February 12, 2018

Dr. Richard J. Bailey, President
Ricky Bejarano, Vice President for Finance & Administration (Interim)
Northern New Mexico College
921 N Paseo De Onate
Española, NM 87532

VIA EMAIL TO Mr. Ricky Bejarano ricky.bejarano@nnmc.edu

Re: Northern New Mexico College
        Report of Recommendations for Improvement

Dear President Bailey and Mr. Bejarano,

Thank you for the opportunity to assist Northern New Mexico College ("College" or "NNMC"). We performed an investigation to determine whether or not probable cause exists to believe that the former Northern New Mexico College Financial Services Director participated in a felony embezzlement scheme specifically resulting in the theft or loss of Title III Federal grant funds. A report regarding that investigation was issued on December 15, 2017. We were also requested to prepare this report, which is a comprehensive discussion of issues of concern and recommendations for improvement for NNMC.

We conducted on-site fieldwork for interviews and document acquisition on August 8, 2017, September 5, 2017, September 6, 2017, November 7, 2017 and November 29, 2017. We interviewed numerous staff in finance and accounting, procurement, administration and information technology ("IT") departments.

Background and assignment:

We were engaged after former employee resigned from Northern New Mexico College, via a letter in which she confessed to embezzling College funds. Per the request of Max Rudmann of the Office of the Chief Financial Officer, Post Audit Group, US Department of Education ("DOEd"), NNMC needed to determine whether or not Title III Federal grant funds were part of the embezzled funds. Thus, with the permission of the New Mexico Office of the State Auditor ("NM OSA"), McHard Accounting Consulting LLC was engaged.

As a part of our assignment, we were requested to prepare this report describing issues of concern and providing recommendations for improvement for NNMC, in the areas of accounting and finance, as well as detailing other issues that we observed.

Issues and recommendations:

This recommendations report covers, in detail, our numerous recommendations for improvement in a myriad of areas, including accounting and finance, human resources, IT (information technology), and others. Many of the changes we recommend in this

report have already been implemented by Mr. Bejarano, or are in the process of approval and implementation. We do not attempt to differentiate which issues have already been resolved, and which are ongoing.

Overarching Entity-Wide Issues and Recommendations:

Issue: Despite being a post-secondary educational institution, NNMC has a culture that does not appear to value accountability, or oddly, education, among the accounting and finance staff, in particular. We saw this problem mirrored throughout the entity.   During our interviews, we found that most members of the accounting staff were either unable or unwilling to identify policies or procedures which were not followed, or aspects of their own behavior, or even the behavior of others, that might have contributed to the former Financial Services Director being able to embezzle funds in excess of $70,000, as she confessed.

Additionally, even those employees who are proficient at their own job don't seem to have a shared vision of how their work participates in the whole of NNMC's mission, or even what the NNMC mission really means. This issue may be part of the reason that employees appear to engage in petty bickering, absurd internal politics and serial-complaint filing.

Contributing to this problem may be the fact that NNMC only has half a mission statement. The current mission statement states:

> *The mission of Northern New Mexico College is to ensure student success by providing access to affordable, community-based learning opportunities that meet the educational, cultural, and economic needs of the region.*

However, providing access doesn't ensure student success, nor does access contribute to the economic needs of the region; a mission statement is incomplete unless it addresses what success looks like. Providing access that meets someone's need amounts to just opening the doors to admission.

> Recommendation: We recommend that NNMC take steps to create a school-wide culture of accountability that values continuous improvement and works together towards the achievement of common goals. This would include communicating the institution's purpose and ethics on a regular basis, so that clear expectations are set and communicated.
>
> A good place to start would be a faculty- and staff-involved effort to create a new mission statement and a code of ethical behavior, complete with training, tools and resources so that people know what to do when they see or suspect improper or unethical behavior. Employees need recognition and feedback about ethical behavior and continuous improvement, and when individuals do not meet expectations, appropriate action must be promptly taken.
>
> We suggest that the President work with faculty, and staff to create a new and complete mission statement, with buy-in from the student leaders. The best mission statements have two parts: *1. We do "this thing", so that, 2. This "good*

thing" happens. NNMC states what they'll do, but not what results they intend to achieve, or even why they're doing it. This feature is also lacking in the stated Vision, Values, Philosophy and Statement of Purpose, as they currently appear on the NNMC website. Properly trained and motivated employees, with a common purpose and shared goals, will take it upon themselves to make many of the improvements that we describe in this report.

Issue: The accounting system used by NNMC, Banner, has never been properly implemented with appropriate modules and security features. Furthermore, security issues abound with users receiving access to modules and forms to which they are not entitled. When we asked about these, we were told that it was okay because "people don't know they have access". This absurd notion of security essentially assumes that employees are incapable of figuring out that they have access, and also assumes that nobody accidentally or purposefully tries to complete a form or transaction outside their area. Underestimating people's intelligence is not an IT security control.

Additionally, no user's access is ever entirely removed from the IT system, instead, their user name is changed to include the words "Do Not Use", but access remains and is never completely eliminated.

We heard numerous stories regarding employees who had inappropriate materials on their NNMC computers, and used NNMC computers for non-College business. We were told that such individuals were generally not disciplined and system controls to prevent such usage were never put into place.

We would consider these to be among the most basic IT security controls and NNMC appears to have none of these controls in place.

> Recommendation: NNMC should have a complete evaluation of their software systems and security controls, which must be completed by a competent outside professional. Appropriate security and access modules must be immediately installed or upgraded, and employees' access limited to those modules for which they have appropriate business purpose. Former employees, or those for whom access is no longer needed, must have their access terminated (but prior transactions not deleted). NNMC computer users should not be able to access inappropriate material or perform non-business-related activities on their work computers. NNMC may also need to update computer use policies, and ensure that employees are trained and sign a confirmation understanding appropriate computer use. Appropriate HR action must be taken against those who abuse College computer access privileges.

Issue: NNMC lacks a central place, such as a hotline, for employees, students, contractors, vendors or citizens to file a complaint of fraud, ethical violations, and/or government waste or abuse, either as an anonymous or identified party. Hotlines can allow safe reporting of human resources issues such as sexual harassment, discrimination or favoritism, as well as other ethical concerns such as kickbacks, bid rigging, theft and so on.

Due the small size of NNMC and the accounting department in particular, individuals may only be able to complain to the person who is part of the problem, and employees may fear retaliation if they are only able to complain to their supervisor who may be part of the issue. Additionally, vendors or contractors may not wish to complain about requests for kickbacks for fear of being passed over for a future job or RFP. An anonymous reporting mechanism addresses each of these issues.

> Recommendation: NNMC should put an anonymous reporting mechanism in place, specifically a fraud hotline. This could be done without additional cost, with a phone line (without caller ID) that is only picked up by an answering machine, and a blind-copied email that goes directly to the HR director and President. In alternative, we recommend that NNMC choose one of the many hotline service providers who will set up double-blind reporting mechanisms to include an 800 number and anonymous online reporting. Such service providers are extremely affordable. Whatever the means, the hotline should be advertised, posted in public and employee areas at every NNMC campus and facility, as well as being printed on all check-stubs to employees, vendors and contractors. For additional information on how to set up a hotline and the benefits that arise from a hotline, please visit our website and download our article "Hotlines for Heroes", at the bottom of the page at www.theMcHardfirm.com, click on the article name to download.

Finance and Accounting Department:

Issue: In the normal course of business, an accounting department employee was able to embezzle a significant amount of funds from NNMC. The employee was able to do so by manipulating the bank reconciliations and "plugging" missing funds as "other reconciling items" in bank reconciliations. This continued for several years as there was no analysis performed of the general ledger detail by management and cash reconciliations were not performed timely. Also, no person at NNMC was comparing the bank deposit slip and/or receipt to transactions recorded in the general ledger or to bank reconciliation documentation. Contributing to this issue is the fact that Excel spreadsheets are used to perform reconciliations instead of reconciliations being performed in Banner. Excel files are not secure and lack any audit trail to track changes to cash transactions.

Additionally, proper security procedures over cash items (i.e. checks) are not in place. Original checks are passed around the College to determine where deposits should be coded. This should never occur. Another security concern is the ability for the Cashier to reverse and delete her own transactions in Banner. This should never occur. Such a lapse in security would allow the Cashier to skim cash and simply delete the payments without being discovered. These security issues are exacerbated by the lack of analysis of a detailed general ledger.

> Recommendation: Accounting management should be analyzing a detailed general ledger on a quarterly basis until NNMC has resolved internal control issues in the accounting department. Such an analysis should continue to occur at least annually to catch potential errors or fraud.

Cash reconciliations must be performed no less often than monthly in Banner and must be completed by someone who does not collect payments or issue checks. Cash reconciliations should then be reviewed by appropriate management personnel who also do not have the ability to collect payments or issue checks. If any suspense accounts are used as part of the reconciliation process, all entries to the suspense accounts should be appropriately reclassified monthly. There should be no balances in suspense accounts at fiscal year end.

Bank deposit slips should be compared to general ledger transactions and deposit documentation on a daily basis. This should be performed by someone outside of the cash collection and reconciliation process. No employees should ever have the ability to delete transactions in Banner without approval from a supervisor (see additional comments regarding Banner access below).

Finally, all checks, once received, should be photocopied and the originals kept in a secure, locked, location prior to deposit. Coding decisions should be made using only the copies of checks.

Issue: NNMC has lacked basic internal controls particularly around segregation of duties. Single individuals have had access to the entire accounting, finance and banking system without supervision or oversight. This lack of segregation of duties allowed a significant defalcation to occur, and to continue undiscovered for a period of years. We observed or were told of several specific instances of lack of internal controls or lack of segregation of duties:

- There is no single place where all incoming funds are logged. Currency payments and some checks are processed by the Cashier, other checks are received via mail (see issue above regarding security of these checks) and electronic deposits and incoming wires are handled separately. No one person is able to observe and review all of the areas where funds are entering the College.

- The Financial Services Director was allowed to take deposits to the bank by herself and then failed to return appropriate documentation to verify the deposit occurred. This contributed to the embezzlement scheme discussed above.

- Vacant positions in the Finance and Accounting Department were allowed to stay empty, allowing the former Financial Services Director to take on more duties and remove any previous segregation that had been present.

- The former Financial Services Director had the ability to approve her own journal entries in Banner. A hand-written log of journal entries was to be a kept as a control. However, this log was not kept and not reviewed.

- Important communications were all funneled through the former Financial Services Director. These included communications with auditors and communications with complaints from students regarding missing or misapplied payments. The control over these communications contributed to her embezzlement scheme going undetected.

Recommendation: Mr. Bejarano has the expertise to remedy NNMC's internal control deficiencies. Mr. Bejarano should work to ensure that appropriate internal controls and systems are put into place and to ensure that these appropriate controls are actually used. The College's financial statement auditors should rigorously test these new systems and controls to ensure continued compliance.

In addition to Mr. Bejarano correcting and implementing internal controls, NNMC should take appropriate steps to fill vacant positions in the accounting department with competent, well-trained and experienced employees.

Finally, the President of the College and the Board of Regents should take steps to ensure that important communications are not funneled through one source. The President and the Board should take an active role in communicating with external auditors or other regulatory agencies and should have steps in place to monitor any complaints over the fiscal transactions of the College.

Additionally, as discussed above, implementing an anonymous reporting mechanism for suspected fraud would create an additional communication method for any observed breakdowns in internal controls.

Issue: NNMC has members of the accounting staff who do not currently possess the essential skills or experience for their positions, and many staff have been inadequately trained. We found that policies and procedures are not well understood, and many employees simply make up their own forms or way of doing things in order to get by as best as they can.

Recommendation: We recommend that NNMC conduct a complete "desk audit" style evaluation of employees in current positions within the accounting and finance department, detailing their knowledge, skills and abilities, and outlining the extent to which that employee is a good match for their current position. Once gaps between necessary job knowledge and the employee's knowledge, skills and abilities are identified, it can be determined whether each employee is job-ready, or whether they require additional training, or whether their talents would be better utilized in a different NNMC position.

We also recommend NNMC update accounting policies and procedures and provide training to the accounting staff regarding the policies and procedures. These updates should be performed after the assessment of the Banner system (see Issues elsewhere in this report) has been performed.

Issue: There is an overall lack of understanding in the Finance and Accounting Department of grant requirements, allowable costs, matching funds and other basic tenants of grant accounting. There is also an overall lack of understanding of these concepts with those who manage the grants at the department level.

Our testing of grant expenditures revealed Questioned Costs. These Questioned Costs included both expenses that appeared unallowable, as well as expenses that did not have adequate documentation included to determine if the expense was allowable. Some of the Questioned Costs include excessive amounts paid for travel, alcohol included in one

meal reimbursement, meal reimbursements without appropriate receipts and purchase of promotional items without documentation showing how the items were used for the STEM program.

NNMC acts the grant administrator for at least one grant. Grant funds are then passed through to subrecipients. It is unclear from our testing if NNMC employees are properly reviewing payments to subrecipients for allowable costs.

Throughout NNMC, there are misunderstandings of the terms of the Title III STEM grant in particular, and Federal funding in general. Many staff members think that they know the rules, but are misinformed, others misunderstand the application of the grant terms as a reimbursement grant. This was demonstrated when we were told by an individual that matching funds were not properly processed as part of the Title III STEM program. Our work revealed that the Title III program did not have any matching fund requirements, but the Title V program did. The matching Title V funds were allowed and were properly processed.

Lack of understanding of grant requirements and processes have resulted in possible compliance violations, and conversely, have resulted in uninformed and frivolous complaints.

> Recommendation: Employees in positions that oversee the spending of Federal funds or who manage the programs themselves should be very familiar with all requirements of the grants. This includes unallowable costs, proper subrecipient monitoring procedures, matching requirements and proper use of terms surrounding Federal fund. We recommend all employees in these positions at NNMC go through training regarding Federal funding. The granting agencies themselves usually offer training for grantees.

Issue: The Banner system, the accounting system used by NNMC, has never been properly implemented with appropriate modules and security features. The system currently allows anyone with approval authorization to approve their own journal entries including journal entries into prior fiscal years. The only way to safeguard someone from approving their own changes is to ensure that employees who approve journal entries cannot make journal entries, which can become problematic in a small department. Mr. Bejarano has made changes to ensure that approvers cannot perform journal entries, but those changes have been done manually rather than through appropriate and automated system controls.

> Recommendation: NNMC should have a complete evaluation of Banner performed to ensure the College is properly using all of the functionality available in the system, including automated security controls. This evaluation should be performed by a competent, outside vendor with significant experience in Banner and advanced accounting systems and accounting controls.

Issue: We were told that some transactions were allowed to be deleted from Banner by the former Financial Services Director, including her own transactions. These transactions may have been from previous fiscal years. We received a list of these transactions, and many of these transactions appear troublesome on their face.

However, as of this writing, further investigation into these transactions has been precluded by NNMC's inability to generate a general ledger detail (see Issue below), although NNMC staff are working to provide this information. Transactions should never be completely deleted from the accounting system.

> Recommendation: Employees must be trained to properly enter transactions and any changes should require authorization by someone other than the employee. These security features should be implemented in all modules of Banner. Additionally, Banner should be configured to never allow changes to prior fiscal years that have been closed. We recommend that once NNMC is able to produce a detailed general ledger for the years in question, that we complete our investigation of the transactions that were deleted.

Issue: NNMC staff is unable to generate even the most routine reports and data downloads from their accounting system to perform tasks required of them. NNMC uses the Banner accounting system, but even longstanding employees, who have allegedly used the Banner system for years, cannot generate what we would consider to be basic accounting reports or data dumps, including an inability to generate a full detailed general ledger or detailed trial balance report. NNMC has had a single IT person responsible for Banner who is also unable to generate these reports.

> Recommendation: Once NNMC has a complete evaluation of Banner performed, training should be provided to all users of the system. We are unaware of anyone on staff at NNMC who is adequately trained in the Banner system, including the person responsible for administration of the system. Until employees are able to appropriately use and monitor the accounting system, another defalcation could occur and remain undetected for a long period of time.

Issue: NNMC has confusing or unhelpful process maps that purport to depict the proper flow of various types of transactions. The process maps do not inform or assist accounting personnel in their duties, and may actually serve to confuse people. In one of the process maps, Foundation Payments and Meal Cards appear to end in the same decision tree as a conclusion and share other commonalities throughout. This is despite the fact that one set of depicted transactions is for the Foundation, a 501(c)(3) nonprofit, and the other set of transactions is for NNMC student services.

> Recommendation: We recommend that once the Banner system is appropriately upgraded and running, that NNMC utilize the Banner consultants to develop meaningful process maps that mirror the corrected Banner system processes.

Issue: During our interviews, as well as during our examination of written complaints, we learned of complaints around inventory for, and accounting of, fixed assets. It was alleged that few assets are listed in the NNMC property and inventory tracking system. It was further alleged that items purchased with Title V Federal funding have been disposed of, are missing or unlocated, and/or that items purchased with Federal funding have been disposed of improperly. Technology has a short life, and it is likely that certain technology purchases made with Federal funds in prior years are now obsolete, but those should be properly disposed of and accounted for as required in the grant documents or per policy.

Recommendation: We recommend that a complete inventory be conducted of all equipment purchases over $5,000, concentrating on those purchased with Title III or Title V Federal grant funds. If requested, McHard Accounting Consulting could perform this task, as part of a separate scope of work. However, a firm specializing in inventory management and control would be more appropriate, and as part of their engagement, could implement a new inventory control system if one is needed.

Once such an inventory is complete and correct, NNMC should adjust their fixed assets in a way that comports with Generally Accepted Government Accounting Standards. At the end of the inventory, Federal grant funders should be notified of the results, including any items which are determined to be lost, missing or misappropriated.

Issue: In addition to fixed assets, we were told that other sub-ledgers did not reconcile to the general ledger. Sub-ledgers should always balance to the general ledger. Reporting issues in Banner, such as not being able to pull a detailed general ledger reports, are likely contributing to this problem.

Recommendation: NNMC should correct the reporting issues in Banner. Once this is completed, all sub-ledgers should be properly reconciled to the general ledger. These reconciliations should be performed monthly on a go-forward basis.

Issue: NNMC inexplicably has separate general ledger revenue accounts for cash/checks and credit card payments. This means that the cashier has to select the correct account when entering the transaction, and the wrong account was frequently used by the cashier.

Recommendation: Assuming separate accounts are truly needed, the cashier's POS (Point of Sale) system should automatically select the correct account, and should interface with the credit card reader to ensure that the correct amount was charged, and that the drawer balances at the end of the day, including cash, checks and credit card payments. This may require implementation of the Banner POS module, as discussed elsewhere.

Issue: The internal forms used by the Finance and Accounting Department contribute to the lack of accountability and understanding of NNMC's finances. The current NNMC Journal Voucher form lists journal entries in a single column of numbers with "D/C" and "+/-" substituting for true double entry accounting with real credits and debits **(See Exhibit A, attached)**. The form wrongly assumes that credits always increase and debits always decrease the value, but also makes it impossible to easily determine whether the debits and credits balance to zero. This form actually contributes to the accounting staff's misunderstanding of double entry accounting in general. It also appears that Banner system reports have been set up to depict the accounting data in this unhelpful manner.

Recommendation: Accounting staff needs to have basic accounting training, and this needs to be reinforced by forms that depict financial information in a useful

way, and contribute to their understanding, rather than contributing to the obfuscation of useful financial information.

Issue: NNMC has dormant and inappropriately named bank accounts, for example, the Payroll account doesn't pay payroll and the Perkins account isn't used for Perkins funding. While it's convenient to use an account for something else, rather than closing an account and opening an appropriately named account, this has contributed to the opacity of NNMC's finances. Furthermore, dormant or inappropriately named accounts are more likely to be used for fraud. Dormant accounts generally are not reconciled and such accounts are easy for a fraudster to use to hide and eventually transfer out money inappropriately.

> Recommendation: We recommend that NNMC evaluate their accounts, close any dormant or unneeded accounts, and rename or replace in inappropriately named accounts. The name of an account should accurately and clearly depict its actual use. Additionally, NNMC should confirm with the various banks who has signature authority on each account. Any inappropriate or outdated signature authority should be immediately removed and replaced with appropriate signers.

Issue: NNMC has numerous credit card merchant accounts, upon which they are paying fees, while the credit card readers sit unused and unneeded. We were told that the former Financial Services Director selected the service provider without additional input or approval, and that the services were entirely unneeded.

> Recommendation: We recommend that NNMC evaluate their merchant account needs and eliminate any unneeded or duplicative services. Unused credit card readers should be returned for any credit or refund available. Having an efficient merchant account system will save money and also make accounting for credit card payments and merchant fees more straightforward.

Issue: Previously, NNMC made huge cash withdrawals for book buy-back day, which was then to be paid back by the vendor in the form of a check. There does not appear to be any controls in place over these cash withdrawals which would leave the funds at risk for embezzlement.

> Recommendation: NNMC should never have been making cash withdrawals. If a vendor wants to do a book buy-back, the vendor should supply their own cash for the sale. Large amounts of cash should always be in the possession of two people, never left for one person to have sole responsibility for, which can result in theft.

Issue: Currently, Mr. Bejarano is the only person at NNMC, that we are aware of, who is qualified to do RFPs. NNMC needs a procurement department and trained individuals within the department who can issue appropriate RFPs and RFQs.

> Recommendation: NNMC's procurement employees must be properly trained and able to independently produce RFPs and RFQs. This will require training of current procurement employees, or the addition of qualified employees to perform these tasks.

Issue: We were told that checks, such as to vendors, were frequently signed without all of the documentation necessary to back-up the request being present. In some cases, checks were signed without any documentation being present.

> Recommendation: All the appropriate documentation must be present so that check-signers can review this prior to signing a check. Check-signers should ask questions, even if they already know the answer, to ensure that employees know what they're doing, and so that there is a perception that improper authorizations or fraud would be detected by check-signers.

Issue: We were told that that renters of properties at the El Rito Campus had been allowed to fall behind in rental payments, and that in addition to that, about $12,000 in deposits of rent payments were missing. The El Rito campus has housing that includes five houses at $500 per month rent, one duplex with rent at $275 for each half, and five trailer spaces at $200 per month. We were told that the cashier was supposed to be tracking these in Excel, but that the cashier was having trouble with the tracking. Additionally, an employee at El Rito who lived in the housing was supposed to be invoicing herself as well as the other residents, but had fallen behind in those duties, including not invoicing herself. Eventually the employees got payroll deduction for the rent, but we were told that the former Financial Services Director instructed employees to "write off" the $12,000 in missing deposits, and an employee complied, without bringing it to anyone else's attention.

Additionally, NNMC has facilities which are rented by groups and private parties, and these are typically paid with cash. We were told that this was not well accounted for, nor was any documentation generated for most rentals. It cannot be known whether, or to what extent, facility rental income went unpaid, was wrongly accounted for, or simply disappeared.

> Recommendation: NNMC must develop appropriate systems for tracking facility and housing rentals. These must be tracked and accounted for by a competent person, using the appropriate module of Banner.

Human Resources Department:

Issue: Human resource files at NNMC are incomplete; some files that we requested simply didn't exist or couldn't be found. Items missing from files included Employment Eligibility Verification (I-9) forms and Personnel Action Forms. While there are potential penalties and fines for missing I-9 forms, it is equally important for the Human Resource department to maintain accurate records of hiring decisions, termination decisions and changes in pay. During our interviews, we were shown boxes of unfiled employment documents dating back some years, so it's possible that the documents are present, but merely unfiled. However, we were able to obtain Personnel Actions Forms from the Payroll Manager to confirm changes in pay.

> Recommendation: Employees in the human resources department should perform an audit of all employee files to ensure each file has all necessary documentation. Any items that are missing should be collected and properly filed. We also

recommend the human resource department create a checklist for the employee file which documents all items that should be included in this file. The checklist should be completed and signed by the appropriate human resources employee each time there is a change in employee status. HR files and Payroll files must not be merged, only the completeness of the Payroll files allowed us to make certain determinations during our investigation

Issue: We found that NNMC has no policy precluding hiring relatives based on relationship rather than merit (anti-nepotism policy), nor any policy requiring disclosure of familial relationships among employees or requiring the disclosure of potential conflicts of interest among employees or vendors, nor is there any policy precluding someone from supervising their own spouse or family member, nor requiring the disclosure of a potential conflict of interest with a vendor or other party. Northern New Mexico and the Espanola Valley are small, tightly knit communities. It would be difficult to remove all potential conflicts of interest, but these should at least be disclosed, so that the person with the conflict can be replaced in a particular role. For example, someone with a potential conflict of interest should not be making a purchasing decision involving a family member or their former employer.

Nepotism encourages poor performance, because hiring and promotion is based on who-you-know or who-you're-related-to, rather than high performance or skills, and leads to complaints of favoritism and discrimination. Our previous analysis of complaints filed by employees at NNMC, demonstrated that many employees' complaints included at least some allegations regarding favoritism and/or discrimination.

> Recommendation: We recommend that NNMC immediately implement an anti-nepotism policy requiring full disclosure of all familial relationship among faculty, staff and students. We also recommend that family members be precluded from supervising a spouse or family member. All conflicts of interest and potential conflicts of interest between employees and vendors must be disclosed to the administration, so that appropriate actions can be taken to eliminate or mitigate concerns. Employees need to receive a copy of the published policy, and submit a signed copy of the policy acknowledging their understanding. The form should include a list of relatives among faculty, staff, students and vendors (if any); this signed version should be placed in their HR file, and should be updated annually.

Issue: Certain employees were allowed to work from home, while others never took vacation and no one ever filled in for them. Having an employee work from home isolates them from the internal controls designed to protect both the employee and the organization. Allowing an employee to go without taking a vacation is not good for the employee's mental health, but also means that no one would ever catch a mistake or intercept a complaint about that person. Additionally, employees working from home are difficult to supervise, and difficult to contact, as others feel bad about bothering someone at home.

> Recommendation: We recommend that finance, accounting, HR and IT employees never be allowed to work from home. These positions require a person be present at and attentive to their job, on campus at NNMC. Vacations must be mandatory for all finance, accounting, HR and IT employees. While the person is on vacation,

someone else must answer their phone and check and answer their email, in order for any performance related issues or defalcation to be caught.

NNMC Foundation:

Issue: The NNMC cashier has been accepting payment for the NNMC Foundation, even though this individual lacks any training on or understanding of how a 501(c)(3) Foundation should operate. Having an untrained person who is outside the Foundation offices collect donations and deal with cash or checks for the Foundation is problematic. This contributes to the confusion surrounding the Foundation's finances, and leaves Foundation funds open to embezzlement or accidental loss.

> Recommendation: If the cashier is going to accept Foundation payments, the cashier must have extensive training to ensure that funds are collected, categorized and documented appropriately.

Issue: Currently, NNMC and the Northern Foundation share both a chart of accounts and the Banner accounting system. At first, the two organizations were intertwined and comingled in the same chart of accounts and the same bank accounts. We were told that the Foundation has its own bank accounts now, and the chart of accounts has "N" accounts for NNMC and "F" accounts for the Foundation. That arrangement is still confusing and insufficiently separate for a College and a non-profit.

> Recommendation: The Foundation is a separate 501(c)(3), and must have its own chart of accounts, accounting and banking services; the Foundation must be run as a stand-alone non-profit entity. Otherwise they risk losing their non-profit status, as well as confusing and complicating the accounting for both entities.

Information Technology:

Issue: Employees have no access to the Banner report module, and the current Banner system administrator pulls all data requests as a separate, stand-alone task. This means that the Banner system administrator could accidentally or intentionally leave out certain funds or other data, and could hide errors or theft as well as being able to manipulate financial and other data. Additionally, this incredibly inefficient protocol means that every report is done one at a time, waiting on the Banner administrator. This shields employees from both the knowledge and the responsibility for generating their own reports. This system contributed to the opacity of NNMC's finances, and also contributed to the ability of at least one former employee to embezzle funds.

> Recommendation: Banner's report writing module must be available to all accounting and finance employees, and they must do their own work. A set of standardized report forms should be generated to ensure that information on all appropriate funds are included. Neither the Banner system administrator nor anyone else should be able to hide or manipulate financial data.

Issue: The Banner system administrator provided the former Financial Services Director with inappropriate IT access based solely on the former Financial Services Director's request. No one sought or received appropriate approval for such access, and no one

removed the access after the supposed need for it had past, and in fact never inquired about it. These failures were a contributing factor to the former Financial Services Director's ability to conceal the embezzlement to which she confessed.

> Recommendation: Banner system administrator access, as well as transactional approval responsibilities such as approving journal entries, should be tightly controlled. No one person should be able to give administrative or so-called "super-user" access to anyone else, but this should require dual approvals from the person's supervisor and the IT Director.

Issue: Some NNMC employees were using their person email (Gmail) accounts to conduct NNMC business, including the use of Google Docs. Personal email should never be used for NNMC business. Personal email is not accessible for NNMC to comply with IPRA or other administrative requests, nor can it be monitored by NNMC IT staff. There is never a time when someone should have to (or be allowed to) use their personal email for NNMC.

As mentioned above, NNMC is using "Google Docs" to share documents. This program has the same issues as Excel in that there is no audit trail, nor record of who made any entries or changes, nor any controls over who has access at NNMC as long as the person has a Google password. NNMC has no IT controls over Google Docs. Google assures users that it keeps all data safe and private unless the user chooses to share files with others. As part of its security measures, Google doesn't discuss its approach to security in detail. Additionally, Google may or may not have access to the material on Google Docs. To the extent that the Google Docs used by NNMC contains private student information, financial information, medical information such as return to work medical records, or financial accountholder information, that information might be being shared inappropriately with Google. The use of Google Docs could result (or could have already resulted) in an unlawful breech of HIPAA rights (§45 CFR Part 160, *et al.*), or a violation student confidentiality rules (Family Educational Rights and Privacy Act "FERPA", 20 U.S.C. § 1232g; 34 CFR Part 99).

> Recommendation: NNMC must stop using Google Docs at once and must not allow employees to use personal email accounts. NNMC should have a central server where documents can be stored and shared, with appropriate security features, so that the data and the integrity of the data is secure. This server should have access logs, so that it would be apparent to IT personnel if someone accessed a document to which they were not entitled. Any unlawful breech of HIPAA rights (§45 CFR Part 160, et al), or violations of student confidentiality rules (Family Educational Rights and Privacy Act (FERPA) (20 U.S.C. § 1232g; 34 CFR Part 99) should be promptly investigated and reported as appropriate.

Issue: We were told that some employees have VPN (virtual private network) access to NNMC systems in order to work from home. It is unclear how many employees have VPN access, whether this is monitored, how this is controlled, and whether or not employees with VPN access can conduct accounting transactions from home.

> Recommendation: If NNMC is to have VPN access, both the access itself and transactions conducted on VPN must be subject to monitoring and an audit trail.

We recommend that finance, accounting, HR and IT employees never be allowed to work from home, in any event. Employees need to be at work, doing their work where they can be supervised and interact with their colleagues.

Technical notes:

Our work is not a financial statement audit and should not be relied on for such purposes. We did not conduct any review of financial statements, as the term "review" is defined in accounting professional standards. We offer no assurance, as that term is defined in accounting professional standards, as to any financial reporting of Northern New Mexico College, in general, or as to Federal grant funding, in particular. This engagement has been completed under the Statements of Standards on Consulting Services as published by the American Institute of Certified Public Accountants.

In conducting this examination and investigation, McHard Accounting Consulting LLC was provided with the documents listed at the beginning of this report, however, the basis for most of these recommendations are based on what we learned during our on-site interviews. We relied on the interviews we performed, as well as documents provided during this examination and, in conducting this analysis and investigation, and in forming our opinions as to this matter. If documents or other information later becomes available which supersede, update or correct the documents and information we relied on, we reserve the right to examine the new documentation and information to inform and potentially revise relevant facts and our opinions as stated here.

We appreciate the opportunity to assist you with this matter. Please do not hesitate to contact us if you have any questions.
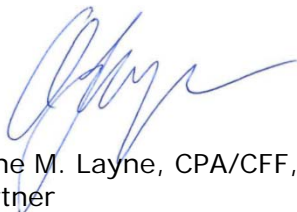
Sincerely,

Janet M. McHard, CPA, CFE, MAFF, CFF   Beth A. Mohr, CFE, CAMS, CCCI, PI[1]
Founding Partner   Managing Partner

Anne M. Layne, CPA/CFF, CFE, CAMS
Partner

Exhibits as noted

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[1] NM-Private Investigator License #2878

cc: Kevin Sourisseau, NM Acting Deputy State Auditor, via email to
        Kevin.Sourisseau@osa.state.nm.us
        - and -
        Max Rudmann, Post Audit Group, Office of the Chief Financial Officer, US
        Department of Education, via email to Max.Rudmann@ed.gov

EXHIBIT A

NNMC JOURNAL VOUCHER

FISCAL YEAR:	18				TRANS DATE	11/17/2017
APPROVED BY:					DOCUMENT #	B18-1110
DATE: 11/29/2017					JV TOTAL	$ 158,850.00

RL CODE	FUND	ORG	ACCT	DESCRIPTION	PROG	+/- D/C		
BD02	11000	1005	71552	IS Motor Pool	131	-	409.00	NSF
BD02	11000	1005	72123	In-State Travel	131	+	409.00	
BD02	11000	1010	72123	In-State Travel	131	-	1,869.00	
BD02	11000	1010	61305	Per-Dem Board of Regents	131	+	1,869.00	
BD02	11000	1022	71131	Supplies and Expense	131	-	5,054.00	
BD02	11000	1022	72124	Out-Of-State Travel	131	+	5,054.00	
BD02	11000	1031	61404	Overtime	133	-	608.00	
BD02	11000	1031	61505	Other Salaries-Temp	133	+	304.00	
BD02	11000	1031	61999	Salary Budget Adjustment Clearing	133	+	304.00	
BD02	11000	2052	61999	Salary Budget Adjustment Clearing	101	-	1,214.00	NSF
BD02	11000	2052	61801	Vacation Pay Out	101	+	1,214.00	
BD02	11000	2053	62151	Health Insurance	101	-	5,084.00	
BD02	11000	2053	61101	Faculty Salaries-Full-time	101	+	5,084.00	
BD02	11000	2111	61999	Salary Budget Adjustment Clearing	101	-	80.00	NSF
BD02	11000	2111	61106	Faculty Sal-Ovrld non-Teaching	101	+	80.00	
BD02	11000	2131	71131	Supplies and Expense	101	-	5.00	
BD02	11000	2131	71555	IS Postage Meter	101	+	5.00	
BD02	11000	2212	61999	Salary Budget Adjustment Clearing	101	-	1,752.00	NSF
BD02	11000	2212	61451	Student Salaries	101	+	1,752.00	
BD02	11000	2355	71131	Supplies and Expense	101	-	200.00	
BD02	11000	2355	71145	Purchased Services	101	-	875.00	
BD02	11000	2355	71146	Licenses	101	+	1,075.00	
BD04	11000	2421	61999	Salary Budget Adjustment Clearing	101	-	246.00	NSF

POSTED