	-
Intergovernmental receivables, current	7,065,435	7,065,435	-
Restricted asset - escrow	37,561,521	37,561,521	-
Other Assets	57,442	57,442	-
Total current assets	<u>480,684,594</u>	<u>478,702,438</u>	<u>1,982,156</u>
<b>NONCURRENT ASSETS</b>			
Capital assets, net of depreciation	205,244	205,244	-
Loans receivable, net of allowance	1,139,386,778	1,138,250,222	1,136,556
Intergovernmental receivables	133,745,805	133,745,805	-
Deferred cost, net of accumulated amortization	10,614,067	10,614,067	-
Total noncurrent assets	<u>1,283,951,894</u>	<u>1,282,815,338</u>	<u>1,136,556</u>
<b>TOTAL ASSETS</b>	<b>\$ 1,764,636,488</b>	<b>\$ 1,761,517,776</b>	<b>\$ 3,118,712</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 3,566,832	\$ 1,499,879	\$ 2,066,953
Accrued payroll	121,640	173,359	(51,719)
Compensated absences	295,994	210,339	85,655
Notes payable	-	-	-
Fund held for others	74,525,962	74,525,962	-
Accrued Interest	4,303,121	4,303,121	-
Due to other state agencies	-	-	-
Due to other funds	-	-	-
Debt service payable	77,601,800	77,601,800	-
Line of Credit Payable	-	-	-
Bonds Payable, current, net	72,699,000	72,699,000	-
Total current liabilities	<u>233,114,349</u>	<u>231,013,460</u>	<u>2,100,889</u>
<b>Noncurrent liabilities:</b>			
Bonds payable, non-current, net of bond discount/premium	<u>1,150,343,042</u>	<u>1,150,343,042</u>	<u>-</u>
Total noncurrent liabilities	<u>1,150,343,042</u>	<u>1,150,343,042</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,383,457,391</u></b>	<b><u>1,381,356,502</u></b>	<b><u>2,100,889</u></b>
<b>NET ASSETS:</b>			
Invested in capital assets	205,244	205,244	-
Restricted for debt service	8,769,929	8,769,929	-
Restricted for program commitments	261,755,999	258,613,920	[1] 3,142,079
Restricted for program use	110,447,925	112,572,181	[2] (2,124,256)
<b>TOTAL NET ASSETS</b>	<b><u>381,179,097</u></b>	<b><u>380,161,274</u></b>	<b><u>1,017,823</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,764,636,488</b>	<b>\$ 1,761,517,776</b>	<b>\$ 3,118,712</b>

[1] On the draft audit report sent to the DFA, 'Restricted for Program Commitments' was listed as 'Restricted for Program Funds.'

[2] On the draft audit report sent to the DFA, 'Restricted for Program Use' was listed as 'Unrestricted.'



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*Exhibit C: Comparison of Fraudulent Audit Report to Draft Sent to DFA FCD on February 3, 2012  
As of June 30th, 2011*

	<u>Fraudulent Audit Report</u>	<u>Draft Sent to DFA FCD on 2/3/12</u>	<u>Difference</u>
<b>OPERATING REVENUES</b>			
Appropriation Revenue	\$ 34,826,387	\$ 34,826,387	\$ -
Grant revenue	42,848,310	40,866,154	1,982,156
Administrative fees	6,816,487	6,816,487	-
Interest on loans	55,585,061	55,585,061	-
Interest on investments	406,973	406,973	-
Total operating revenues	<u>140,483,218</u>	<u>138,501,062</u>	<u>1,982,156</u>
<b>OPERATING EXPENSES</b>			
Grant expense	70,476,210	70,476,210	-
Bond issuance costs	697,665	697,665	-
Administrative fee	271,317	271,317	-
Professional services	2,379,233	2,379,233	-
Salaries and fringe benefits	4,200,029	4,166,093	33,936
In-state travel	78,302	78,302	-
Out-of-state travel	43,613	43,613	-
Operating costs	870,235	870,235	-
Provision for Loan Losses	1,421,066	1,421,066	-
Debt service - interest expense	56,634,591	56,634,591	-
Total operating expenses	<u>137,072,261</u>	<u>137,038,325</u>	<u>33,936</u>
Operating income (loss) before depreciation	<u>3,410,957</u>	<u>1,462,737</u>	<u>1,948,220</u>
Depreciation	<u>92,000</u>	<u>92,000</u>	<u>-</u>
Total operating income (loss)	<u>3,318,957</u>	<u>1,370,737</u>	<u>1,948,220</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Gain (loss) on investments	<u>402,747</u>	<u>402,747</u>	<u>-</u>
Income (loss) before transfers	<u>3,721,704</u>	<u>1,773,484</u>	<u>1,948,220</u>
<b>TRANSFERS</b>			
Transfers in (out)	-	-	-
Transfers from (to) other state agencies	<u>(7,892,242)</u>	<u>(6,961,845)</u>	<u>(930,397)</u>
<b>TOTAL TRANSFERS</b>	<u>(7,892,242)</u>	<u>(6,961,845)</u>	<u>(930,397)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(4,170,538)</u>	<u>(5,188,361)</u>	<u>1,017,823</u>
<b>TOTAL NET ASSETS, BEGINNING OF YEA</b>	<u>385,349,635</u>	<u>385,349,635</u>	<u>-</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 381,179,097</u>	<u>\$ 380,161,274</u>	<u>\$ 1,017,823</u>



**Exhibit D. FY 2011 and FY 2012 Audit Committee Meetings**

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Exhibit D - FY 2011 and FY 2012 Audit Committee Meetings<sup>1</sup>

FY 2011 Audit Committee Meetings

	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11 <sup>2</sup>	Mar-11	Apr-11	May-11	Jun-11
Katherine Miller, Chair (through 7/2010) Lonnie Marquez, Chair (from 8/2010) Bill Fulginiti Daniel Silva (through 3/2011) Rhonda Faught (through 3/2011)	X	X	X	X	X	X	✓	X	X	X	✓	X

FY 2012 Audit Committee Meetings

	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
Lonnie Marquez, Chair Bill Fulginiti Rick May (through 8/2011) Tom Clifford (9/2011-10/2011) <sup>3</sup> Brett Woods (from 11/2011) <sup>4</sup>	X	✓	X	X	X	X	X	X	X	✓	✓	✓

Notes:

- ✓ represents that an Audit Committee meeting was held.
- X represents that an Audit Committee meeting was not held.

1. Source: Board Meeting Minutes. Audit Committee meeting minutes were not taken; therefore, committee attendance records are not available.
2. Board Meeting Minutes for February and March 2011 state that the Audit Committee did not meet. However, the FY 2010 Audit Report indicates that the FY 2010 Exit Conference was held on February 28, 2011.
3. Tom Clifford served on the Audit Committee through the October 2011 meeting, then moved to the Finance and Loan Committee with Brett Woods joining the Audit Committee.
4. Brett Woods served on the NMFA Board and Audit Committee as the Designee for John Bemis (EMNRD Secretary).



**Exhibit E. Risk Assessment – List of Observations and Recommendations**

**Exhibit E: Risk Assessment Observations and Recommendations**

**Management**

<b>Area</b>	<b>Observation</b>	<b>Recommendations</b>
<p><b>Timely Completion of Audits</b></p>	<p>The NMFA's policies related to audits emphasize the importance of the timely completion of audits.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA should hold management accountable for the timely completion of audits and should consider incorporating it into key employee's job descriptions as well as include it as a factor in performance evaluations.</li> <li>▪ Management should provide the Audit Committee with regular updates regarding the progress of the audit and should be notified as soon as possible regarding issues that could potentially keep the audit from being completed on time.</li> <li>▪ The CEO and CFO should review and sign off on a draft of the audit report prior to the report being sent to the OSA.</li> </ul>
<p><b>Continuing Education</b></p>	<p>It appears that NMFA senior management, as well as some members of the Accounting Department, had limited knowledge of the OSA Audit Rule and its requirements.</p>	<ul style="list-style-type: none"> <li>▪ Every year, the OSA holds training throughout New Mexico on the Audit Rule and current year updates to the Rule. The NMFA should consider requiring representatives from the NMFA Audit Committee to attend the OSA's training each year. At a minimum, the CEO, CFO and Controller should attend this training, and the NMFA should consider allowing other members of the Accounting Department to attend this training to raise awareness of the requirements throughout the Department.</li> </ul>
<p><b>Management Supervision</b></p>	<p>Based on interviews performed and the events surrounding the Altered Audit Report, senior management and the Audit Committee did not adequately supervise the financial reporting and external audit process. Additionally, it appears that Senior Management may not have had a full understanding of audit requirements under the OSA's Audit Rule.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA should consider creating a detailed timeline and checklist for the external audit process. This checklist should include items such as the OSA recommendation letter, signed OSA contract, engagement letter, planning meeting, management representation letter, audit report deadlines, exit conference, due date to the OSA, meeting of the quorum of the board for the IPA to present the final audit report, etc. The checklist should be provided to the Accounting Department, Senior Management, the Audit Committee, and external auditors. The CEO and CFO should be held responsible for timely completion of the action items and should report on the status of the checklist at Audit Committee meetings.</li> </ul>

Area	Observation	Recommendations
<b>Management Roles and Responsibilities</b>	Greg Campbell was the primary point of contact for completing the audit and Mr. Duff was not heavily involved in the process.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider clearly defining the roles and responsibilities of NMFA staff and management with regard to the audit. For example, the NMFA should consider requiring the CFO and CEO to review and sign-off on the Audit Report and should document evidence of this review prior to release to the OSA. In their review of the financial statements and related disclosures, the CEO and CFO should consider evaluating completeness, accuracy, compliance, and appropriate supporting information.</li> <li>▪ The NMFA should also document the Audit Committee's approval of the Audit Report at the exit conference and the Board's approval of the Audit Report after release by the OSA.</li> </ul>
<b>Auditor Requests for Documentation</b>	For the FY 2011 audit, Clifton made several requests to both Mr. Campbell and Mr. Duff for the remaining documentation to complete the audit. It appears that, had Clifton received this documentation timely, the audit may have been completed on time. However, there was no evidence that Clifton contacted any other individuals from the NMFA or the Board to obtain this information after September 23, 2012.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider setting a response time limit for all audit requests. If no response is received after this defined time period, the independent auditor should contact a member of the Audit Committee who is designated to resolve such issues.</li> <li>▪ The NMFA should consider assigning one employee the responsibility of communicating directly with the external auditors and coordinating the timely completion of all Prepared by Client ("PBC") items. This will likely require following up with various employees in the accounting department, fulfilling requests and handling issues as they arise. This employee should provide regular updates to the CEO and CFO to allow them to follow up on outstanding items and communicate with the external auditors.</li> </ul>
<b>Audit Committee Meetings</b>	<p>The schedule and content for NMFA Audit Committee meetings appears to have been directed by NMFA senior management. No Audit Committee meetings were held between August 2011 and April 2012.</p> <p>An exit conference for the FY 2011 audit was never held with the IPA.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA should consider requiring that Audit Committee meetings are held at least once every quarter, and more frequently while the audit is ongoing.</li> <li>▪ Audit committee members should be required to attend the exit conference with the IPA in person.</li> <li>▪ Meeting minutes should be kept of all Audit committee meetings.</li> </ul>
<b>Audit Committee Meeting Materials</b>	For the FY 2011 "Exit Conference" that was held in April 2012, Mr. Campbell sent the meeting materials, which included the Fraudulent Audit Report, on the morning of the meeting. As such, it appears that the Audit Committee members did not have adequate time to review the materials prior to the meeting.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider providing meeting materials to the Audit Committee a reasonable period of time prior to the meeting based on the content and volume of the materials. At a minimum, materials should be provided no later than 24 hours prior to a meeting.</li> </ul>

Area	Observation	Recommendations
<p><b>Auditor Consultations</b></p>	<p>In the Fraudulent Audit Report, Mr. Campbell changed the method of accounting for the NMFA's reversions to the State. Mr. Campbell stated in a meeting with the Board that he was struggling with how to account for this item, and Mr. Duff noted that, while he and Mr. Campbell discussed the issue, it was a brief discussion.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA should consider consulting with the IPA on accounting method or presentational changes to the financial statements. Senior management should consider documenting these consultations with the Independent Auditor and retaining this documentation.</li> </ul>

**Board of Directors and Audit Committee**

Area	Observation	Recommendations
<p><b>Continuing Education</b></p>	<p>In April 2012, the Audit Committee attended what was represented as an "Exit Conference". At this meeting, Mr. Campbell suggested that Clifton would not be attending because of a "schedule mix-up." The Audit Committee went on to accept the Fraudulent Audit Report, even though the Audit Rule requires an Exit Conference with the Independent Auditor representing the Audit Report in person. It appears therefore that the Audit Committee may not have had a full understanding of the Audit Rule.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA Board should consider requiring that the Audit Committee, as well as the Board Chair, attend training or otherwise be provided with information on the Audit Rule.</li> </ul>
<p><b>Onboarding</b></p>	<p>As several members of the Board are political appointees, there may be significant turnover when there is a new administration (as was the case for FY 2011). With the new Board, the NMFA compiled some onboarding materials for the new Board members. These materials provided background on the NMFA and PPRF, as well as some high level roles and responsibilities for each of the Board committees. However, they did not include detailed information on the Audit Rule.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA should consider enhancing the on-boarding package for the Audit Committee by providing information on the Audit Rule and other audit-related guidance, as well as a detailed outline of the Audit Committees responsibilities for the audit.</li> </ul>
<p><b>Audit Committee Oversight</b></p>	<p>For the FY 2011 audit, Clifton met with the Audit Committee as part of the audit planning activities. It appears that a schedule was discussed for the audit that should have resulted in the audit being completed by September 27, 2011.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA Board should consider distributing the timeline agreed to in planning meetings in writing to all members of the Audit Committee, the Board Chair and Senior Management. This timeline should incorporate key OSA requirements and deadlines (e.g. an Exit Conference). The NMFA Board should consider including this timeline in the meeting materials for all Audit Committee meetings that occur during the audit and should incorporate a standing agenda item during this period to discuss the progress of the audit against the timeline.</li> <li>▪ The NMFA Board should consider incorporating a standing agenda item in the full Board meeting for the month after the targeted audit completion date that relates to the status of the audit.</li> <li>▪ The NMFA Board should consider having the external auditors report directly to the Audit Committee.</li> </ul>



Area	Observation	Recommendations
<b>Audit Committee Frequency</b>	The NMFA Audit Committee did not meet between August 2011 and April 2012.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider requiring that Audit Committee meetings are held at least once every quarter, and more frequently while the audit is ongoing. Preliminary agendas for the meetings should be set at the beginning of each year based on what the status of the audit should be at that time (e.g. the September meeting should include an agenda item for an Exit Conference). There should be minutes retained and voted upon by the Audit Committee at a subsequent meeting.</li> </ul>
<b>Communication with Auditors</b>	For FY 2011, the Audit Committee met with Clifton during the planning stages of the audit, and met with one of the Audit Committee members in August to perform a SAS 99 interview. It does not appear that there were other communications between the Audit Committee and Clifton after August 2011.	<ul style="list-style-type: none"> <li>▪ The NMFA Audit Committee should consider requesting that the Independent Auditor attend Audit Committee meetings while the audit is ongoing. For meetings where the Independent Auditor will be in attendance, the NMFA Board should consider including an agenda item to discuss items such as:               <ul style="list-style-type: none"> <li>○ Timing and status of the audit</li> <li>○ Difficulties in performing the audit or obtaining information</li> <li>○ Significant accounting policy changes</li> </ul> </li> <li>• The NMFA Audit Committees should also consider requesting that the Internal Auditor attend Audit Committee meetings to discuss Internal Auditor findings and potential risks for the organization, e.g. accounting issues, illegal acts and fraud.</li> <li>• The NMFA Board should consider having the external auditors report directly to the Audit Committee.</li> </ul>
<b>Meeting Minutes</b>	While minutes are kept for full meetings of the Board, no minutes were kept for Audit Committee meetings.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider requiring that meeting minutes are kept for the Audit Committee in order to document audit-related activities such as planning meetings, Exit Conferences, and communications with the Independent Auditor. Meeting minutes should be voted on and approved at the subsequent Audit Committee meeting.</li> </ul>
<b>Trustee Services</b>	The BoNY trustee appears to be performing all of the services it is required to under its agreement with the NMFA but additional trustee services could be requested such as performing additional diligence on loan disbursement requests to ensure that both the borrower and the NMFA have approved the requisition.	<ul style="list-style-type: none"> <li>▪ Going forward, the Board should evaluate the breadth and depth of all of the services it requests from its trustee to ensure they are consistent with the NMFA's and the Board's objectives.</li> </ul>

Accounting Policies and Procedures

Area	Observation	Recommendation
<b>Cash</b>	During bank reconciliation testing, errors were found in certain reconciliations which may have been caught if the reconciliations had been timely reviewed by appropriate personnel. In addition, a voided check was not correctly cancelled in the system. As a result, there was a variance from the general ledger for several months until the system was updated to reflect the cancelled check.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider requiring that, on a monthly basis, bank account reconciliations are prepared and reviewed by appropriate personnel. The review should be documented on the hard copy bank reconciliation which should contain corresponding support (i.e. bank statement, details regarding reconciling items, etc.).</li> <li>▪ The NMFA should consider creating a voided check log to help ensure voided checks are also cancelled in the system.</li> <li>▪ The NMFA should establish approval limits for all cash and wire transactions with dual signatures required for larger amounts.</li> </ul>
<b>Accounts Payable</b>	During vendor testing, instances were noted where invoices lacked approval or were approved after the check or wire transfer was processed. Additionally, the employee who requested the goods or service would typically approve the invoice for payment.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider implementing approval limits for invoices. Evidence of approval and the date approved should be documented on the invoice and obtained prior to payment.</li> <li>▪ Approval should also be obtained from an individual separate from the employee who requested the goods or service. In addition, the employee who approves the invoice should not also sign off on the check or wire transfer.</li> <li>▪ Documentation for invoices approved for payment should include the check remittance, invoice and evidence of invoice approval.</li> </ul>
<b>Loans</b>	During the loan confirmation process, several contact names provided by the NMFA for the loans selected were out-of-date, requiring additional research to identify the correct contact person. Additionally, there were certain loans included within the testing selection that appeared to have characteristics of intergovernmental receivables.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider reviewing borrower contact information on a regular basis and updating it as needed.</li> <li>▪ The NMFA should consider establishing clear procedures based upon authoritative guidance when determining which assets should be classified as "loans" and which assets should be classified as "intergovernmental receivables."</li> </ul>
<b>Journal Entries</b>	During journal entry testing, there were instances where journal entries did not have proper approval and in some cases, supporting documentation was incomplete. For example, for one of our wire transfer selections, the journal entry packet included only the wire authorization. Additionally, for automated entries such as payroll, it did not appear that there was evidence of review and approval of the entry.	<ul style="list-style-type: none"> <li>▪ The NMFA should consider consistently segregating duties between journal entry preparation and approval. Approvals should be evidenced on the journal entry packet. Approvals should also be documented for automated entries such as payroll and evidence of review and approval retained with the journal entry packet.</li> <li>▪ The NMFA should consider consistently including full supporting documentation within the journal entry packet. Supporting documentation should include information on the business purpose of the entry as well as the amount.</li> </ul>

Area	Observation	Recommendation
<p><b>Accounting Policies and Procedures</b></p>	<p>It appears that the NMFA's Accounting Policies and Procedures were last updated in 2009, prior to the implementation of the current General Ledger System (Sage). Additionally, the Accounting Procedures Manual does not include procedures related to the external audit process or the process for creating audited financial statements. It also does not include sections on areas such as payroll processing, wire procedures, and accounts payable, which are instead documented on checklists.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA should consider developing a comprehensive and current Accounting Policies and Procedures manual. This Policies and Procedures manual should incorporate procedures related to the external audit and the preparation of audited financial statements. It should also consolidate the various checklists and other documents that are currently maintained separately.</li> <li>▪ The NMFA should consider evaluating the Accounting Policies and Procedures manual for updates annually, or after significant changes in processes or systems. The Audit Committee should also be involved in the review process. If updates are made to the manual, the changes should be noted in the document, and all Accounting staff and management should be provided with an updated copy of the manual.</li> </ul>
<p><b>Checklists</b></p>	<p>The NMFA has created checklists for various processes that document the steps required to complete the process. These are currently used as a guide but are not completed and retained for each transaction.</p>	<ul style="list-style-type: none"> <li>▪ The NMFA should consider consistently using the created checklists and retaining copies of completed checklists as journal entry supporting documentation for the related transaction.</li> <li>▪ Month-end checklists should be completed timely and reviewed by the appropriate employee prior to the closing of the general ledger. These reviewed checklists should be retained in the NMFA's files and should contain appropriate supporting documentation.</li> <li>▪ Loan, grant and bond checklists should be completed timely and reviewed by the appropriate employee prior to the signing of the agreement. These reviewed checklists should be retained in the NMFA's files and should contain appropriate supporting documentation.</li> </ul>

**Independent Auditor**

<b>Area</b>	<b>Observation</b>	<b>Recommendations</b>
<b>Communication with Senior Management and the Audit Committee</b>	Clifton agreed to have the FY 2011 audit complete by September 27, 2011 and if there were any problems in meeting the deadline, they agreed to notify the Audit Committee	<ul style="list-style-type: none"> <li>▪ The IPA should communicate directly with members of the Audit Committee when it is agreed that the IPA will keep the Audit Committee apprised of any issues that could keep the audit from being completed timely.</li> <li>▪ If the IPA determines that management is not responding appropriately to requests, they should raise the issue(s) with the audit committee.</li> <li>▪ The IPA should communicate with multiple members of the senior management team regarding the status of the audit and requests that remain outstanding.</li> </ul>
<b>Compliance with the OSA Audit Rule</b>	Clifton failed to comply with the OSA Audit Rule by: <ol style="list-style-type: none"> <li>1. Failing to notify the OSA that the FY 2011 audit would not be filed by the December 15, 2011 deadline.</li> <li>2. Failing to execute an OSA contract for the FY 2011 audit</li> </ol>	<ul style="list-style-type: none"> <li>▪ The IPA should consider having partners and senior managers who work on the NMFA audit attend the OSA's audit rule training annually.</li> </ul>
<b>Audit Documentation</b>	Clifton was unable to provide copies of key communications with the NMFA related to the FY 2011 audit	<ul style="list-style-type: none"> <li>▪ The IPA should be required to maintain copies of relevant emails and other written correspondence related to previous audit findings. Verbal communications should be memorialized.</li> </ul>
<b>Concurring Partner Review</b>	It does not appear that Clifton had a concurring partner review for the FY 2011 audit that included a review of the previous year's audit findings and compliance with the OSA's Audit Rule	<ul style="list-style-type: none"> <li>▪ The IPA should consider having a concurring partner review to include a review of the previous year's audit findings, remediation efforts and compliance with the OSA's Audit Rule.</li> </ul>

Office of the State Auditor

Area	Observation	Recommendations
<p><b>“At Risk” Notifications</b></p>	<p>For FY 2011, the ‘At Risk’ report was not distributed until May of 2012, several months after the due date for most entities. A letter was sent to Rick May notifying him of the NMFA’s inclusion on the list, but it does not appear interested parties received a copy of the list.</p>	<ul style="list-style-type: none"> <li>▪ The ‘At Risk’ report would likely be more effective if it is distributed as soon as possible after the reporting deadline, for example in January of each year. It appears that the OSA is working towards this objective and should be able to issue the “At Risk” list for FY2012 audits in January 2013.</li> <li>▪ The OSA should consider sending notifications regarding entities appearing on the ‘At Risk’ list not only to the entity’s CEO, but also to the Board Chair, Audit Committee Chair, and IPA (if applicable).</li> </ul>
<p><b>Independent Public Accountant (IPA) Recommendations</b></p>	<p>For the FY 2011 audit, the NMFA did not submit an IPA recommendation letter.</p>	<ul style="list-style-type: none"> <li>▪ The OSA tracks entities that have not yet submitted an OSA contract for their IPA. While this list is posted to the OSA website each year, the OSA should consider incorporating this list as part of its “At Risk” report so that oversight bodies can more easily monitor the entities for which they are responsible.</li> <li>▪ OSA should consider sending the February notification letter to not only the entity’s CEO, but also to the Board Chair and Audit Committee Chair.</li> </ul>
<p><b>Audit Rule Training</b></p>	<p>Each year, the OSA holds training courses throughout New Mexico on Audit Rule requirements and updates, which typically target IPAs, accounting staff, Controllers, and CFOs.</p>	<ul style="list-style-type: none"> <li>▪ It would likely be beneficial for Board and Audit Committee members to be familiar with the Audit Rule and their responsibilities with regards to the Rule. The OSA should consider developing training content focused towards Audit Committee and Board Members. The OSA should consider providing this training using on-line methods to reduce costs and increase participation.</li> <li>▪ The OSA should consider requiring it to be mandatory that each entity subject to audit have at least one representative of the entity’s senior management staff attend Audit Rule training. This representative would ideally be an individual with responsibility for the audit and/or the personnel who would sign the management representation letter.</li> </ul>

**Other**

<b>Area</b>	<b>Observation</b>	<b>Recommendations</b>
<b>Bond Offerings</b>	The Fraudulent Audit Report was included in the 2012A Bond Offering as part of the Official Statement.	<ul style="list-style-type: none"> <li>▪ Before an Audit Report is included in a bond offering statement, and before that offering statement is posted to the NMFA website or EMMA, the NMFA should consider requiring that disclosure counsel verify that the OSA has issued a "release letter" for the audit (either by checking the OSA website or by contacting the OSA directly).</li> </ul>
<b>Internal Audit</b>	The NMFA is currently evaluating its internal audit function and its internal audit plan going forward	<ul style="list-style-type: none"> <li>▪ Going forward, the NMFA's internal audit plan should include reviewing the findings and recommendations made in this report and evaluate the progress the NMFA is making on implementing the recommendations contained herein.</li> </ul>