Timothy M. Keller
State Auditor

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

State of New Mexico
OFFICE OF THE STATE AUDITOR

VIA EMAIL AND U.S. MAIL

March 31, 2017

Richard J. Bailey, Jr., Ph.D.
President
Northern New Mexico College
921 N. Paseo de Oñate
Española, NM 87532

Dear President Bailey:

The Office of the State Auditor ("OSA") has released the Fiscal Year 2016 financial and compliance audit for Northern New Mexico College ("NNMC" or "College"). The report, which was completed by the independent public accounting firm Jaramillo Accounting Group LLC, highlights numerous shortcomings with respect to the College's financial controls and practices.

The audit includes a "disclaimer of opinion," which indicates that the auditor was not able to form an opinion as to the reliability of the College's financial statements, and 37 findings noting serious deficiencies and areas of noncompliance. The problems identified include: a probable theft of over $200,000 by the former Director of Financial Services; a general lack of controls over accounting practices, cash handling and capital assets; the failure to perform timely and accurate bank reconciliations; excessive speaking honorariums provided to the former President; outside employment not being disclosed in writing in accordance with the Government Conduct Act; no code of ethics/conduct required to be signed by all employees; inadequate documentation to support financial transactions; procurement violations; outdated policies and procedures; waste of resources in paying for unused credit card machines; and payroll tax deficiencies.

The report also found that the Administration and the Board of Regents did not adequately monitor internal controls and risks, especially in light of the complaints being made regarding personnel and activities at NNMC, and failed to hold the former Director of Financial Services and other responsible staff accountable for corrective actions related to problems that were previously identified. In addition, the report includes a finding for noncompliance with Article 12, Section 13 of the New Mexico Constitution, which requires a board of regents consisting of five members to provide oversight of NNMC. In August 11, 2016, the OSA wrote to the Governor stressing the importance of filling expiring regent positions to ensure appropriate governance at the College. However, the Governor did not nominate a fifth regent during the 2017 Legislative Session and the vacancy remains.

The problems identified in the audit report expose NNMC to potential legal liability and create an environment susceptible to fraud, waste and abuse, which may divert the College's limited resources away from students. It is critical that the new NNMC leadership promptly implement and adhere to appropriate internal controls to safeguard public funds and ensure compliance with applicable laws, regulations and policies.

We appreciate management's acknowledgement of the issues raised in the report and NNMC's cooperation during the audit process. Our office stands ready to assist in any way possible as NNMC works to improve its financial controls and practices.

Sincerely,

Timothy Keller

Timothy M. Keller
State Auditor

cc: Rosario "Chayo" Garcia, President
Damian Martinez, Vice President
Kevin Powers, Secretary/Treasurer
Melinda Deherrera, Board Member
Domingo Sanchez III, Vice President for Finance & Administration
Audrey J. Jaramillo, CPA, CFE, Jaramillo Accounting Group LLC
Marco Serna, District Attorney, First Judicial District Attorney's Office
Capitan Dale Wagoner, New Mexico State Police
Dr. Barbara Damron, Secretary, New Mexico Higher Education Department
Susana Martinez, Governor

NORTHERN NEW MEXICO COLLEGE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016

NORTHERN NEW MEXICO COLLEGE
Table of Contents
June 30, 2016

NORTHERN NEW MEXICO COLLEGE
Official Roster
June 30, 2016

Board of Regents

Ex Officio Members:

The Honorable Susana Martinez	Governor of the State of New Mexico
Hanna Skandera	Cabinet Secretary, Public Education Department of NM
Dr. Barbara Damron	Cabinet Secretary, Higher Education Department of NM

Appointed Members:

Rosario "Chayo" Garcia	President
Damian Martinez	Vice President
Kevin F. Powers	Secretary/Treasurer
Melinda DeHerrera	Member
Vacant	Member

Principal Administrative Officials

Dr. Richard J. Bailey, Jr.	President (October 17, 2016 to current)
Domingo Sanchez III	Interim President (January 1, 2016 to October 16, 2016)
Nancy "Rusty" Barcelo	President (July 1, 2015 to December 31, 2015)
Domingo Sanchez III	Vice-President for Finance and Administration

Independent Auditor's Report

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the business-type activities and the discretely presented component unit of Northern New Mexico College (the "College") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents. We were also engaged to audit the budgetary comparisons, presented as supplementary information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion.

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To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the matter described in the “Basis for Disclaimer of Opinion” paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the College’s financial statements.

Basis for Disclaimer of Opinion

During the course of the routine audit, we discovered fraud through the bank reconciliations provided for the audit. The College could not provide adequate supporting documentation for certain transactions and balances during fiscal year ended June 30, 2016 which was a result of both insufficient and circumvented internal controls over financial reporting for all activities, including the College’s component unit, the Foundation.

It was impracticable to extend our audit procedures sufficiently to determine the extent to which the College’s financial statements, as listed in the table of contents, as of and for the year ended June 30, 2016, may have been affected by the matters discussed in the preceding paragraph. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements as of and for the year ended June 30, 2016, as listed in the table of contents.

Disclaimer of Opinion

Because of the significance of the matters described in the “Basis for Disclaimer of Opinion” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the College and its component unit, the Foundation. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management’s discussion and analysis on pages 6 through 11 and the Schedule of the College’s Proportionate Share of Net Pension Liability and the Schedule of College’s Contributions on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an

essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
We were engaged to audit for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements and the budgetary comparisons. The accompanying Schedule of Deposit Accounts, Schedule of Pledged Collateral, and Schedule of Collaborative Partnerships as required by Section 2.2.2 NMAC, the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Deposit Accounts, Schedule of Pledged Collateral, Schedule of Collaborative Partnerships, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Schedule of Deposit Accounts, Schedule of Pledged Collateral, Schedule of Collaborative Partnerships, and the Schedule of Expenditures of Federal Awards. Accordingly, we do not express an opinion on this information.

The Schedule of Vendor Information for Purchases Exceeding $60,000 (Excluding GRT) required by 2.2.2 NMAC has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

JAG LLC

Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
March 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

For financial reporting purposes, Northern New Mexico College (the College) is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

This report consists of Management's Discussion and Analysis, the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information for the College and its component unit, the Northern New Mexico College Foundation (the Foundation). This Management's Discussion and Analysis (MD&A) focuses on the College and not the Foundation.

An agreement between the Foundation and the College was entered into on March 12, 1997. This agreement formalizes the relationship between the Foundation and the College and establishes the sole purpose of the Foundation as raising supplementary funds for the College.

The Management's Discussion and Analysis of the College's financial statements provides an overview of its financial activities as of and for the year ended June 30, 2016.

Financial Highlights

GASB Statement 68, *Accounting & Financial Reporting for Pensions*, effective for years beginning after June 30, 2014, requires the recording of the College's share of the pension plan activities of the cost-sharing pension plan administered by the Education Retirement Board. This has resulted in the reporting of the net pension liability $20,701,991, deferred inflows of resources of $2,659,419, deferred outflows of resources of $1,974,933, and net fiduciary position (a component of unrestricted net position) of negative $21,883,477.

The College's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the June 30, 2016 fiscal year by $14,139,335 (net position).

The College was able to build its unrestricted operating net position. This occurred through building in the desired net increase into the budgeting formula, targeting specific areas for decrease and by closely monitoring expenses and responding to changing revenues. Overall, total net position increased by $1,035,294 from the previous year.

The Foundation's cash and investments reflect $243,988 at June 30, 2016, some of which are with local banking institutions.

The College's cash and cash equivalents reflect $1,996,070 at June 30, 2016 all of which are with local banking institutions.

The Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report the College's net position and how it has changed. Net position, the excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources, is one way to measure the College's financial health or position. Over time, increases or decreases in the College's net position are an indicator of whether its financial health is improving or deteriorating. Non-financial factors are also important to consider, including student enrollment and the condition of campus facilities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following table summarizes the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30:

	2016	2015
Assets		
Current assets	**$ 4,019,575**	$ 2,636,730
Capital assets	**31,654,307**	32,120,813
Other non-current assets	**2,940,187**	3,029,472
Total Assets	**$ 38,614,069**	$ 37,787,015
Deferred Outflows of Resources	**$ 1,974,933**	$ 1,263,492
Liabilities		
Current liabilities	**$ 2,851,027**	$ 2,489,493
Non-current liabilities	**20,939,221**	20,463,628
Total Liabilities	**$ 23,790,248**	**$ 22,953,121**
Deferred Inflows of Resources	**$ 2,659,419**	**$ 2,993,345**
Net Position		
Net investment in capital assets	**$ 31,654,307**	$ 32,120,813
Restricted	**2,940,187**	3,029,472
Unrestricted (deficit)	**(20,455,159)**	(22,046,244)
Total Net Position	**$ 14,139,335**	$ 13,104,041

Composition of Net Position

	2016		2015	
Unrestricted operating position	**$ 1,428,318**	**10.10%**	$ (118,112)	-0.90%
Net fiduciary position	**(21,883,477)**	**-154.77%**	(21,928,132)	-167.34%
Net capital assets	**31,654,307**	**223.87%**	32,120,813	245.12%
Restricted	**2,940,187**	**20.79%**	3,029,472	23.12%
	$ 14,139,335	**99.98%**	$ 13,104,041	100.00%

The following table summarizes the College's revenues, expenses, and changes in net position for the years ended June 30:

Revenues, Expenses and Changes in Net Position

	2016	2015
Operating Revenues	**$ 10,169,931**	$ 10,155,326
Operating Expenses	**20,595,516**	22,863,616
Operating Loss	**(10,425,585)**	(12,708,290)
Non-Operating Revenues	**11,132,965**	11,608,869
Other Non-Operating Revenues	**327,914**	232,337
Increase (Decrease) in Net Position	**$ 1,035,294**	$ (867,084)
Net position at beginning of year	**$ 13,104,041**	$ 13,971,125
Net position end of year	**$ 14,139,335**	$ 13,104,041

Operating Revenues

The following table summarizes the College's operating revenues for the years ended June 30:

	2016	2015
Student tuition and fees	**$ 3,546,230**	$ 3,810,947
Scholarship allowance which applies to tuition and fees	**(2,530,034)**	(3,015,058)
Federal grants and contracts	**6,945,631**	7,259,545
State grants and contracts	**1,101,869**	1,176,028
Other grants and contracts	**324,314**	335,993
Scholarships and scholarship contributions	**-**	-
State land and permanent fund income	**180,437**	200,971
Sales and service of auxiliary enterprises	**696,823**	808,914
Scholarship allowance which applies to sales from auxiliary enterprises	**(282,625)**	(335,043)
Other operating revenues	**187,287**	(86,971)
Total Operating Revenues	**$ 10,169,931**	$ 10,155,326

Operating Expenses

The following table summarizes the College's operating expenses for the years ended June 30. There were no unexpected changes in operating expenses.

	2016	2015
Instruction	**$ 5,991,294**	$ 7,020,821
Academic support	**996,959**	1,134,328
Student services	**2,028,199**	2,295,245
Institutional support	**5,748,895**	5,042,271
Scholarships	**-**	-
Public service	**546,226**	445,368
Student aid grants and stipends	**953,549**	995,663
Plant	**-**	287,036
Operations and maintenance support	**1,600,925**	1,929,595
Research	**41,419**	-
Internal service	**-**	370,431
Student activities	**79,760**	89,526
Auxiliary enterprises	**745,096**	921,058
Athletics	**665,768**	574,778
Pension liability adjustment expense	**-**	(162,499)
Depreciation	**1,197,426**	1,919,995
Total Operating Expenses	**$ 20,595,516**	$ 22,863,616

Non-Operating Revenues and Expenses

The following table summarizes the College's non-operating revenues and expenses for the years ended June 30:

	2016	2015
State appropriations	**$ 11,472,900**	$ 11,553,079
Investment income (loss)	**(89,283)**	55,790
Total Non-Operating Revenues	**$ 11,383,617**	$ 11,608,869

Other Non-Operating Revenues

The following table summarizes the College's other non-operating revenues for the years ended June 30:

	2016	2015
Capital appropriations	**$ 327,914**	$ 232,337
Total Other Non-Operating Revenues	**$ 327,914**	$ 232,337

Capital Assets

At June 30, 2016 and 2015, the College had the following amounts invested in capital assets net of accumulated depreciation:

	2016	2015
Paintings	**$ 28,500**	$ 28,500
Construction in progress	**330,621**	326,898
Land and improvements	**6,880,864**	6,880,864
Automobiles	**446,832**	446,832
Buildings	**52,195,589**	51,863,382
Furniture, fixtures and equipment	**2,564,610**	2,235,682
Library books	**3,154,731**	3,129,846
	65,601,747	64,912,004
Accumulated depreciation	**(33,947,440)**	(32,791,191)
Total Capital Assets, Net	**$ 31,654,307**	$ 32,120,813

Only minor capital expenditures were undertaken during the year ended June 30, 2016 which included additions to the both campuses for safety and security enhancements.

Budgetary Highlights

The final budgeted revenues and expenses decreased roughly $600 thousand from the original budgeted amounts due to an early recognition of decreases in most revenue sources.

Economic Outlook

The College is largely dependent on state appropriations and federal and state grants for its operating funds. The state has announced 5% decreases in appropriations to Higher Education institutions.

Contacting Northern New Mexico College's Financial Management

The financial report is designed to provide a general overview of Northern New Mexico College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Domingo Sanchez III
Vice-President for Finance and Administration
Northern New Mexico College
921 Paseo De Onate
Espanola, NM 87532

BASIC FINANCIAL STATEMENTS

NORTHERN NEW MEXICO COLLEGE
Statement of Net Position
As of June 30, 2016

	Primary Institution	Component Unit
Assets		
Current Assets		
Cash and Cash Equivalents	$ 1,996,070	$ 243,988
Receivables	1,832,731	17,208
Due from component unit	12,236	-
Inventories	178,538	-
Total Current Assets	4,019,575	261,196
Non-Current Assets		
Endowment investments	2,940,187	3,384,047
Capital assets, net	31,654,307	-
Total Non-Current Assets	34,594,494	3,384,047
Total Assets	38,614,069	3,645,243
Deferred Outflows of Resources		
Deferred outflows related to pension liability	1,974,933	-
Total Deferred Outflows	1,974,933	-
Liabilities		
Current Liabilities		
Accounts payable	1,032,664	3,316
Accrued salaries and other benefits	758,103	-
Accrued compensated absences	465,926	-
Loss contingency (Note 13)	250,000	-
Accrued liabilities - other	247,000	-
Due to primary institution	-	12,236
Unearned revenue	96,984	-
Deposits held in trust for others	350	-
Total Current Liabilities	2,851,027	15,552
Non-Current Liabilities		
Funds held for others	237,230	-
Net pension liability	20,701,991	-
Total Non-Current Liabilities	20,939,221	-
Total Liabilities	23,790,248	15,552
Deferred Inflows of Resources		
Deferred inflows related to pension liability	2,659,419	-
Total Deferred Inflows of Resources	2,659,419	-
Net Position		
Net investment in capital assets	31,654,307	-
Restricted		
Nonexpendable		3,495,320
Endowments	2,940,187	
Expendable		
Scholarships, research, instruction and other	-	113,745
Unrestricted (deficit)	(20,455,159)	20,626
Total Net Position	$ 14,139,335	$ 3,629,691

See Notes to Financial Statements

NORTHERN NEW MEXICO COLLEGE
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	Primary Institution	Component Unit
Operating Revenues		
Tuition and fees,		
less scholarship allowance $2,530,034	$ 1,016,196	$ -
Federal grants and contracts	6,945,631	-
State and local grants and contracts	1,101,869	-
Other grants and contracts	324,314	-
State land and permanent fund income	180,437	-
Sales and services of auxiliary enterprises,		
less scholarship allowance $282,625	414,198	-
Other	187,287	395,368
Total Operating Revenues	10,169,931	395,368
Operating Expenses		
Instruction	5,991,294	-
Academic support	996,959	-
Student services	2,028,199	-
Institutional support	5,748,895	285,071
Scholarships	-	120,546
Public service	546,226	-
Student aid grants and stipends	953,549	-
Operations and maintenance support	1,600,925	-
Research	41,419	-
Student activities	79,760	-
Auxiliary enterprises	745,096	-
Athletics	665,768	-
Depreciation	1,197,426	-
Total Operating Expenses	20,595,516	405,617
Operating Loss	(10,425,585)	(10,249)
Non-Operating Revenues		
State appropriations	11,472,900	-
Investment (loss)	(89,283)	166,960
Loss contingency (Note 13)	(250,000)	-
Loss on disposal of capital assets	(652)	
Net Non-Operating Revenues	11,132,965	166,960
Other Non-Operating Revenues		
Capital appropriations	327,914	-
Net Other Non-Operating Revenues	327,914	-
Increase in Net Position	1,035,294	156,711
Net Position, Beginning of Year	13,104,041	3,472,980
Net Position, End of Year	$ 14,139,335	$ 3,629,691

See Notes to Financial Statements

NORTHERN NEW MEXICO COLLEGE
Statement of Cash Flows
For The Year Ended June 30, 2016

	Primary Institution
Cash Flows From Operating Activities	
Tuition and fees	$ 1,070,633
Grants and contracts	8,361,588
Sales and services of educational activities	414,198
Other operating receipts	254,599
Payments to employees for salaries and benefits	(12,628,054)
Payments to suppliers	(5,885,262)
Scholarships	-
Loans and grants issued to students and employees	(981,670)
Net Cash Used by Operating Activities	(9,393,969)
Cash Flows From Non-Capital Financing Activities	
State appropriations - non-capital	11,472,900
Loss Contingency (Note 13)	(250,000)
Investment income	-
Net Cash Provided by Non-Capital Financing Activities	11,222,900
Cash Flows From Capital and Related Financing Activities	
State appropriations - capital	327,914
Purchases of capital assets	(730,920)
Net Cash Used by Capital and Related Financial Activities	(403,006)
Net Increase in Cash and Cash Equivalents	1,425,925
Cash and Cash Equivalents, Beginning of Year	570,145
Cash and Cash Equivalents, End of Year	$ 1,996,070

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities	
Operating loss	$ (10,425,585)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,197,426
Pension liability adjustment	(541,654)
Loss contingency	250,000
Loss on disposal of capital asset	(652)
Changes in assets and liabilities:	
Receivables	146,873
Student accounts receivable	28,184
Loan receivables	26,253
Other receivables	(157,096)
Due from component unit	1,197
Inventories	(2,328)
Accounts payable	113,196
Accrued liabilities - other	247,000
Accrued salaries and other benefits	(164,976)
Accrued compensated absences	30,636
Unearned revenue	(113,912)
Deposits held in trust for others	(410)
Funds held for others	(28,121)
Net Cash Used by Operating Activities	$ (9,393,969)

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creation and Purpose of Entity . Northern New Mexico College (the College) was created under Section 21-8-1 New Mexico Statutes Annotated (NMSA), Article XII, Section 11 of the New Mexico State Constitution. Under Article XII, Section 13 of the New Mexico Constitution, the College is governed by a five-member Board of Regents appointed by the Governor, with the advice and consent of the Senate, for six-year terms.

The College was originally founded in 1909 by the New Mexico Territorial Legislature. The original mission of the College was to teach English to Spanish speaking teachers in the area. Technical-vocational programs were instituted during the 1960's. In 1969, the College became a full-time post secondary technical-vocational school. In 1977 the New Mexico Legislature passed enabling legislation to merge the College and the Northern Branch of the University of New Mexico. In 2005, the College changed its name and it began offering four-year degree programs.

The College is a two-year and four-year degree granting institution of higher learning. The College offers degrees in biology, business administration, elementary education, engineering, environmental science, information technology, and nursing. The College's main campus is located in Española, New Mexico, and its branch campus is located in El Rito, New Mexico.

Basis of Presentation. The College and the Foundation present their financial statements in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The statement presentation required by GASB 35, *Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities--an amendment of GASB 34* , provides a comprehensive entity-wide perspective of the College's assets, liabilities, and net position; revenues, expenses and changes in net position; and cash flows.

Reporting Entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose is will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The College is part of the primary government of the State of New Mexico; however, these basic financial statements are intended to present the net position, changes in net position and cash flows, where applicable, of only that portion of the State of New Mexico that is attributable to the transactions of the College and its discretely presented component unit. They do not purport to and do not, present fairly the net position of the State of New Mexico as of June 30, 2016, and the changes in net position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements of the College include all funds and activities over which the College has oversight responsibility, including its discretely presented component unit, the Northern New Mexico Foundation (The Foundation).

An agreement between the Foundation and the College was entered into on March 12, 1997. This agreement formalizes the relationship between the Foundation and the College and establishes the sole purpose of the Foundation as raising supplementary funds for the College.

Basis of Accounting. For financial reporting purposes, the College is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-entity transactions have been eliminated.

Budget. The College follows the requirements established by the State of New Mexico Higher Education Department (HED) in formulating its budgets and in exercising budgetary control. It is through HED's policy that, when the appropriation has been made to the College, its Board of Regents can, in general, adopt an operating budget within the limits of available income. Additions to capital assets are reported as expenditures on the budget basis, but not on a basis required by generally accepted accounting principles (GAAP). Depreciation expense, pension liability adjustment and scholarship allowance are GAAP requirements not included on the budget basis submitted to HED.

Procedures for Approval of Operating Budgets

1) The College will submit an original typed copy that has been approved by the College's regents to the HED's office by May 1st.

2) The HED meets in June and acts on approval of the budgets.

3) The budgets, as approved by the HED, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1st.

In accordance with House Bill 2, in general, unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for appropriation by the College in subsequent years.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary control are as follows: (1) unrestricted and restricted expenditures are considered separately; (2) total expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; and (4) within the plant funds budget, the items of budgetary control are major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service. Budget revisions must be approved by the executive secretary of the HED and then by the Budget Division of the Department of Finance and Administration.

Estimates. The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflow of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and all highly-liquid investments with original maturities of three months or less. For purposes of the Statement of Cash Flows, cash and cash equivalents include demand deposits and money market accounts with an original maturity of three months or less.

Investments. The College accounts for its investments at fair value. Changes in the unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position. The College's investment policy requires that endowment and similar funds only be invested with either the State of New Mexico's Investment Council, the State Treasurer's Local Government Investment Pool, or with government-insured financial institutions with offices in New Mexico. The Foundation does have a specific investment policy, but its investments are not regulated by the State of New Mexico.

The Foundation originally records marketable securities purchased at cost. Marketable securities received by gift are recorded at estimated fair value at the date of donation. Marketable securities are carried by the Foundation at fair value. Third-party investment managers administer substantially all marketable securities of the Foundation. Gains and losses resulting from securities transactions are recorded in investment income.

The income derived from the College's undivided interest in the Land Grant Permanent Fund under the control of the State of New Mexico Commissioner of Public Lands is distributed monthly to the College.

Donor restricted endowment disbursements of the net appreciation of investments are permitted in accordance with the Uniform Management of Institutional Funds Act (46-9-1 to 46-9-12 NMSA), except where a donor has specified otherwise.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts and Grants Receivable. Contracts and grants receivable are amounts due from the federal government, state and local governments or private resources in connection with reimbursement of allowable expenditures made pursuant to the College's grant awards. Contract and grant receivables are recorded net of estimated uncollectible amounts.

Student Accounts Receivable. The College records student accounts receivable at the time a student registers for classes. Provisions for uncollectible student accounts are recorded to maintain an adequate allowance for probable losses.

Loan Receivables. Loan receivables are amounts due from Perkins loans made by the College to students. Loan receivables are recorded net of estimated uncollectible amounts.

Inventories. Inventories are generally stated at the lower of cost (average cost) or market. Cost is determined by using the retail method for bookstore items and the average cost method for other items. Inventories consist of items which are available for resale to individuals and other College departments.

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Pursuant to the College's capitalization policy, capital assets with a unit cost of $5,000 or greater are capitalized. The College includes software purchased with a piece of equipment in the cost of capitalization. Software purchased for internal use is capitalized and depreciated. Renovations to buildings, infrastructure, or land improvements that significantly increase the value, increase the productivity, or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The College does not currently capitalize historical treasures or works of art.

Depreciation for the College is computed using the straight-line method over the estimated useful lives of the assets. Generally, buildings and improvements are depreciated over 40 years; certain types of infrastructure are depreciated over 25 years; library books are depreciated over 10 years; and equipment is depreciated over 5 years. Land is not depreciated.

Compensated Absences. Accumulated annual leave is reported as a liability in the current unrestricted and restricted funds. Annual leave earned is immediately vested unless the employee is in a six month probationary period, but only 192 hours of annual leave are available for carryover at year end.

Unearned Revenue. Revenue for each academic session is reported within the fiscal year during which the session is completed. Receipts for the summer session beginning in May, and amounts charged to the accounts of students pre-registering for fall semester, are reported as unearned revenue in the accompanying financial statements.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Board (ERB) and additions to and deductions from ERB's fiduciary net position have been determined on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Net Position. The College's net position is classified as follows:

Net Investment in Capital Assets. This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The College does not have any related debt associated with its investment in capital assets.

Restricted Net Position – Nonexpendable. Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted Net Position – Expendable. Restricted expendable net position consists of resources that the College is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

Unrestricted Net Position. Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted, and then toward unrestricted resources.

Classification of Revenues. The College has classified its revenues as either operating or non-operating revenues, according to the following criteria:

Operating Revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) most federal, state and local grants and contracts and federal appropriations, and 3) interest on institutional student loans.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tuition and Fees. Student tuition and fees are recorded as revenue during the fiscal year in which the session is completed. The Board of Regents determines the rates to be charged to students.

Grant and Contract Revenue. Grant and contract revenues are recognized at the time the expenditure is incurred, if the expenditure of funds is the prime factor for determining eligibility for reimbursement.

Non-operating Revenues. Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB 9*, Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That use Proprietary Fund Accounting,* and GASB 34*.*

State Appropriations. Unexpended appropriations generally do not revert to the State of New Mexico at the end of the year and are available to the College in subsequent years.

Tax Status. As a post-secondary College, the College's income is exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code to the extent the income is derived from essential governmental functions.

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation had no material unrelated business income during the year ended June 30, 2016; therefore, no provision for income taxes has been included in the financial statements.

Reclassifications. Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in current year financial statements.

NOTE 2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2016 is as follows:

The College		
Cash and Cash Equivalents:		
Cash on hand	$	4,574
Deposits with financial institutions		1,991,496
		1,996,070
Investments:		
Interest in State Land Grant Permanent Fund		2,940,187
Total Cash and Cash Equivalents and Investments	$	4,936,257
The Foundation		
Cash and Cash Equivalents:		
Cash on hand		-
Deposits with financial institutions		243,988
		243,988
Investments:		
Mutual funds		3,068,080
Real Estate Investment Trust		315,967
		3,384,047
Total Cash and Cash Equivalents and Investments	$	3,628,035

Investment Policy. The College utilizes certificates of deposit to invest its excess funds. The College could also invest in the short-term investment pool held by the New Mexico State Treasurer, but it has not utilized this option. The College automatically has an undivided interest in the State of New Mexico Land Grant Permanent Fund (Note 7). The Foundation's investment policy authorizes monies to be invested in equity and debt securities of United States institutions, corporate and government securities.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the College or the Foundation. The College did not have any investments at June 30, 2016, other than its undivided interest in the State of New Mexico Land Grant Permanent Fund. The credit risk for this interest was not available. Credit ratings were not available from the investments held by the Foundation.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The College and the Foundation do not have formal investment policies that limit investment maturities as a means of managing its exposure to changing interest rates. The College did not have any investments at June 30, 2016, other than its interest in the State of New Mexico Land Grant Permanent Fund. The interest rate risk for its interest in the State of New Mexico Land Grant Permanent Fund was not available.

NOTE 2. CASH AND INVESTMENTS (continued)

The Foundation’s investments were not interest-bearing obligations, so they were not subject to interest rate risk at June 30, 2016.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the College’s or the Foundation’s investment in a single issuer. Investments in any one issuer that represent 5% or more of total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued and explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. For the year ended June 30, 2016, the College did not have a concentration of credit risk. For the year ended June 30, 2016, the Foundation had a 8.29% of its investments with a non-publicly traded Real Estate Investment Trust with Griffin Capital. The College and the Foundation do not have a formal policy to address concentration of credit risk. The Foundation's investment by type is as follows:

Investment Type	Amount	Percentage
Equity Mutual Fund	1,569,670	46.38%
Bond Mutual Fund	734,848	21.72%
Equity Exchange Traded Fund	357,079	10.55%
Real Estate Investment Trust (REIT)	315,967	9.34%
Bond Exchange Traded Fund	283,445	8.38%
Money Market Mutual Fund	53,293	1.57%
Commodities Exchange Traded Fund	49,488	1.46%
REIT Exchange Traded Fund	20,257	0.60%
Total Foundation Investments	$ 3,384,047	100.00%

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of a depository institution failure, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party.

New Mexico statutes, Section 6-10-16 and 6-10-17 NMSA 1978, require that financial institutions with public monies on deposit pledge collateral in an amount not less than 50 percent of the public monies held on deposit that are not insured by the federal deposit insurance corporation.

At June 30, 2016, the College’s deposits had carrying amounts of $1,991,496 and bank balances of $2,192,338. Of the bank balances, $1,215,146 was covered by federal depository insurance corporation at June 30, 2016, and $1,215,146 was uninsured. Of the uninsured amounts, the entire balance was was covered with securities held by the financial institution in the College’s name.

The College has no policy regarding custodial credit risk for deposits.

NOTE 2. CASH AND INVESTMENTS (continued)

Of the investments in federal agency and corporate obligations and marketable securities, the Foundation had custodial credit risk exposure at June 30, 2016, because the related securities are held by the Foundation's brokerage firm, National Financial Services LLC, which is also the counterparty for these securities.

At June 30, 2016, the Foundation's deposits had carrying amounts of $243,988 and bank balances of $234,175. The Foundation is not required to have pledged collateral on excess balances.

NOTE 3. RECEIVABLES

The various sources of receivables at June 30, 2016 were as follows:

Grants and Contracts Receivable			
Amounts due from state and local agencies, as well as amounts due from the federal government represent expenditures to be reimbursed under various cost-sharing agreements. It is the opinion of management that no allowance for doubtful accounts was needed.		$	1,170,267
Student Accounts Receivable			
Amounts due from students are for tuition and fees not covered by financial aid.			
Total due	$ 1,388,754		
Allowance for doubtful receivables	(1,217,981)		
Net reported balance	$ 170,773		170,773
Loans Receivable			
Federal Perkins loans			156,178
Other Receivables			
Capital Grants			179,415
Miscellaneous Receivables			156,098
Total Receivables		$	1,832,731

NOTE 4. INVENTORIES

Inventory at June 30, 2016 was as follows:

Bookstore inventory	$	173,511
Cafeteria inventory		5,027
	$	178,538

NOTE 5. CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016 as follows:

	Balance June 30, 2015	Additions	Deletions/ Adjustments	Transfers	**Balance June 30, 2016**
Capital Assets Not Being Depreciated:					
Art	$ 28,500	$ -	$ -	$ -	**$ 28,500**
Construction in progress	326,898	3,723	-	-	**330,621**
Land and improvements	6,880,864	-	-	-	**6,880,864**
Total Capital Assets not Being Depreciated	7,236,262	3,723	-	-	**7,239,985**
Capital Assets Being Depreciated:					
Automobiles	446,832		-	-	**446,832**
Building and improvements	51,863,382	332,207	-	-	**52,195,589**
Furniture, fixtures and equipment	2,235,682	370,757	(41,829)	-	**2,564,610**
Library materials	3,129,846	24,885	-	-	**3,154,731**
Total Capital Assets Being Depreciated	57,675,742	727,849	(41,829)	-	**58,361,762**
Total Capital Assets	64,912,004	731,572	(41,829)	-	**65,601,747**
Less accumulated depreciation for:					
Automobiles	356,014	32,028	-	-	**388,042**
Building and improvements	28,132,586	726,198	-	-	**28,858,784**
Furniture, fixtures and equipment	1,638,777	275,625	(41,177)	-	**1,873,225**
Library materials	2,663,814	163,575	-	-	**2,827,389**
Total Accumulated Depreciated	32,791,191	1,197,426	(41,177)	-	**33,947,440**
Total Capital Assets Being Depreciated, Net	24,884,551	(469,577)	(652)	-	**24,414,322**
Total Capital Assets, Net	$ 32,120,813	$ (465,854)	$ (652)	$ -	**$ 31,654,307**

The College does not capitalize interest expense because its additions are not financed by any debt of the College.

NOTE 6. COMPENSATED ABSENCES

A summary of changes in compensated absences for the year ended June 30, 2016 follows:

	Balance June 30, 2015	Increase	Decrease	**Balance June 30, 2016**	Amount Due Within One Year
Compensated absences	$ 435,290	$ 704,773	$ (674,137)	**$ 465,926**	$ 465,926

NOTE 7. INTEREST IN STATE LAND GRANT PERMANENT FUND

State Investment Council. The College has an interest in assets of the State of New Mexico Land Grant Permanent Fund (Permanent Fund) managed by the State Investment Council. At June 30, 2016, the cost and fair market value of such interest is $1,653,769 and $2,940,187, respectively. These investments are not categorized by custodial risk.

The College's interest in the Permanent Fund was .020156% at June 30, 2016. The College's interest in the Permanent Fund decreased by ($89,285).

NOTE 8. OPERATING LEASES

The College leases certain office space and office equipment under lease agreements with terms ranging from one year to five years. Expenditures for operating leases for the year ended June 30, 2016 were $181,222. Future minimum lease payments under these operating leases are as follows:

2016	$ 181,222
2017	143,087
2018	108,401
2019	100,907
2020	-
	$ 533,617

NOTE 9. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

Plan Description. Substantially all of the College's full-time employees participate in a public employee retirement system administered by ERB. ERB was created by the state's Educational Retirement Act, Section 22-11 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

Benefits provided. A members' retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater. A brief summary of Plan coverage provisions follows:

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibly requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, re-employed after that date is as follows: the member's age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; the member has service credit totaling 30 years or more.

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the members' accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in the CPI is less than 2%, in which case, the COLA would equal the change in the CPI, but never less than zero.

NOTE 9. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (continued)

As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of the retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under Rule of 75 or when the member attains age 65.

Contributions. The contribution requirements of defined benefit plan members and the College are established in the state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For fiscal year ended June 30, 2015 (and thereafter) employers contributed 13.90% of employees' gross annual salary to the Plan; participating employees earning more than $20,000 annually contributed 10.70% of their gross salary. Employees earning $20,000 or less contributed 7.90%. Contributions to the pension plan from the College were $1,262,881 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. The total ERB pension liability, net pensions liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. At June 30, 2015 the College reported a liability of $20,701,991 for its proportionate share of the net pension liability. The College's proportion of the net pension liability is based on the employer contributing entity's percentage of total employer contributions for the fiscal year ended June 30, 2015. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, the College's proportion was 0.31961%, which was a decrease of 0.034390% from its proportion measured as of June 30, 2014.

NOTE 9. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (continued)

For the year ended June 30, 2016, the College recognized pension expense of $721,227. At June 30, 2016 the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actuarial experience	$ -	$ (383,795)
Change in assumptions	712,052	
Net difference between projected and actual earnings on pension plan investments	-	(93,185)
Changes in proportion and differences between College contributions and proportionate share of contributions	-	(2,182,439)
College contributions subsequent to the measurement date	1,262,881	-
Total	$ 1,974,933	$ (2,659,419)

The $1,262,881 reported as deferred outflows of resources related to pensions relating from College contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflow of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$ (901,400)
2018	$ (854,400)
2019	$ (479,106)
2020	$ 287,539
2021	$ -
Total:	$ (1,947,367)

NOTE 9. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (continued)

***Actuarial assumptions*.** As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2015. The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013 and new assumptions adopted by the Board of Trustees on June 12, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. All members with an annual salary of more than $20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 thereafter.

2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their Cost of Living Adjustment (COLA) will be deferred until age 67.

3. COLAs for most retirees are reduced until ERB attains a 100% funded status.

4. These assumptions were adopted by ERB on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized - closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based on table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return on projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.).

NOTE 9. PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (continued)

Sensitivity of the College's proportionate share of the net pension liability to changes in the discount rate. The following table presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75) than the current rate.

		1% Decrease (6.75%)	**Current Discount Rate (7.75%)**	**1% Increase (8.75%)**
The College's proportionate share of the net pension liability				
	2015	$27,885,912	$20,701,991	$14,691,953

Pension plan fiduciary net position. Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2015 which is publicly available at wwww.nmerb.org.

NOTE 10. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The College contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer’s effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

NOTE 10. POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (continued)

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plan 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure that actuarial soundness of the benefits provided under the Retiree Health Care Act.

The College's contributions to the RHCA for the years ended June 30, 2016, 2015, and 2014 were $238,700, $173,141, and $188,220, respectively, which equal the required contributions for each year.

NOTE 11. RISK MANAGEMENT

New Mexico Statutes (Section 15-7-2 NMSA 1978) require Risk Management Division (RMD) to be responsible "for the acquisition and administration of all insurance purchased by the State." Various statutes allow RMD to insure, self-insure and use a combination of both for all risks administered by it. RMD operates under the supervision of the Secretary of New Mexico, General Services Department.

NOTE 11. RISK MANAGEMENT (continued)

The College is exposed to various risks of loss related to general, automobile and aircraft liabilities, including those relating to civil rights (torts); theft of, damage to and destruction of state property assets; errors and omissions; injuries to employees; group insurance; and natural disasters, all of which are insured against by participation in the public entity risk pool described above, subject to limits of coverage set by RMD. All employees of the College are covered by a blanket fidelity bond up to $5,000,000, with a $1,000 deductible per occurrence, by the State of New Mexico for the period July 1, 2015 through June 30, 2016.

The College is currently a party to litigation claims in the ordinary course of business and which is anticipated to be within the coverage provided by RMD. After conferring with legal counsel concerning pending litigation and claims, the College administration believes that the outcome of pending litigation should not have a materially adverse effect on the financial position or operations of the College.

NOTE 12. DISCRETELY PRESENTED COMPONENT UNIT

The Northern New Mexico College Foundation (the Foundation) is a not-for-profit corporation established to acquire and manage charitable gifts, including endowed funds, to be used solely for the benefit of the College. The Foundation owed the College $12,236 at June 30 2016 for reimbursement of scholarship funds. The Foundation does not issue separate financial statements.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The various federal and state grants and programs are subject to audit by governmental agencies. These audits may result in disallowance of claimed reimbursable expenditures under rules and regulations of the various grants and programs. Management believes that the amounts of potential disallowances, if any, will not be material to the financial position or the operations of the College.

The College is currently party to various litigation claims brought against the College in the ordinary course of business. After conferring with legal counsel concerning pending litigation and claims, College administration has recorded liabilities for the estimated claims and believes that the outcome of pending litigation should not have a materially adverse effect on the financial position or operations of the College.

During the course of the June 30, 2016 routine audit, potential embezzlement and larceny of College funds was uncovered. As of March 27, 2017, the impact of this on the College's finances and compliance has not been determined. Management of the College has recorded a $250,000 loss contingency for this matter. The loss amount could be higher since the actual loss amount is unknown at this time. Restitution and amounts owed to the College are an unrecorded receivable to the College, as it would be fully offset by an allowance and the receivable amount is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHERN NEW MEXICO COLLEGE
Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions
As of June 30, 2016

Schedule of the College's Proportionate Share of Net Pension Liability
Education Retirement Board (ERB) Plan - Last 10 Fiscal Years*

		2016		2015
College's proportion of the net pension liability (asset)		0.31961%		.354010%
College's proportionate share of the net pension liability (asset)	$	20,701,991	$	20,198,278
College's covered - employee payroll	$	8,726,377	$	9,820,806
College's proportionate share of the net pension liability (asset) as a percentage of covered payroll		237.23%		205.67%
Plan fiduciary net position as a percentage of total pension liability		66.54%		66.54%

Schedule of the College's Contributions
Education Retirement Board (ERB) Plan - Last 10 Fiscal Years*

		2016		2015
Contractually required contribution	$	1,262,881	$	1,283,113
Contributions in relation to contractually required contributions	$	1,262,881	$	1,283,113
Contribution deficiency (excess)	$	-	$	-
College's covered - employee payroll (actual)	$	8,726,377	$	9,820,806
Contributions as a percentage of covered-employee payroll		14.47%		13.07%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the College will present information for those years for which information is available.

Related Notes

Changes of benefit terms. The COLA and retirement eligibility benefits changes in recent years are described in the benefits provided subsection of the financial statement note disclosure on the ERB Pension Plan (note 9).

Changes of assumptions . The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of June 30, 2015. The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013 and new assumptions adopted by the Board of Trustees on June 12, 2015. Specifically, the liabilities measured as of June 30, 2015 incorporate the following assumptions:

1. Fiscal Year 2015 and 2014 valuation assumptions that changed based on this study:
   a. Lower wage inflation from 4.25% to 3.75%
   b. Update mortality tables to incorporate generational improvements
   c. Update demographic assumptions to use currently published tables
   d. Lower population growth per year from 0.50% to zero

2. Assumptions that were not changed:
   a. Investment nominal return will remain at 7.75%
   b. Real investment return will remain at 4.75%
   c. Inflation will remain at 3%
   d. COLA assumption to remain at 2.00% per year
   e. Current payroll growth assumption to remain at 3.50%

See also the actuarial assumptions subsection of the financial statement not disclosure on the Pension Plan (Note 9).

SUPPLEMENTARY INFORMATION

NORTHERN NEW MEXICO COLLEGE
Budgetary Comparison - Restricted and Unrestricted - All Operations (Modified Accrual)
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Favorable
	Original	Final	(Modified Accrual)	(Unfavorable)
Beginning, Net Position Balance (Modified Accrual Basis)	$ (736,295)	$ (113,643)	$ (113,643)	$ -
Revenues				
State government appropriations	13,663,112	12,707,597	11,800,814	(906,783)
Federal government contracts and grants	8,716,673	8,634,670	6,945,630	(1,689,040)
State government contracts and grants	811,051	1,283,852	1,101,869	(181,983)
Local government contracts and grants	-	-	-	-
Private gifts, grants, and contracts	260,300	347,093	324,314	(22,779)
Tuition and miscellaneous fees	3,818,996	3,605,862	3,546,230	(59,632)
Land and permanent fund	116,652	170,205	180,437	10,232
Sales and services	702,175	672,961	696,823	23,862
Other	77,190	191,635	164,789	(26,846)
Total Revenues	28,166,149	27,613,875	24,760,906	(2,852,969)
Expenditures				
Instruction	5,949,329	6,710,334	6,217,880	492,454
Student social and cultural activities	86,267	91,587	81,808	9,779
Academic support	1,173,117	1,054,752	1,030,131	24,621
Student services	2,293,971	2,355,037	2,103,273	251,764
Institutional support	6,033,081	6,206,925	5,878,051	328,874
Operation and maintenance of plant	2,056,048	1,924,126	1,798,317	125,809
Research	-	47,380	41,419	5,961
Public service	552,494	568,003	558,444	9,559
Internal service	52,328	193,396	(224)	193,620
Auxiliary enterprises	924,040	861,745	754,610	107,135
Capital outlay	2,121,112	1,236,300	377,879	858,421
Renewal and replacement	264,349	254,349	196,865	57,484
Student aid, grants, and stipends	5,230,790	4,689,244	3,766,208	923,036
Intercollegiate athletics	692,928	679,956	679,313	643
Total Expenditures	27,429,854	26,873,134	23,483,974	3,389,160
Net Transfers - In (Out)	-	-	-	-
Change in Net Position (Modified Accrual Basis)	736,295	740,741	1,276,932	536,191
Ending, Net Position (Modified Accrual Basis)	$ -	$ 627,098	$ 1,163,289	$ 536,191

NORTHERN NEW MEXICO COLLEGE
Budgetary Comparison - Restricted - Instruction and General (Modified Accrual)
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Favorable
	Original	Final	(Modified Accrual)	(Unfavorable)
Beginning Net Position (Modified Accrual Basis)	$ -	$ -	$ -	$ -
Revenues				
State government appropriations	-	-	-	-
Federal government contracts and grants	4,322,442	4,674,340	3,845,778	(828,562)
State government contracts and grants	-	498,066	380,231	(117,835)
Local government contracts and grants	-	-	-	-
Private gifts, grants, and contracts	28,300	100,597	69,271	(31,326)
Tuition and miscellaneous fees	-	-	-	-
Land and permanent fund	-	-	-	-
Sales and services	-	-	-	-
Other	-	-	(30,816)	(30,816)
Total Revenues	4,350,742	5,273,003	4,264,464	(1,008,539)
Expenditures				
Instruction	1,157,184	2,020,587	1,728,486	292,101
Student social and cultural activities	-	-	-	-
Academic support	61,222	80,511	71,019	9,492
Student services	1,143,097	1,189,361	1,083,305	106,056
Institutional support	1,964,413	1,881,306	1,332,647	548,659
Operation and maintenance of plant	-	18,917	13,898	5,019
Research	-	-	-	-
Public service	-	-	-	-
Internal service	-	-	-	-
Auxiliary enterprises	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacement	-	-	-	-
Student aid, grants, and stipends	-	-	-	-
Independent operations	-	-	-	-
Intercollegiate athletics	-	-	-	-
Total Expenditures	4,325,916	5,190,682	4,229,355	961,327
Net Transfers - In (Out)	(24,826)	(82,321)	(35,109)	47,212
Change in Net Position (Modified Accrual Basis)	-	-	-	-
Ending Net Position (Modified Accrual Basis)	$ -	$ -	$ -	$ -

NORTHERN NEW MEXICO COLLEGE
Budgetary Comparison - Unrestricted - Instruction and General (Modified Accrual)
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance Favorable
	Original	Final	(Modified Accrual)	(Unfavorable)
Beginning Net Position (Modified Accrual Basis)	$ (959,265)	$ (117,486)	$ (117,486)	$ -
Revenues				
State government appropriations	10,999,000	10,933,100	10,933,100	-
Federal government contracts and grants	-	19,387	19,387	-
State government contracts and grants	-	-	-	-
Local government contracts and grants	-	-	-	-
Private gifts, grants, and contracts	-	-	-	-
Tuition and miscellaneous fees	3,137,568	3,058,591	2,982,460	(76,131)
Land and permanent fund	116,652	170,205	180,437	10,232
Sales and services	890	270	-	(270)
Other	49,730	74,601	56,661	(17,940)
Total Revenues	14,303,840	14,256,154	14,172,045	(84,109)
Expenditures				
Instruction	4,792,145	4,689,747	4,538,555	151,192
Student social and cultural activities	-	-	-	-
Academic support	1,111,895	974,241	959,112	15,129
Student services	1,150,874	1,165,676	1,019,968	145,708
Institutional support	4,068,668	4,325,619	4,545,405	(219,786)
Operation and maintenance of plant	2,056,048	1,905,209	1,784,419	120,790
Research	-	-	-	-
Public service	-	-	-	-
Internal service	-	-	-	-
Auxiliary enterprises	-	-	-	-
Capital outlay	-	-	-	-
Renewal and replacement	-	-	-	-
Student aid, grants, and stipends	-	-	-	-
Independent operations	-	-	-	-
Intercollegiate athletics	-	-	-	-
Total Expenditures	13,179,630	13,060,492	12,847,459	213,033
Net Transfers - In (Out)	(387,916)	(531,196)	(212,495)	318,701
Change in Net Position (Modified Accrual Basis)	736,294	664,466	1,112,091	447,625
Ending Net Position (Modified Accrual Basis)	$ (222,971)	$ 546,980	$ 994,605	$ 447,625

See Report of Independent Auditor

NORTHERN NEW MEXICO COLLEGE
Reconciliation of Budgetary Basis (Modifed Accrual) to Financial Statement Basis (Accrual) - Restricted and Unrestricted - All Operations
For the Year Ended June 30, 2016

Total Restricted and Unrestricted Revenues:		
Budgetary Basis (Modified Accrual)	$	24,760,906
Reconciling items:		
Scholarship allowance (not in modified accrual basis)		(2,812,660)
Other revenue (not in modified accrual basis)		(317,436)
Total reconciling items		(3,130,096)
Financial Statement Basis	$	21,630,810
Basic Financial Statements		
Operating revenues	$	10,169,931
Non-operating revenues		11,132,965
Other non-operating revenues		327,914
Total Restricted and Unrestricted Revenues Per Financial Statements	$	21,630,810
Total Restricted and Unrestricted Expenditures:		
Budgetary Basis (Modified Accrual)	$	23,483,974
Reconciling items:		
Scholarship allowance (not in modified accrual basis)		(2,812,660)
Capital outlay (not in financial statements)		(730,918)
GASB 68 Pension liability adjustment (reduction) expense		(541,654)
Depreciation expense (not in modified basis)		1,197,426
Loss on disposal of capital asset		(652)
Total reconciling items		(2,888,458)
Financial Statement Basis	$	20,595,516
Basic Financial Statements		
Operating expenditures	$	20,595,516
Non-operating expenditures		-
Total Restricted and Unrestricted Expenditures Per Financial Statements	$	20,595,516

See Report of Independent Auditor

OTHER SUPPLEMENTARY INFORMATION

NORTHERN NEW MEXICO COLLEGE
Schedule of Deposit Accounts
As of June 30, 2016

Depository Account Name	Type of Account	Cash per Bank June 30, 2016	Add Deposits in Transit	Less Outstanding Checks	Other Reconciling Items	Adjusted Cash Balance June 30, 2016
COLLEGE						
Century Bank						
General	Checking*	$ 1,283,680	$ 96	$ (430,816)	$ 231,430	$ 1,084,390
Payroll	Checking*	2,400	-	(1,970)	-	430
Student	Checking*	18,547	-	-	-	18,547
Savings	Savings*	301,090	-	-	-	301,090
Bank of America						
Payroll	Checking	8,926	-	-	-	8,926
Perkins	Checking*	24,712	-	-	-	24,712
Luis Bustos	Checking*	6,675	-	-	-	6,675
Federal	Checking*	319,116	-	-	-	319,116
New Mexico Bank and Trust						
General	Checking	227,192	2,552	(2,134)	-	227,610
Cash in Bank		2,192,338	2,648	(434,920)	231,430	1,991,496
Petty Cash and Cash Drawers		4,574	-	-	-	4,574
Total College Cash and Cash Equivalents		$ 2,196,912	$ 2,648	$ (434,920)	$ 231,430	$ 1,996,070
FOUNDATION						
Century Bank						
Operating	Checking*	$ 36,211	$ 6,684	$ (42,627)	$ -	268
Unrestricted	Checking*	95,493	48,602	(6,727)	-	137,368
Temporary Restricted	Checking*	38,773	3,881	-	-	42,654
Permanently Restricted	Checking*	63,698	-	-	-	63,698
Cash in Bank		234,175	59,167	(49,354)	-	243,988
Petty Cash and Cash Drawers		-	-	-	-	-
Total Foundation Cash and Cash Equivalents		$ 234,175	$ 59,167	$ (49,354)	$ -	$ 243,988

*Indicates the account is interest bearing

NORTHERN NEW MEXICO COLLEGE
Schedule of Pledged Collateral
As of June 30, 2016

COLLEGE:

Pledged Collateral: Safekeeping Location / Type of Security	Century Bank	New Mexico Bank and Trust	Bank of America	Total
Funds on Deposit				
Demand deposits	$ 1,304,627	$ 227,192	$ 359,429	$ 1,891,248
Savings deposits	301,090	-	-	301,090
Total	1,605,717	227,192	359,429	2,192,338
FDIC Insurance				
Demand deposits	(250,000)	(227,192)	(250,000)	(727,192)
Time and savings deposits	(250,000)	-	-	(250,000)
Total Uninsured Public Funds	$ 1,105,717	$ -	$ 109,429	$ 1,215,146
Fifty Percent Collateral Requirement Per Section 6-10-17 NMSA	$ 552,858	$ -	$ 54,715	$ 607,573
Pledged Collateral				
FHDA Albuquerque NM MunSchDis No012 Nominal Return 5.0000 Mkt Value $638,615 Trans #: W151007001 FHLB-Dallas Matures 8/1/2027 CUSIP #3138LQZY3	500,000	-	-	500,000
FHDA Gadsden NMIndPtSchDistNo016 Nominal Return 2.0000 Mkt Value $632,502 Trans #: W151014002 FHLB-Dallas Matures 8/15/2020 CUSIP #: 362550MX0	600,000	-	-	600,000
FHDA Luna Cty NMSchDistNo001 Deming Nominal Return 3.6000 Mkt Value $120,258 Trans #: C75210 FHLB-Dallas Matures 8/1/2017 CUSIP #: 550340DM2	120,000	-	-	120,000
FNCL POOL-AO0758 Nominal Return 3.5000 Mkt Value $262,554.20 Symbol: FNMA3842022 Richmond, VA Matures 4/1/2042 CUSIP #: 3138LQZY3	-	-	247,263	247,263
	1,220,000	-	247,263	1,467,263
Deficiency / (Excess) of Pledged Collateral	$ (667,142)	$ -	$ (192,548)	$ (859,690)

FOUNDATION:

The Foundation is not required to have pledged collateral on excess cash balances.

NORTHERN NEW MEXICO COLLEGE
Schedule of Collaborative Partnerships
As of June 30, 2016

Participants	Beginning and Ending Dates	Amount Incurred in Current Year	Contact	Description
Memorandum of Understanding				
NNMC and NNMC Foundation	October 16, 2008 Ongoing	$ -	Executive Director, NNMC Foundation	Sets up financial and strategic arrangement between entities.
NNMC and (Eight Northern Indian Pueblo Council, Inc. (ENIPC, Inc.)	August, 2006 Ongoing	$ -	Chairman of ENIPC, Inc.	Formalize the relationship between NNMC and Eight Northern Indian Pueblo Council.
NNMC and POEH _ Pueblo of Pojoaque Native American Career and Technical Education Program	March 11, 2013 Ongoing	$ -	Director of POEH Program	For certain students to receive credit for specific courses (list provide)
NNMC and Consulate of Mexico in Albuquerque	November, 2014 Ongoing	$ 11,500	Consul of Mexico	To establish the foundations for collaboration between the Parties, to increase the education al level of Mexicans or persons of Mexican origin living in the U.S.
NNMC and NMSU - New Mexico State University	May 1, 2015 May 1, 2019	$ 97,290	NM-INBRE program manager, NMSU	To collaborate in the submission of an application to the NIH and in the administration of any grant awarded for the NM-INBRE Program
Memorandum of Agreement				
NNMC and El Rito Regional Water and Wastewater Association (ERRW&WA)	August 2009 August 2059	$ -	ERRW&WA President	Lease of space in exchange for opportunities of internship in acequia management.
NNMC and Pojoaque High School	July 1, 2015 June 30, 2016	$ -	Superintendent	Allow high school students to enroll in college-level courses offered by NNMC that may be academic or career technical but not remedial of developmental
NNMC and McCurdy Charter School	July 1, 2015 June 30, 2016	$ -	Director	
NNMC and Espanola Valley Schools	July 1, 2015 June 30, 2016	$ -	Superintendent	
NNMC and Jemez Mountain Public Schools	July 1, 2015 June 30, 2016	$ -	Superintendent	
NNMC and Los Alamos Public Schools	July 1, 2015 June 30, 2016	$ -	Superintendent	
NNMC and Mesa Vista Schools	July 1, 2015 June 30, 2016	$ -	Superintendent	
NNMC and Penasco Independent Schools	July 1, 2015 June 30, 2016	$ -	Superintendent	
NNMC and Santa Fe Public Schools	July 1, 2015 June 30, 2016	$ -	Superintendent	

NORTHERN NEW MEXICO COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Agency/ Pass-Through Agency/ Name of Program	Pass-Through Number	Federal CFDA Number	Passed Through to Sub-recipients	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
Direct Programs				
Direct Student Financial Assistance Cluster				
Supplemental Education Opportunity Grant (SEOG)		84.007	$ -	$ 90,479
Federal Work Study		84.033	-	108,703
Federal Pell Grant		84.063	-	2,343,875
Federal Direct Loans Subsidized		84.268	-	350,777
Federal Direct Loans Unsubsidized		84.268	-	144,059
Federal Perkins Loans		84.038	-	8,250
Total Student Financial Assistance Cluster			-	3,046,143
Direct TRIO				
Educational Opportunity Center		84.066	-	482,529
Direct Higher Education Institutional Aid				
Title III				
Northern Rio Grande STEM Collaborative		84.031C	-	1,374,072
Santa Fe Community College			247,357	
University of New Mexico - Taos			213,929	
University of New Mexico - Los Alamos			332,607	
Title V				
Title V - Exito		84.031S	-	327,344
Title V - Avance		84.031M	-	183,057
Subtotal Higher Education Institutional Aid			793,893	1,884,473
Direct Migrant Education				
High School Equivalency Program		84.141	-	381,535
Direct College Assistance				
College Assistance Migrant Program		84.149A	-	459,923
Subtotal Direct U.S. Department of Education			**793,893**	**6,254,603**
Pass-through Programs				
Pass-through State of New Mexico				
Perkins - Career and Technical Training	V046A1100031	84.048	-	82,722
Perkins - Redistribution		84.048	-	24,715
Adult Basic Education	V002A110032	84.002	-	63,227
College Access Challenge Grants	P378A110052	84.378	-	49,230
Subtotal Pass-through U.S. Department of Education			-	**219,894**
TOTAL U.S. DEPARTMENT OF EDUCATION PROGRAMS			**793,893**	**6,474,497**
U.S. DEPARTMENT OF ENERGY				
Pass-through Program				
Pass-through Regional Development Corporation				
Environmental Remediation and Waste Processing Disposal	E-EM00001367	81.104	-	19,228
Subtotal Pass-through U.S. Department of Energy			-	**19,228**
TOTAL U.S. DEPARTMENT OF ENERGY PROGRAMS			-	**19,228**

NORTHERN NEW MEXICO COLLEGE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Agency/ Pass-Through Agency/ Name of Program	Pass-Through Number	Federal CFDA Number	Passed Through to Sub-recipients	Federal Expenditures
NATIONAL INSTITUTES OF HEALTH				
Pass-through Programs				
Pass-through University of Texas at El Paso				
Trans-NIH Research Support	8UL1GM118970-02	93.310	-	8,351
Pass-through New Mexico State University				
Biomedical Research and Research Training	2P20GM103451	93.859	6,972	97,290
Subtotal Pass-through National Institutes of Health			**6,972**	**105,641**
TOTAL NATIONAL INSTITUTES OF HEALTH PROGRAMS			**6,972**	**105,641**
NATIONAL SCIENCE FOUNDATION				
Research and Development				
Pass-through Programs				
Pass-through New Mexico Tech				
Education and Human Resources-NM STEM Transfer Coalition	DUE-1161334	47.076	-	45,009
Subtotal Pass-through - Research and Development			-	45,009
Subtotal Research and Development NSF			-	**45,009**
Non-Research and Development				
Direct Programs				
Education and Human Resources - NOYCE		47.076	-	87,403
Education and Human Resources - DUE PEARL		47.076	-	124,244
Computer Information Research and Science and Engineering		47.070	-	2,993
Subtotal Direct - Non-Research and Development			-	214,640
Pass-through Programs				
Pass-through New Mexico State University				
Education and Human Resources - NM Alliance for Minority Participation	HRD-0803171	47.076	-	15,711
Pass-through University of New Mexico				
Office of Cyberinfrastructure	IIA-1301346	47.080	-	42,404
Subtotal Pass-through - Non-Research and Development			-	58,115
Subtotal Non-Research and Development NSF			-	**272,755**
TOTAL NATIONAL SCIENCE FOUNDATION PROGRAMS			-	**317,764**
U.S. DEPARTMENT OF AGRICULTURE				
Pass-through Programs				
Pass-through New Mexico State University				
Hispanic Servicing Education Grants Program	Q01820	10.223	-	17,364
Subtotal Pass-through U.S. Department of Agriculture			-	17,364
TOTAL U.S. DEPARTMENT OF AGRICULTURE PROGRAMS			-	**17,364**
TOTAL FEDERAL PROGRAMS			**$ 800,865**	**$ 6,934,494**

See Report of Independent Auditors

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of Federal Awards (the schedule) includes the federal award activity of the College under programs of the Federal Government for the year ended June 30, 2016. The information in this schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles under Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for all others.

NOTE 3. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time, although the College expects such amounts, if any, to be immaterial.

NOTE 4. STUDENT FINANCIAL ASSISTANCE

The College administers the Perkins Loan Program. The Schedule of Expenditures of Federal Awards includes an amount, which represents administrative costs and new loans processed during the year ended June 30, 2016. Perkins Loans awarded for the year ended June 30, 2016 totaled $8,250. As of June 30, 2016, the outstanding student loan balance under the federal Perkins Loan Program was $156,178.

NOTE 5. 10% DE MINIMIS INDIRECT COST RATE

The College has elected not to use the 10% de minimis cost rate allowed under the Uniform Guidance.

OTHER INFORMATION

NORTHERN NEW MEXICO COLLEGE
Schedule of Vendor Information for Purchases Exceeding $60,000 (excluding GRT)
For the Year Ended June 30, 2016

RFB# or RFP#	Type of Procurement	Vendor Name	Did Vendor Win Contract?	$ Amount of Awarded Contract	$ Amount of Amended Contract
N/A	Sole Source	Ellucian Support	Yes	$ 88,552	N/A
None	See Finding 2016-015	Institute for Science Education, NM	Yes	$ 149,600	N/A
None	See Finding 2016-015	CAP Investors A Limited Partnership	Yes	$ 84,700	N/A
None	See Finding 2016-015	Ortiz & Zamora, Attorneys at Law, LLC	Yes	$ 10,000	$ 62,126
N/A	Sole Source	TouchNet Information Systems, Inc	Yes	$ 75,735	N/A
N/A	Sole Source	Blackboard Inc	Yes	$ 67,566	N/A

NORTHERN NEW MEXICO COLLEGE
Schedule of Vendor Information for Purchases Exceeding $60,000 (excluding GRT)
For the Year Ended June 30, 2016

RFB# or RFP#	Vendor Name	Name and Physical Address of Vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference preference	Did the Vendor provide documentation of eligibility for Veterans' Preference
N/A	Ellucian Support	Chicago, IL	No	No
None	Institute for Science Education, NM	Los Alamos, NM	No	No
None	CAP Investors A Limited Partnership	Los Alamos, NM	No	No
None	Ortiz & Zamora, Attorneys at Law, LLC	Santa Fe, NM	No	No
N/A	TouchNet Information Systems, Inc	Lenexa, KS	No	No
N/A	Blackboard Inc	Washington, DC	No	No

NORTHERN NEW MEXICO COLLEGE
Schedule of Vendor Information for Purchases Exceeding $60,000 (excluding GRT)
For the Year Ended June 30, 2016

RFB# or RFP#	Vendor Name	Brief Description of the Scope of Work	If procurement is attributable to Component Unit, Name of Component Unit
N/A	Ellucian Support	Annual maintenance, renewal, and support of Banner System	N/A
None	Institute for Science Education, NM	STEM initiatives	N/A
None	CAP Investors A Limited Partnership	Student athletic housing	N/A
None	Ortiz & Zamora, Attorneys at Law, LLC	Legal services and representation for the College	N/A
N/A	TouchNet Information Systems, Inc	License and support for payment gateway and billing	N/A
N/A	Blackboard Inc	Learning Management System annual license and support	N/A

COMPLIANCE

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Northern New Mexico College (the "College") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and the budgetary comparisons of the College, presented as supplementary information, and have issued our report thereon dated March 27, 2017. Our report disclaims an opinion on such financial statements because of an embezzlement discovered within the course of the routine audit. Until a forensic examination is completed, many account balances and the College's controls and compliance cannot be determined.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the College, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2013-001, 2013-002, 2016-002 to 2016-010, 2016-012, 2016-016, 2016-018, 2016-019, 2016-022, 2016-026, 2016-027, 2016-030, and 2016-032.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies 2013-003, 2013-007, 2016-017, 2016-020, 2016-021, 2016-023 to 2016-025, 2016-028, and 2016-031.

Compliance and Other Matters

In connection with our engagement to audit the College's financial statements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-001, 2016-001, 2016-011, 2016-013 to 2016-015, and 2016-029. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

The College's Responses to Findings

The College's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JAG LLC

Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
March 27, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

Report on Compliance for the Major Federal Programs

We were engaged to audit the Northern New Mexico College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of the of College's major federal programs for the year ended June 30, 2016. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the College's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the College's compliance with each major federal program.

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

Basis for Disclaimer of Opinion

During the course of the routine audit, we discovered embezzlement through fraudulent bank reconciliations provided for the audit. The College could not provide adequate supporting documentation for certain transactions and balances during fiscal year ended June 30, 2016 which was a result of both insufficient and circumvented internal controls over financial reporting for all activities, including the College's component unit, the Foundation.

It was impracticable to extend our audit procedures sufficiently to determine the extent to which the College's financial statements, as listed in the table of contents, and compliance for each major federal program as of and for the year ended June 30, 2016, may have been affected by the matters discussed in the preceding paragraph. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements or on the compliance for each major federal program as of and for the year ended June 30, 2016, as listed in the table of contents.

Disclaimer of Opinion

Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the College and its component unit, the Foundation. Accordingly, we do not express an opinion on the accompanying financial statements or on the compliance for each major federal program.

Other Matters

The results of our auditing procedures disclosed an instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-030 to 2016-032. Our opinion on each major federal program is not modified with respect to these matters.

The College's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control

To the Board of Regents
Northern New Mexico College
and
Mr. Tim Keller
New Mexico State Auditor

over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-030 and 2016-032 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-031 to be a significant deficiency.

The College’s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

JAG LLC

Jaramillo Accounting Group LLC (JAG)
Albuquerque, New Mexico
March 27, 2017

2009-022	Budgetary Comparisons	RESOLVED
2013-001	Bank Reconciliations – Timeliness of Review – College	REPEATED & UPDATED
2013-002	Bank Reconciliations – Timeliness of Review - Foundation	REPEATED & UPDATED
2013-003	Capital Assets - Physical Inventory Not Reconciled to the General Ledger	REPEATED & UPDATED
2013-007	Disaster Recovery Plan and Password Policies	REPEATED & UPDATED
2014-001	Capital Assets – Inconsistent Depreciable Lives of Equipment	RESOLVED
2015-001	Travel Reimbursements	REPEATED & UPDATED
2015-002	Accounting for Restrictions of Net Position - Foundation	RESOLVED
2015-003	Time and Effort Certifications	RESOLVED

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Disclaimer**	
Internal control over financial reporting:		
College:		
• Material weakness (es) identified?	X yes	______ no
• Significant deficiency (ies) identified?	X yes	______ none reported
Noncompliance material to financial statements noted?	X yes	______ no
Foundation:		
• Material weakness (es) identified?	X yes	______ no
• Significant deficiency (ies) identified?	X yes	______ none reported
Noncompliance material to financial statements noted?	X yes	______ no

Federal Awards

College:		
Internal control over major programs:		
• Material weakness (es) identified?	X yes	______ no
• Significant deficiency (ies) identified?	X yes	______ none reported
Type of auditor's report issued on compliance for major programs:	**Disclaimer**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	X yes	_____ no

Identification of major program:

CFDA Number(s)	*Name of Federal Program or Cluster*
Various	Student Financial Assistance Cluster
84.031	Higher Education Institutional Aid

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000	
Auditee qualified as low-risk auditee?	______ yes	X no

Section II - Financial Statement Findings

2013-001 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS (REPEATED & UPDATED)

TYPE OF FINDING: Material Weakness

CATEGORY: Cash and Investments

CONDITION

The College's bank reconciliation process, including review, was not finalized before the end of the following month for certain fiscal year 2015-2016 cash accounts. We haphazardly selected ten bank reconciliations from throughout the year and noted that the former Director of Financial Services signed off as reviewer of two of these bank reconciliations over 30-60 days after the end of the month. After she admitted to changing the bank reconciliations prepared by staff (see **Finding 2016-002**), we did not test additional items since this control had been circumvented and was not effectively implemented. Instead, we recommend a forensic investigation to expand testing of bank reconciliations.

The College did not make significant progress in this area from prior year and while management had implemented an Access database to monitor the bank reconciliations, the Vice President for Finance and Administration did not fully review the bank reconciliations as the control was designed.

The current bank reconciliation process is a very manual process in Excel. Detail from both the bank and general ledger is entered manually. Because the monthly process to add the bank amount, book amount (general ledger), deposits in transit, checks outstanding, reconciling items, etc. is manual, the entry and movement of data is open to error and or manipulation before finalization. This manual process occurs each month on each of the College's Bank nine bank accounts, for which not all bank accounts may be necessary.

We also noted in our testing that there have only been two signatories on the Bank of America accounts the last several years, and that no board members were included. Also, the former President was remaining on accounts and should not have been.

CRITERIA

Appropriate internal controls over cash require timely reconciliation and review of institutional accounts to the general ledger in order to ensure adequate control over cash receipts and disbursements. Best practices dictate that bank reconciliations should be performed monthly in order to enhance timeliness of the financial information as well as timely authorization of corrections necessary. To fully comply with NM State Statutes, the College must provide complete books and records for audit.

NMSA 1978 Section 6-10-2 states that it is the duty of every public official or agency of this state that receives or disburses public money to maintain a cash record in which is entered daily, in detail, all items of receipts and disbursements of public money. The cash record shall be balanced daily so as to show the balance of public money on hand at the close of each day's business. Except as may be otherwise provided by law, the cash record is a public record and is open to public inspection.

NMSA 1978 Section 30-26-1 *Tampering with Public Records* consists of: A) knowingly altering any public record without lawful authority; B) any public officer or public employee knowingly filing or recording any written instrument, judicial order, judgment or decree in a form other than as the original thereof in fact appeared; C) any public officer or public employee knowingly falsifying or falsely making any record or file, authorized or required by law to be kept; D) any public officer or public employee knowingly issuing or causing to be issued, any false or untrue certified copy of a public record; or E) knowingly destroying, concealing, mutilating or removing without lawful authority any public record or

2013-001 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS (REPEATED & UPDATED) (CONTINUED)

public document belonging to or received or kept by any public authority for information, record or pursuant to law. Whoever commits tampering with public records is guilty of a fourth degree felony.

As defined on the New Mexico State Auditor's website, Financial and Cost Reporting Irregularities are "acts related to the purposeful misstatement of financial position, project costs and/or destruction of related audit workpapers or accounting documents. Acts that fraudulently influence, manipulate, or mislead the public, regulators, decision-makers, independent public or certified accountants and others who rely on the accuracy and completeness of cost and financial reporting." Examples, of course, include falsifying of bank reconciliations.

EFFECT

Not reconciling and reviewing cash accounts timely and thoroughly on a monthly basis creates the opportunity for errors or inappropriate transactions to occur undetected. Additionally, since the prior College President is still a valid signatory on certain bank accounts, the College would have no recourse against the bank if funds were withdrawn by this individual.

CAUSE

It appears the former Director of Financial Services delayed the bank reconciliations and changed the reconciliations submitted to the auditors. The Vice President for Finance and Administration did not perform as a thorough review as asserted to the auditors in the prior year. The College does not have an internal audit position. Additionally, the College's Board and Administration did not follow through on taking swift and strong corrective action on the various past audit findings relating to the internal control system. Staff did not elevate their concerns with the bank reconciliations and missing deposits to a high enough level in the organization to see results.

RECOMMENDATION

We suggest that the College revamp and prioritize the reconciliation process and implement policies and procedures over month-end and year-end closings to ensure that all cash accounts are prepared and reviewed in great detail before the end of the following month. Any necessary corrections should be made at the time of reconciliation and not put in suspense or left on the reconciliation for months/years. For future years, all supporting documentation for accounts should be provided with the reconciliations.

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

- Communicate from the top down the expectation that employees elevate instances such as this up the chain of command or even to an anonymous hotline. This situation may have been alleviated if those involved had brought the urgency to the Board or other agency, who could have interceded in the process and initiated discussions with the employee sooner. Employees should be trained to report any red flags or hunches that something is not right.
- Quality control procedures, perhaps with a checklist, should be created for those preparing and reviewing work. The person performing the quality control review (someone other than the preparer or approver, independent of the process) will carefully check details such as dollar amounts agree to the bank statements, dates, funding sources, copies of receipts, third party information, various Banner reports, and other items.
- There should be consequences for not following deadlines, job requirements, and corrective action plans.

2013-001 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS (REPEATED & UPDATED) (CONTINUED)

- Some of the most important steps are to track the pre-numbered receipts and tie them to the bank statements and tie them to the revenue activities.
- Require that all complaints go to an independent person not involved with the funds.
- Require that all vendor invoices and receipts be handled timely.
- Reports should be shared between all staff in a central location, such as a secure network drive. Signoffs indicating review of the information should be included with signatures and dates of approval. The data must be updated daily as required and secured.
- Key personnel should have annual training in purchasing and procurement, internal controls, reconciling, safeguarding assets, Board of Regents policies, HED regulations, applicable NM State Statutes, College procedures, grant requirements, accountability, and the consequences for violations. The severe ramifications stated in Sections 13-1-199 and 13-1-196 (NMSA 1978) for Procurement Code violations should be communicated to all employees. It is best that the College develop and utilize handbooks and assist new hires to feel comfortable with their roles, responsibilities, and tasks.

We recommend the bank reconciliation module in the College's accounting software (Banner) be activated. The bank reconciliation module is included in the College's Finance Module of Banner and therefore should not be an additional cost. Data could then be imported through an automated process from both the cash general ledger (book) and the bank. In addition to set-up time for each account, the College will need to determine a cut-off date and import. We recommend utilizing Banner's built in Bank Reconciliation Module The Banner Bank Reconciliation Module software has a built in audit trail so that any changes to the bank reconciliation data will be documented for both the preparer and the reviewer which will result in a stronger internal control structure.

Bank signatories and all with access to the College and its finances must be tracked timely and when its employees leave, they should be removed immediately.

MANAGEMENT RESPONSE

Corrective action(s):

The College recognizes the importance of this control and has worked aggressively to rectify this finding. We believe that the College bank reconciliations were performed on a timely basis, with the larger operational bank account purposely withheld by the former Director of Financial Services in an effort to shorten the amount of time available for our IPA to accurately review the reconciliation. The College is utilizing the Access database that was implemented in FY15, as well as electronic folders, to track and upload the bank reconciliations; has begun a monthly process of bank reconciliation review; and will train all staff responsible for reconciliations to input their final work products for management review.

The College will also begin the process of implementing the Banner Bank Reconciliation Module, is obtaining electronic banking data from the banks we currently do business with and is discussing internally the business advantages to reducing the number of bank accounts from the nine (9) currently in use. We believe these changes will serve to improve the safeguarding of our assets and to improve the efficiency of the current reconciliation process.

Once an automated process is in place between the Banner Bank Reconciliation Module and the Bank, and working as designed, the College will require the bank reconciliation process to be completed and reviewed no less than weekly or at any time as directed by senior management.

The Human Resources Director will add a step in the exit process to ensure that anyone who leaves the College and is a signatory on any bank account will be promptly removed as a signatory.

2013-001 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS (REPEATED & UPDATED) (CONTINUED)

Timeline of corrective action:

A bank reconciliation team was established in March 2017 and will review monthly (more often initially) to ensure bank reconciliations are done on a timely basis. The IT Director also received training in March 2017 on our Banner software and specifically attended training pertaining to the banking module. The implementation of the Banner banking module for bank reconciliations is expected to be complete by December 31, 2017.

Responsible person(s):

Vice President for Finance and Administration

2013-002 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS- FOUNDATION (REPEATED & UPDATED)

TYPE OF FINDING: Material Weakness

CATEGORY: Cash and Investments

CONDITION

The Foundation's complete bank reconciliation process, including review, was not performed timely for the Foundation's fiscal year 2016 cash accounts until the Senior Financial Analyst took over the process in January 2016.

Additionally, there was a check that was deposited into the College's bank account and then months later the Foundation was reimbursed when questions were asked about the receipts. Testing of the June 30, 2016 bank reconciliations showed two unusual deposits in transit for $11,136 and $3,838. Per discussion with the Senior Financial Analyst, these deposits had been deposited into the College's bank account on June 6, 2016 as part of a larger check totaling $14,974. The mistake was discovered on August 10, 2016, and the bank reconciliation was updated and funds deposited the following day. JAG traced the amounts from the College's employee deduction register, to the College's General Operating Fund June 2016 bank statement, to the August 2016 bank statements for the Foundation's temporarily restricted and unrestricted accounts.

CRITERIA

Appropriate internal controls over cash require timely reconciliation and review of all accounts to the general ledger in order to ensure adequate control over cash receipts and disbursements.

EFFECT

Not reviewing cash accounts on a monthly basis creates the opportunity for errors or inappropriate transactions to occur undetected. Some banks will not correct any errors if they are not caught within ten days.

CAUSE

During the year, the College had time constraints, turnover in Foundation staffing, and a lack of appropriate resources to timely review its cash reconciliations.

RECOMMENDATION

We recommend the Foundation prioritize the reconciliation process and implement policies and procedures to ensure that all cash accounts are reconciled timely and reviewed monthly.

We also recommend for enhanced transparency of cash and other financial activities, that the Foundation consider adding the following to their website:

- Most current IRS Form 990
- Consider having separate audit report (done in conjunction with College's audit report) for publication to the public
- Other documents like spending policy on endowments, gift policy, etc.
- Monthly detail of disbursements
- Annual detail of scholarships awarded

Finally, since the Foundation is a separate legal entity with many of its own internal control processes, we recommend the Foundation have its cash deposit supporting package separate from the College.

2013-002 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS- FOUNDATION (REPEATED & UPDATED) (CONTINUED)

MANAGEMENT RESPONSE

Corrective action(s):

The College recognizes the importance of this control and although bank reconciliations were complete, we did not post journal entries in a timely manner. We will continue to utilize the Access database and electronic folders to track and upload the bank reconciliations and approval signatures. Because posting of the journal entries was not timely, it delayed uploads as well as the reviews.

Timeline of corrective action:

The issue is expected to be completed within FY18 (2017-2018).

Responsible Person:

Vice President for Finance and Administration

2013-003 CAPITAL ASSETS - PHYSICAL INVENTORY CERTIFICATION & SAFEGUARDING (REPEATED & UPDATED) (CONTINUED)

TYPE OF FINDING: Significant Deficiency

CATEGORY: Capital Assets

CONDITION

The College removed five assets with a cost of $37,500 and no book value (fully depreciated) as of June 30, 2016 from the capital assets listing due to items not being found during the inventory process. All of the items removed were listed with a location of “CTE Auto”.

After year end, it was reported to us that there were two iPads stolen; the former Director of Financial Services was the custodian of these assets; however the IPad were being used in the STEM Program.

The College did not certify the detail of its capital assets at June 30, 2016 as required by New Mexico State Statute. The Policy regarding the oversight and responsibility for disposals is gradually being written but was not completed and approved by the governing body by the close of the fiscal year.

The Senior Financial Analyst and IT Director worked on the WASP system to reconcile and track capital assets, making progress during 2016 toward compliance.

CRITERIA

New Mexico 2.20.1.16 (E) NMAC requires certification of all governmental entities capital assets at or near year-end and 2.20.1.18 NMAC has specific requirements over dispositions. Good accounting practices to ensure compliance should include formal policies and procedures over treatment of assets in accordance with 2.20.1 NMAC.

EFFECT

The College is not in compliance with regulations over capital assets and without proper accountability or tracking of assets, the assets and related records are more susceptible to theft and errors.

CAUSE

The process in place over the physical control over fixed assets was not functioning properly. The process to reconcile the general ledger to the physical inventory was a significant process and the College was unable to complete the process until after year end and therefore, was unable to certify its capital assets on a timely basis.

RECOMMENDATION

We recommend the College perform a thorough annual physical inventory of its capital assets and have the detailed list certified. Additionally, we recommend the College draft and adopt policies over the disposals and physical control of capital assets to be in compliance with laws and regulations. Assets to be disposed of must be addressed as well, as there are pallets of old items throughout the campus. We also recommend finding an option to turn on tracking on certain assets more susceptible to theft.

MANAGEMENT RESPONSE

Corrective action(s):

All amounts recorded on the general ledger at the end of the current fiscal year are supported by physical items. The information supporting the individually booked items includes its location, the custodian, tag number, photograph (for most but not all items) and a unique description. The College has several locations of non-functioning and not-yet-disposed-of items which are gradually being reviewed. The

2013-003 CAPITAL ASSETS - PHYSICAL INVENTORY CERTIFICATION & SAFEGUARDING (REPEATED & UPDATED) (CONTINUED)

Facilities Director and the Vice President for Finance and Administration are jointly overseeing this project and, due to the quantity of items and its relative priority, do not anticipate completion of this project before the end of calendar year 2017.

Timeline of corrective action:

The College currently follows the guidelines for dispositions (which apply to capital as well as non-capital items) as established by the General Services Division and the Office of the State Auditor. The College continues to draft and update its policies. The Director of Financial Services is currently being advertised and the incumbent will oversee the project of documenting all Business Office policies and we anticipate completion of the project by the end of fiscal year 2018. These will include the need for certification as required by State statute.

Responsible person(s):

Vice President for Finance and Administration

2013-007 DISASTER RECOVERY PLAN AND PASSWORD POLICIES (REPEATED & UPDATED)

TYPE OF FINDING: Significant Deficiency

CATEGORY: Information Technology

CONDITION

During our review of general Information Technology (IT) controls relevant to financial reporting, we have updated this finding with the current status and progress from the prior year:

<u>Disaster Recovery Plan</u>

FY 2014 – There is not a formal written Disaster Recovery Plan covering significant financial systems.

FY 2015 - The College has created and continues to enhance the Disaster Recovery Plan (Business Continuity Plan) developed over the last nine months and is close to final completion. The College's critical systems are now being backed up properly and being stored at an alternate location. There has not yet been a complete and comprehensive Disaster Recovery Test and the plan has not been formally reviewed by executive management or approved by the Board of Regents.

FY 2016 – The Plan is still in process and may be impacted by the Banner conversion in fiscal year 2017.

<u>Incident Response Plan</u>

FY 2014 - There is no formal written Incident Response Plan that will provide guidance in responding to different kinds of incidents or threats that are applicable to the College.

FY 2015 – The College has created a formal written Incident Response Plan (renamed to Campus Emergency Response Plan to coincide with their Annual Security Reports) that will provide guidance in responding to different kinds of incidents or threats that are applicable to the College. The Plan has not been formally reviewed by executive management or approved by the Board of Regents.

FY 2016 – The Plan is still in process and may be impacted by the Banner conversion in fiscal year 2017.

Additionally, password policies are not strong enough, as the former Director of Financial Services was able to use at least one other staff person's password.

CRITERIA

In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 4.1, framework (DS4, Ensure Continuous Service), a Disaster Recovery Plan should cover all critical applications and systems to reduce impact of a major disruption on key business functions and processes.

Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintain IT security and roles and responsibilities, policies, standards, and procedures. Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

EFFECT

The absence of an approved and tested Disaster Recovery Plan for the accounting system may pose question as to the College's ability to respond and recover its accounting data in the event of an unforeseen disaster.

2013-007 DISASTER RECOVERY PLAN AND PASSWORD POLICIES (REPEATED & UPDATED) (CONTINUED)

CAUSE

The Plan has been worked on for the last nine months but due to the large scope of the project, has not yet been finalized by management and approved by the Board.

RECOMMENDATION

We recommend the following:

(a) Testing and finalizing the Plan, obtaining Board approval and testing the Disaster Recovery Plan to ensure the viability of the plan and the timeliness of its execution.

(b) Testing and adopting the formal Incident Response Plan that will cover procedures and responsibilities involved in case of identified security incident. This will ensure the incident will be addressed in a consistent and timely manner.

MANAGEMENT RESPONSE

Corrective action(s):

The College has established a Campus Emergency Response Team (CERT) that includes key College personnel to effectively respond to a campus emergency. The Incident Response Plan had been renamed to Campus Emergency Response Plan (CERP) to coincide with the CERT and the Annual Security Report (ASR). The plan has been revised to include building floor plans and key processes and procedures. The CERP will be presented to the team at our next meeting at which point approval of the plan shall be sought. Completion is anticipated no later than December 2017. The College also implemented a new password policy in fall 2017 and automatic system processes now require users to change their password every three (3) months

The Disaster Recovery Plan/Business Continuity Plan (BCP) is anticipated to be complete during FY17. There are some very important elements of our current environment that have prohibited the completion of the initiative. We did not have a viable Backup and Restoration process that would allow us to effectively perform a Disaster Recovery Test. The College now has a solid Backup process. The College does not have a viable Un-Interruptible Power System (UPS). IT has, however, obtained cost estimates and the College is also preparing a request to the New Mexico Higher Education Department (NMHED) for this equipment out of 2016 General Obligation Bonds approved by voters in November 2017. Once these items are addressed, the College will be able to perform a formal IT Disaster Recovery test utilizing our BCP Software as well as BCP Training.

Timeline of corrective action:

It is anticipated both plans will be presented to the Board of Regents for approval in FY17.

Responsible Person(s):

Vice President for Finance and Administration

2015-001 TRAVEL AND PER DIEM (REPEATED & UPDATED)

TYPE OF FINDING: Other Noncompliance

CATEGORY: Travel and Per Diem

CONDITION

The College did not make progress on this finding from the prior year as the College's internal control did not prevent a travel and per diem exception from occurring. During debit card testing, we noted one travel and per diem exception out of a sample of fifteen items tested. Inspection of the receipt (#16-0782) for the transaction on July 31, 2015 for $4,177.44 showed room charges and taxes/fees totaling $232.08 per night. This violates the out of state per diem rate for designated high cost areas of $215 per diem according to NNMC Administrative Policy "Travel & Per Diem Reimbursement Policy" 1.16.

CRITERIA

Travel reimbursements from state funds shall be either per diem or actual expenses for lodging as provided in Section 10-8-4 of the New Mexico Per Diem and Mileage Act, NMSA 1978. Approving actuals in advance would have allowed the College to pay the full amount.

EFFECT

The College overpaid travel costs.

CAUSE

Staff may have been unfamiliar with the rate or failed to check the rate.

RECOMMENDATION

We recommend the College remind employees to review details carefully before submitting and approving travel reimbursements and to obtain advance approval for areas with higher costs.

MANAGEMENT RESPONSE

Corrective action(s):

At the end of FY16, the Business Office implemented an "audit checklist" that is completed for all travel reimbursement requests to ensure all audit steps have been completed before reimbursement is processed. Unfortunately, items occasionally get through the process, however, as items are identified steps are taken to avoid future occurrences.

Timeline of corrective action:

The issue is expected to be completed within FY17 (2016-2017).

Responsible Person:

Vice President for Finance and Administration

2016-001 LATE AUDIT REPORT

TYPE OF FINDING: Material Non-Compliance

CATEGORY: Late Audits

CONDITION

During the College's routine audit, JAG received the bank reconciliation for the General Operating Account two days before the audit due date. During testing of this cash reconciliation, (see Finding 2016-002) JAG discovered irregularities in the reconciliations. The following day, JAG met with the President, Vice President for Finance and Administration, and the former Director of Financial Services to go over the irregularities found by JAG.

At that meeting, it was mutually agreed to allow management more time to research the irregularities and correct the General Operating Account bank reconciliation. Therefore, the audit report for fiscal year ended June 30, 2016 was not submitted by the November 15, 2016 due date. In February 2017, the former Director of Financial Services admitted to taking College funds. The audit report was submitted March 28, 2017.

CRITERIA

OSA Rule 2.2.2.9 (A) establishes a due date of November 15, 2016 for submission of this audit report to the Office of the State Auditor.

EFFECT

Without the audit report being delivered on time, the Board of Regents, the Administration, regulatory and funding agencies, legislative committees, and the public do not have the financial data available to make funding decisions. The public did not have the financial data available for review.

CAUSE

The report was not submitted so that the College had time to research the potential cash fraud, red flags, and risks of fraud JAG had reported to the College's Administration before the audit report due date.

RECOMMENDATION

We recommend the College continue to research risks and complete a forensic investigation. Subsequent to that, we recommend the College catch-up on outstanding audits and remain in compliance with the Office of the State Auditor's deadlines and the Audit Act moving forward.

MANAGEMENT RESPONSE

Corrective action(s):

The College will continue to work and fully cooperate with JAG and law enforcement to identify risks areas and to provide timely turnaround of requested documents and information necessary to complete a forensic investigation. The College will work diligently to provide any information necessary to complete and submit the FY17 (2016-2017) audit in a timely manner in order to ensure compliance with the Office of the State Auditor's deadlines and the New Mexico Audit Act. In addition, the College will also develop a standing meeting schedule, in coordination with our IPA, for regular update meetings with the President and Vice President for Finance and Administration throughout the audit engagement.

2016-001 LATE AUDIT REPORT (CONTINUED)

Timeline of corrective action:

The College will follow its normal process for the preparation of documents responsive to the IPA's PBC lists and other requested information upon the closing of the current fiscal year on or about the beginning of August 2017. The College has already established a Bank Reconciliation team made up of all staff members responsible for the actual preparation of reconciliations and the parties responsible for reviewing completed work documents to ensure the timely completion by August 2017 of all required bank reconciliations through June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE

TYPE OF FINDING: Material Weakness

CATEGORY: State Law Compliance – Other

CONDITION

During this year's audit, JAG requested cash reconciliations through the normal, routine audit process. However, the former Director of Financial Services did not provide these timely, along with other areas relating to prior year or current year findings. JAG continued to request the cash reconciliations in several formal meetings with her and management as the audit progressed.

Close to the audit deadline of November 15, 2016, we contacted the Vice President for Finance and Administration and the College President to again communicate that she was not being forthcoming with the information. After much evasion, the former Director of Financial Services finally provided the reconciliations the evening before the scheduled exit conference. After auditing the reconciliations, we concluded that that the General Operating Account bank reconciliation's outstanding checks appeared to be intentionally altered to exclude certain outstanding checks and even portions of outstanding checks in order to force the book to bank difference to reconcile.

When questioned, the former Director of Financial Services stated that the bank reconciliation had errors that needed to be researched and that she had changed the reconciliation from what her staff had prepared. The College requested additional time to research and correct the bank reconciliation. JAG notified the NM State Auditor's Office of the irregularity, the risks of fraud and that the audit would be late.

JAG and the College's Administration continued to press her for the information and in February 2017, after consulting with the Deputy State Auditor, JAG recommended the College hire an external contractor to reconcile all the bank accounts to the general ledger from the time the former Director of Financial Services began her employment through June 30, 2016. To ensure complete independence and transparency over the process, JAG also recommended that both the former Director of Financial Services and the Vice President for Finance and Administration be excluded from the cash reconciliation work with the contractor.

The following Monday, the former Director of Financial Services resigned from her position and admitted to taking over $200,000 from the College. She provided a spreadsheet with a detail of deposits taken covering the time period of August of 2012 through July of 2013 (approximately $71,000 in cash and $135,000 in checks, totaling approximately $206,000). The revised bank reconciliation at June 30, 2016 shows an additional approximately $24,000 in reconciling items added to the bank reconciliation from July of 2013 through August of 2015. The checks were apparently uncashed, however we were unable to verify the detail of checks taken since the box was taken as evidence by law enforcement. *The amounts may be higher and there are several other areas of fraud risk yet to be investigated.*

Interviews of staff reveal that they had asked about missing deposits multiple times and the former Director of Financial Services just replied that there were more important things to work on and that the Vice President for Finance and Administration was researching these items. It was also reported to us that there had been phone calls from parents, students, and other organizations asking why their checks had not been cashed. These calls were referred to the former Director of Financial Services and some checks were replaced, but there was no accountability.

After the admission, the College properly notified the New Mexico State Auditor's Office as is required by Section 12-6-6 NMSA 1978.

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

JAG recommends a forensic special audit be performed for the related time period. At this time, account balances and the extent of any fraud, waste, or abuse is unknown, causing Disclaimer opinions on the College's financial statements and federal funds.

CRITERIA

NM State Audit Rule 2.2.2.10 (K) (2) Pursuant to Section 12-6-6 NMSA 1978 (criminal violations), an agency [College] or IPA [external auditor] shall notify the state auditor immediately, in writing, upon discovery of any violation of a criminal statute in connection with financial affairs. The notification shall include an estimate of the dollar amount involved, and a complete description of the violation, including names of persons involved and any action taken or planned. If warranted, the state auditor may cause an audit of the financial affairs and transactions of the agency in whole or in part pursuant to Section 12-6-3 NMSA 1978 and 2.2.2.15 NMAC. If the state auditor does not designate an agency for audit, an agency shall follow the provisions of 2.2.2.15 NMAC when entering into a professional services contract for a special audit, performance audit or attestation engagement regarding the financial affairs and transactions of the agency relating to financial fraud, waste and abuse.

If any information comes to our attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. Additionally, the external auditor's consideration of fraud in a financial statement audit includes reporting to management and/or governance any evidence that fraud may exist.

The Governmental Conduct Act NMSA 1978 Section 10-16-2(I): "Public employees" include employees of local governmental agencies, officers, elected or appointed officials, and those eligible to receive per diem or mileage.

Public employment or office is a public TRUST. Officers and employees must maintain integrity and high ethical standards. Public officers and employees shall:

> Section 10-16-3(A): Not use their position to advance personal or private interests, and
>
> Section 10-16-3(C): Disclose real or potential conflicts of interest.
>
> Section 10-16-2(I): Not offer, request or receive any money or thing of value in exchange for performance of an official act, or take official act which primarily enhances personal financial interest. Imposes 4th degree felony penalties, Sections 10-16-3D and 10-16-4A.
>
> Section 10-16-3.1C: Not use or allow use of governmental property for unauthorized purposes.
>
> Section 10-16-4B,C Not engage in an official act directly affecting personal financial interest (unless greater benefit accrues to the public) or acquire financial interest which will be affected by the officer's or employee's official action.

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

NMSA 1978 Section 30-16-1 *Larceny* consists of: A) Larceny consists of the stealing of anything of value that belongs to another. B) Whoever commits larceny when the value of the property stolen is two hundred fifty dollars ($250) or less is guilty of a petty misdemeanor. C) Whoever commits larceny when the value of the property stolen is over two hundred fifty dollars ($250) but not more than five hundred dollars ($500) is guilty of a misdemeanor. D) Whoever commits larceny when the value of the property stolen is over five hundred dollars ($500) but not more than two thousand five hundred dollars ($2,500) is

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

guilty of a fourth degree felony. E) Whoever commits larceny when the value of the property stolen is over two thousand five hundred dollars ($2,500) but not more than twenty thousand dollars ($20,000) is guilty of a third degree felony. F) Whoever commits larceny when the value of the property stolen is over twenty thousand dollars ($20,000) is guilty of a second degree felony.

<u>NMSA 1978 Section 30-16-8</u> *Embezzlement* consists of the embezzling or converting to his or her own use of anything of value with which he or she has been entrusted, with fraudulent intent to deprive the owner thereof.

<u>NMSA 1978 Section 30-16-10</u> *Forgery* consists of: A) falsely making or altering any signature to, or any part of, any writing purporting to have any legal efficacy with intent to injure or defraud; or B) knowingly issuing or transferring a forged writing with intent to injure or defraud. "Legal efficacy" is a writing which could be made the foundation of liability, that would apparently operate to the legal prejudice of another. We usually think of forgery as altering a document for financial gain but it can also be "any document required by law to be filed…or necessary…to the discharge of a public official's duties."

<u>NMSA 1978 Section 30-23-3</u> Making or permitting false public voucher consists of knowingly, intentionally or willfully making, causing to be made or permitting to be made, a false material statement or forged signature upon any public voucher, or invoice supporting a public voucher, with intent that the voucher or invoice shall be relied upon for the expenditure of public money. Whoever commits making or permitting false public voucher is guilty of a fourth degree felony.

<u>NMSA 1978 Section 30-26-1</u> *Tampering with Public Records* consists of: A) knowingly altering any public record without lawful authority; B) any public officer or public employee knowingly filing or recording any written instrument, judicial order, judgment or decree in a form other than as the original thereof in fact appeared; C) any public officer or public employee knowingly falsifying or falsely making any record or file, authorized or required by law to be kept; D) any public officer or public employee knowingly issuing or causing to be issued, any false or untrue certified copy of a public record; or E) knowingly destroying, concealing, mutilating or removing without lawful authority any public record or public document belonging to or received or kept by any public authority for information, record or pursuant to law. Whoever commits tampering with public records is guilty of a fourth degree felony.

EFFECT

Allegations of fraud or actual fraud causes a decrease in public trust of the College. There is potentially fraud, larceny, and embezzlement of public funds that taxpayers, the Board of Regents, Administration, parents, staff, and students worked so hard to obtain for education. There are costs associated with investigating and auditing these situations further.

CAUSE

The College did not thoroughly take corrective action on previous audit findings over cash and other areas of internal control weaknesses and critical segregation of duties was allowed to be overridden by management and staff. The former Director of Financial Services overrode the College's internal control processes that did exist, including taking deposits to the bank and changing the bank reconciliations after the preparer had completed the reconciliations. The Vice President for Finance and Administration did not thoroughly review the bank reconciliations as the control was designed and asserted to the auditors in the prior year. Staff involved in the cash transaction cycle questioned the former Director of Financial Services on multiple occasions but never took their concerns to a high enough level to be fully addressed.

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

RECOMMENDATION

We recommend the Board of Regents, the Finance Committee, Administration, and other staff assess risk and put into place stronger controls and a high level of transparency and accountability to prevent and detect any future fraud or noncompliance. We recommend that the College make it a goal to be the most transparent College in the state and take the lead in transparency on their website and include the following:

- All salary schedules
- All disbursements
- All teacher contracts
- All vendor contracts
- Copies of the budget, including budget adjustments
- Monthly and annual financial statements
- Enrollment information and statistics
- Federal grant results and reports
- Complete Foundation information or link to their website with full information
- Consider disclosing all non-privacy related correspondence
- Link the NM State Auditor's Office fraud anonymous hotline

Tone at the top is absolutely critical, along with monitoring and accountability for controls, and including an open door policy to reporting suspicions, ideas, and asking questions to Administration and the Board without fear of retaliation. A separate HR Director who staff feel safe with is also important. Consider performing credit checks on those who will be working with the College's finances. We also recommend bonding key employees and those working with cash.

Internal Auditing is an important function of successful organizations. Adding an internal auditor that reports directly and independently to the Board of Trustees would be valuable in monitoring the controls you will put into place. This function can also be contracted out at reasonable rates and hours you control, perhaps with more effective results than hiring a full-time staff.

Training of staff to not allow internal controls to be circumvented even by a superior and to understand their duties will be helpful in preventing this from occurring in the future. Hiring an outside consultant to assist the College in training, reconciling, designing, implementing, and monitoring compliance with statutes, regulations, controls, policies, procedures, etc. is advisable.

Fraud is rarely discovered by the external audit as it was this year. It is mainly discovered through anonymous tips, so instituting an anonymous fraud hotline is important.

MANAGEMENT RESPONSE

Corrective action(s):

The College will bring forward a plan to the Board of Regent's Finance Committee and will present monthly updates regarding the corrective action related to all audit findings until they are resolved. The College is also proposing in the operating budget for FY18 (2017-2018) a contract for internal audit services to assist the Board of Regents, the Finance Committees, Administration, and other staff in our efforts to further assess risk and improve and strengthen internal controls. The College also supports the notion of a higher level of transparency and accountability and will continue to do so in our efforts to prevent and detect any future fraud or noncompliance.

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

Timeline of corrective action:

An operating budget will be developed and brought forward to the Board of Regents for their approval on April 10, 2017, as well as a contract for internal audit services implemented for FY18 (2017-2018).

Responsible person(s):

Vice President for Finance and Administration

2016-003 INSUFFICIENT ATTENTION AND ACCOUNTABILITY OVER ACCOUNTING AND INTERNAL CONTROLS (CONTINUED)

TYPE OF FINDING: Material Weakness

CATEGORY: Financial Reporting

CONDITION

During the entity-wide internal controls evaluation, we noted that the "Business Office Procedures by Function" manual, approved in 2015 but not updated for 2016, is missing key procedures and certain controls, such as the cash reconciliation process and segregation of duties access. Through further inquiry of the Finance Department, we noted that various staff had repeatedly requested attention and changes without adequate responses from their superiors. For example, one staff member had repeatedly requested a signature authority matrix for two years. Another had requested improved cash reconciliation processes and timeliness of review and corrective action on findings. Several others had repeatedly questioned missing deposits and were told by the former Director of Financial Services that the Vice President of Finance was researching these items.

CRITERIA

Good accounting practices require the College to implement and follow sound accounting and internal control policies and procedures. This increases the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

EFFECT

The College is not adhering to the proper accounting procedures to ensure the generation of reliable financial records that can be utilized for reporting and decision making. *The audit includes a Disclaimer of opinion, as balances may not be accurate and further noncompliance may exist. Certain Internal controls were not designed and implemented properly or were circumvented, and we recommend a forensic investigation be performed to determine the extent of possible errors and fraud.*

CAUSE

Lack of resources and detailed attention to the risks, along with circumvention of controls has resulted in potential fraud, weak internal controls, inaccurate balances, and conflicting or incomplete policies and procedures.

RECOMMENDATION

The Board should monitor that corrective action is being taken and that all audit findings are resolved. The Board, in congruence with Administration, should document (or contract out) responsibilities, policies and procedures to correct existing deficiencies in the accounting and internal controls environment and to cover situations where personnel are unavailable.

We recommend that procedures for transaction initiation and processing be formally documented as soon as possible. Written procedures, instructions, and assignments of duties will also prevent or reduce the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

The policies and procedures approved by the Board must comply with any applicable laws related to higher education entities in New Mexico.

2016-003 INSUFFICIENT ATTENTION AND ACCOUNTABILITY OVER ACCOUNTING AND INTERNAL CONTROLS (CONTINUED)

MANAGEMENT RESPONSE

Corrective action(s):

The College will bring forward a plan to the Board of Regent's Finance Committee and will present monthly updates regarding the corrective action related to all audit findings until they are resolved. The College is also proposing in the operating budget for FY18 (2017-2018) a contract for internal audit services to ensure that policies and procedures and related changes in accounting and internal controls are in compliance with any applicable laws related to higher education entities in New Mexico on behalf of the Board of Regents.

Timeline of corrective action:

An operating budget will be developed and brought forward to the Board of Regents for their approval on April 10, 2017, as well as a contract for internal audit services implemented for FY18 (2017-2018).

Responsible person(s):

Vice President for Finance and Administration

2016-004 INSUFFICIENT SECURITY OF ACCOUNTING RECORDS / BACKUP OF ELECTRONIC DOCUMENTS

TYPE OF FINDING: Material Weakness

CATEGORY: State Law Compliance – Other

CONDITION

During the course of our additional work to address fraud risks, we noted that certain accounting records were missing. During petty cash testing, copy of supporting documents could not be found for two checks dated 07/31/2014 and 06/25/2015 for $2,000 and $1,600, respectively. During cash receipts testing, the daily cash count was missing for 2 of 40 items tested; for an 11/22/2015 cashier credit payment of $15.00 on 11/22/2015, and a web-based credit card payment of $32.75 on 2/7/2016. The cash count cover sheet was missing for 1 of the 40 items tested, for a tuition payment plan payment to the cashier's office on 8/7/2015. Additionally, a cash deposit on 08/07/2015 in the amount of $4,115.94 was missing hard copies of the supporting detail and did not make it to the bank.

Additionally, electronic work may not all be stored on the College's network and backed up, but rather on staff computers. It also appears the former Director of Financial Services also shredded and/or disposed of certain documents without the College's knowledge. Documents are not scanned into a database or an organized backup file. The former Director of Financial Services had listed certain missing documents as "checked out to the auditors", however, they were not checked out to the auditors.

CRITERIA

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

The Guidebook includes a chart for records maintenance which has been compiled from the various parts of the aforementioned NMAC, namely parts 2, 4, 6. The list was compiled based on the typical records a College might be required to keep, for a complete listing of the GRRDS please refer to the NMAC.

EFFECT

We could not gather sufficient audit evidence to support certain transactions.

CAUSE

While the College does have some logs for checking documents in/out, there is no monitoring of the logs or accountability for electronic records.

RECOMMENDATION

The Board of Regents should develop and formally adopt a policy that addresses the security of accounting records and document retention, in compliance with statutes. Utilizing a document retention service and would help ensure compliance. We also recommend implementing a document tracking / imaging system such as Banner Document Management System (BDMS) other Colleges and Universities in the State have. This makes it much simpler to retain and retrieve documents such as: journal vouchers, cashiering supporting documents, invoices/requisitions/purchase orders, and contracts with vendors.

2016-004 INSUFFICIENT SECURITY OF ACCOUNTING RECORDS / BACKUP OF ELECTRONIC DOCUMENTS (CONTINUED)

MANAGEMENT RESPONSE

Corrective action(s):

The College is reviewing all procedures and employee authorizations to identify weaknesses and vulnerabilities for the loss of supporting documentation and will develop and formally request Board of Regent adoption and approval of a policy that addresses the security of accounting records and document retention, in compliance with statutes.

Timeline of corrective action:

A written policy will be developed and brought forward to the Board of Regents by June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-005 PROCUREMENT CODE VIOLATIONS

TYPE OF FINDING: Material Weakness

CATEGORY: Procurement

CONDITION

The purposes of the State's Procurement Code are to provide for the fair and equitable treatment of all persons involved in public procurement, to maximize the purchasing value of public funds and to provide safeguards for maintaining a procurement system of quality and integrity. During our testing of compliance over the State's Procurement Code, we noted 3 violations in our sample of 8 procurements. These vendors were paid over $60,000 during the fiscal year ended June 30, 2016; however, the College did not go out to bid as required. The conditions are as follows:

1) Legal services – one contract for legal services was originally for $10,000 and change orders were processed throughout the year, resulting in the total $72,126 in legal services paid to the vendor. The procurement for this legal service did not go out to bid.

2) STEM Program contract – per discussion with the former Director of Financial Services, an internal determination was made that this procurement in the amount of $148,700 was a sole source procurement. There was no evidence in the procurement file that this determination was made or approved.

3) CAP Investments – this procurement for $84,700 is related to housing for certain students that are enrolled at the College. The procurement for student housing did not go out to bid.

The College's policies and procedures over procurement have not been updated and are conflicting within several different versions. Additionally, there was a lack of segregation of duties in this position, as the former Director of Financial Services temporarily filled this position for eight months. The former Chief Procurement Officer (CPO) left on October 31, 2015 and the new Purchasing Agent began working at the College on July 1, 2016.

CRITERIA

Per 13-1-74 NMSA 1978, "Procurement" means A. purchasing, renting, leasing, lease purchasing or otherwise acquiring items of tangible personal property, services or construction; and B. all procurement functions, including but not limited to preparation of specifications, solicitation of sources, qualification or disqualification of sources, preparation and award of contract and contract administration.

Competitive Sealed Bids: As per 13-1-102, all procurement shall be achieved by competitive sealed bid pursuant to Sections 13-1-103 through 13-1-110 NMSA 1978, except procurement achieved pursuant to the following sections of the Procurement Code [Sections 13-1-28 through 13-1-199 NMSA 1978]:

A. Sections 13-1-111 through 13-1-122 NMSA 1978, competitive sealed proposals;

B. Section 13-1-125 NMSA 1978, small purchases;

C. Section 13-1-126 NMSA 1978, sole source procurement;

D. Section 13-1-127 NMSA 1978, emergency procurements;

E. Section 13-1-129 NMSA 1978, existing contracts;

F. Section 13-1-130 NMSA 1978, purchases from antipoverty program businesses; and

G. the Educational Facility Construction Manager At Risk Act [13-1-124.1 NMSA 1978].

2016-005 PROCUREMENT CODE VIOLATIONS (CONTINUED)

As per 13-1-125. Small purchases:

A. A central purchasing office shall procure services, construction or items of tangible personal property having a value not exceeding sixty thousand dollars ($60,000), excluding applicable state and local gross receipts taxes, in accordance with the applicable small purchase rules adopted by the secretary, a local public body or a central purchasing office that has the authority to issue rules.

B. Notwithstanding the requirements of Subsection A of this section, a central purchasing office may procure professional services having a value not exceeding sixty thousand dollars ($60,000), excluding applicable state and local gross receipts taxes, except for the services of landscape architects or surveyors for state public works projects or local public works projects, in accordance with professional services procurement rules promulgated by the department of finance and administration, the general services department or a central purchasing office with the authority to issue rules.

C. Notwithstanding the requirements of Subsection A of this section, a state agency or a local public body may procure services, construction or items of tangible personal property having a value not exceeding twenty thousand dollars ($20,000), excluding applicable state and local gross receipts taxes, by issuing a direct purchase order to a contractor based upon the best obtainable price.

D. Procurement requirements shall not be artificially divided so as to constitute a small purchase under this section.

Section 14-2-5 NMSA 1978 Inspection of Public Records Act (IPRA) indicates that the public is entitled to the greatest possible information and documents are to be made available to the public.

EFFECT

The College violated the State of New Mexico's procurement code and may have not obtained the best price for the items received during the year.

CAUSE

Although the exact cause is unknown, the College did not have appropriate segregation of duties over procurement compliance and there were several positions during 2016 in the process of being filled, including a new CPO.

RECOMMENDATION

We also recommend that the College take appropriate action to remain in compliance with the current requirements related to 13-1-95.2 Chief procurement officers; reporting requirement; training; certification which states in part that "on and after July 1, 2015, only certified chief procurement officers may do the following, except that persons using procurement cards may continue to issue purchase orders and authorize small purchases:

(1) make determinations, including determinations regarding exemptions, pursuant to the Procurement Code;

(2) issue purchase orders and authorize small purchases pursuant to the Procurement Code; and

(3) approve procurement pursuant to the Procurement Code."

2016-005 PROCUREMENT CODE VIOLATIONS (CONTINUED)

We recommend the College perform risk assessment, implement new policies and procedures, and monitor thoroughly for compliance. There should be an official process in place to initiate purchases and contracts to ensure there is no management override of controls.

MANAGEMENT RESPONSE

Corrective action(s):

The College was unable to find an immediate replacement for its certified procurement officer in October 2015. As a result, an internal candidate was trained and subsequently obtained a procurement officer certification in compliance with Section 13-1-95.2 Chief procurement officers.

With regard to the College's current Procurement Policy, a revised policy will be developed to incorporate the necessary changes to ensure it is in compliance with the current requirements of the State Procurement Code.

Timeline of corrective action:

A written policy will be developed and brought forward to the Board of Regents in FY18 (2017-2018).

Responsible person(s):

Vice President for Finance and Administration

2016-006 SEGREGATION OF DUTIES

TYPE OF FINDING: Material Weakness

CATEGORY: Segregation of Duties

CONDITION

During the fiscal year under audit, several positions were eliminated or terminated, including the Human Resources (HR) and Title IX Directors, Vice President of Advancement, Chief Procurement Officer (CPO), Capital Projects Manager, and the Grants Manager. The former Director of Financial Services and the Interim President (from December 31, 2015 through October 16, 2016) / current Vice President for Finance and Administration filled in until such time as these positions could be filled with qualified candidates and/or there is adequate cash and budget to fill them. However, this caused a lack of segregation of duties in fiscal year 2016.

The former Director of Financial Services functioned as the Controller and had access to all accounting records and processes, including preparing and/or approving journal entries, cash reconciliations, expenditures, cash receipts, Banner (general ledger and payroll) access, personnel files, procurement, supervising financial staff, hiring, firing, and human resources functions. The former Financial Services Director was also a signatory on the College's cash accounts.

The Interim President/current Vice President of Finance and Administration has authority to direct employees in various areas of operations and accounting and performed certain HR functions with the former Director of Financial Services. Additionally, the Interim President/current Vice President of Finance and Administration functions as the CFO and is involved in financial decision-making, budget, expenditures, procurement, hiring, firing, and supervision of staff.

In previous years, although there were controls in place to segregate duties, the former Director of Financial Services circumvented these controls. For example, although she was not supposed to take bank deposits to the bank, she offered to help when staff were busy. Additionally, it does not appear there was adequate review and accountability for her work and actions. There were numerous audit findings addressing weaknesses over cash and other areas, which were not addressed timely.

CRITERIA

A strong system of controls requires separation between custody of assets, recording of transactions and authorization of transactions. If a small number of employees does not allow for proper separation of duties, supervisory review should be used to compensate for the lack of separation of duties.

EFFECT

Theft or errors could occur and remain undetected when proper controls are not in place over cash receipts and disbursements.

CAUSE

Separation of duties over cash receipts and disbursements and all Information Technology (IT) access is difficult to achieve when positions are not filled.

RECOMMENDATION

Steps must be taken to separate incompatible duties. The basic premise is that no one person should have **access** to both physical assets and the related accounting records or to all phases of a transaction.

2016-006 SEGREGATION OF DUTIES (CONTINUED)

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

- Collect accounts receivable
- Open the mail or copy checks received
- Prepare deposits
- Compare the listing of receipts received daily to the bank receipt of daily deposit
- Post cash receipts to the sub-ledgers (by Student, Bookstore, Third-Party.)
- Review the cash reconciliations in detail
- Authorize write-offs or adjustments, including journal entries
- Independently investigate discrepancies or issues related to revenue
- Process staff/parent/outside organizational calls and complaints
- Reconcile bank accounts, including petty cash
- Perform surprise audits

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

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

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

MANAGEMENT RESPONSE

Corrective action(s):

In February 2017, the College hired a Director of Human Resources with approximately 25 years of experience in higher education and has removed any human resource-related job responsibilities from the Vice President for Finance and Administration and the Director of Financial Services.

Timeline of corrective action:

Task was completed in February 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-007 FINANCIAL CLOSE & REPORTING (CONTINUED)

TYPE OF FINDING: Material Weakness

CATEGORY: Financial Reporting

CONDITION

During 2016, JAG noticed that the former Director of Financial Services delayed the audit fieldwork from April into late September, with various reasons we could not begin audit testing. The final trial balance and Schedule of Expenditures of Federal Awards (SEFA) was not ready until mid to late October. Additionally, our requests over areas with prior year findings (such as procurement and cash) were seemingly intentionally delayed. JAG did not receive certain cash reconciliations until Sunday, November 13, 2016. We discovered through our audit testing of these reconciliations that the outstanding checks had been altered. On November 14, 2016, the former Director of Financial Services stated she changed the cash reconciliations the staff had prepared. The Vice President for Finance and Administration had not reviewed the bank reconciliations in detail as had been asserted to us. (See also **Finding 2016-002**).

Upon further testing of the financial close and reporting process, we noted that the general ledger (Banner) was not closed out timely. The Senior Financial Analyst showed us the Journal Entry log where entries are entered months after the close process.

Additionally, certain accounts do not have a person assigned to reconcile them, separately from the former Director of Financial Services. There is not a well-documented detail of how certain information from the various Banner tables flow to related general ledger accounts or what reports the accounting staff need to be ensure each of the balance sheets are presented correctly.

JAG also noted that several bank accounts appear to be used only as flow-through accounts with no logical purpose to the transactional flow. For example, the bank account ending in 3587 has one in and one out transaction for the same amount (usually in and out within a day or two) in a typical month. The total transaction fee charged by the bank for this one account for fiscal year 2016 was $1,200. It appears the College has unnecessary bank accounts and transactions flowing through them that do not have a clear purpose and audit trail.

Lastly, other than the Senior Financial Analyst, the College may not have employees trained in complex accounting and Governmental Accounting Standards Board (GASB) and Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Controls framework requirements, which is absolutely necessary in order to have a successful financial close and reporting process.

CRITERIA

According to Statements on Auditing Standards, AU Section 325.15, “identification by the auditor of a material misstatement of the financial statements under audit, in circumstances that indicate that the misstatement would not have been detected by the entity’s internal control”, is considered a material weakness.

Some of the key underlying concepts of AU Section 325 include:

- The auditor cannot be part of a client’s internal control because becoming part of a client’s internal control impairs auditor independence;
- The auditor’s work is independent of the client’s internal control over financial reporting, and the auditor cannot be a compensating control for the client; and
- A system of internal control over the financial reporting does not stop at the general ledger or internal financial statements – it includes controls over the presentation of the financial statements. Recording adjustments and responsibilities over identifying errors or fraud is

2016-007 FINANCIAL CLOSE & REPORTING (CONTINUED)

considered a significant process of internal control performed by the College's staff. The College's system of internal control includes controls over financial statement preparation, including footnote disclosures.

EFFECT

The audit was delayed. A material weakness in financial reporting exists because adjustments and fraud were identified by the auditor's procedures and not by the College's administration. As a result, there is the risk that financial statements and disclosures may be inaccurate. Insufficient controls over the preparation of account balances, financial statements and related disclosures limits the College's ability to prevent or detect a misstatement whether due to error or fraud in its year-end financial statements.

CAUSE

The College has not had appropriate accountability or training over internal controls, Governmental Accounting Board Standards (GASBS), and the financial close and reporting process.

RECOMMENDATION

The College should start by documenting the following critical processes:

1. Flowcharting the current transactional flow within and between all **bank accounts** and the general ledger to determine if efficiencies and cost savings can be gained by having fewer bank accounts and identifying any additional potential fraud risks.
2. Flowcharting the current processes in the Finance, Student Financial Aid, and Student Accounts Receivable modules in order to understand the current transactional flow of information between the modules and feed to the general ledger and identifying any potential fraud risks.

After this process is completed, the College should then begin to strengthen and improve the monthly and annual financial close and reporting process controls by performing the following activities:

- Identifying all sources of financial and non-financial data (routine and non-routine events and transactions) that will be needed in order to maintain and systematically adjust the College's general ledger and sub ledgers.
- Establishing and implementing procedures and records to initiate, authorize, record process, correct, transfer to the general ledger, and report the College's transactions with proper segregation of duties and strong levels of review by administration and the Board of Regents.
- Identifying new reports to assist in accuracy of accounts, an audit trail, and management decision-making.
- Monitoring assigned personnel to ensure they are completing their tasks timely, efficiently, and accurately.

MANAGEMENT RESPONSE

Corrective action(s):

The College will develop procedures for monthly and annual financial closing and reporting processes and controls to include a detailed review of the trial balance, schedules prepared for the audit, and financial information underlying the final financial statements submitted for audit.

2016-007 FINANCIAL CLOSE & REPORTING (CONTINUED)

Timeline of corrective action:

Completion date of December 31, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-008 LACK OF INTERNAL CONTROLS OVER CASH RECEIPTS PROCESS

TYPE OF FINDING: Material Weakness

CATEGORY: Cash and Investments

CONDITION

The cashier's office does not have a log of who took what to the bank. Bank receipts were not consistently received back and attached to the batches (all the supporting documents from the cashier's office) as the control and policies were designed.

The former Director of Financial Services, whose oversight responsibilities included reviewing the bank reconciliation, approving transfers between bank accounts, approving journal entries, and general oversight of the entire general ledger also took certain deposits of cash and checks to the bank. The former Director of Financial Services admitted to taking over $200,000 in cash and checks as noted in **Finding 2016-002.**

Per discussions with staff and review of documentation provided by certain employees, at least four staff were aware that certain deposits were missing from periods of time over the last four years. These employees did not bring this concern up to a high enough level in the organization to fully address the problem.

Additionally, we could not tie out all the related cash receipts for trailer, home, and event rentals related to the El Rito campus to the general ledger.

CRITERIA

Strong internal controls require review and approvals throughout accounting processes. This includes segregation of duties for receiving, depositing and posting receipts. A thorough review and approval of all deposits and retention of related documentation is essential.

<u>Control Environment</u> Attitudes, awareness, and actions of management, as well as those charged with governance, demonstrate the College's commitment to accurate accounting and financial reporting and compliance with provisions of laws, regulations, contract, and grant agreements relative to federal programs. The College must demonstrate a commitment to integrity and ethical values. The governing body must demonstrate independence from Administration in exercising oversight of the development and performance of internal control over financial reporting and its compliance with laws, regulations, and the provisions of contracts or grant agreements relative to federal award programs. With governing body oversight, administration establishes structures, reporting lines, and appropriate authorities and responsibilities to achieve financial reporting objectives and compliance objectives relative to major programs. The College should demonstrate a commitment to attract, develop, and retain competent individuals in alignment with financial reporting objectives and compliance objectives relative to major programs. The College must hold individuals accountable for their internal control responsibilities and compliance objectives relative to major programs.

EFFECT

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

CAUSE

The College did not enforce sufficient controls over receipts. While staff did ask questions about missing certain deposits, they accepted the former Director of Financial Services' excuses and did not take their complaints high enough up the chain-of-command. Many people trusted her without verifying information.

2016-008 LACK OF INTERNAL CONTROLS OVER CASH RECEIPTS PROCESS (CONTINUED)

In our walkthrough of cash receipts, staff stated the bank deposit slip is brought back to the Cashier and reconciled and attached to back-up, that was not consistently happening.

Staff asserted to JAG there were two people designated to take the daily bank deposit who were not involved in the cash transaction cycle. However, the cashier represented to us that she recalls the former Director of Financial Services volunteered to take deposits to the bank a few years ago when the College was lacking available personnel to take deposits to the bank. Additionally, the Cashier represented to us that the former Director of Financial Services would take deposits to the bank on Fridays because the "auditors had an audit finding related to 24 hour deposit rule" This is a State statute, however, the statute only applies to business days.

RECOMMENDATION

The College must develop and implement strong policies and procedures to ensure that receipts are processed, recorded accurately, approved, and safeguarded. The three main duties to be segregated are the authorization to execute a transaction, the recording of the transaction, and the custody of assets involved in the transaction. A system of authorization and recording procedures should be adopted by the Board of Trustees and implemented by the College.

Transactions should be properly recorded and thorough reviews performed on a timely basis in order to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). In addition, the College should establish any other criteria applicable to such statements to maintain accountability for assets. Independent performance checks and proper valuation of recorded amounts such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls in Banner and other software used, management review of reports that summarize the detail of account balances, and user review of computer generated reports should be performed.

Cash receipts are to be deposited intact (in the same form received) promptly or stored in a secure location until the daily deposit is made. An armored service to take deposits to the bank, or the use of campus security (under dual control) is recommendable. The College should also consider the benefit of remote capture of checks (daily running checks through a service into the bank) is also recommended. No petty cash should be used or change made from the receipts. We recommend reviewing who has keys to the "vault" and other areas in Finance. Receipts must be counted under dual control openly, not with closed doors or before/after hours. All receipts must be properly approved, tracked, and reconciled to the bank account receipts. JAG recommends that Student Financial Aid and Grants Managers be involved in reconciling the College's significant, material funding as an independent check.

Individuals who prepare deposits cannot:

- Authorize rates, fees, charges
- Initiate bills to be paid to the College
- Deposit cash receipts
- Reconcile bank accounts
- Investigate discrepancies or issues related to cash

We recommend that procedures for transaction initiation and processing be formally documented as soon as possible. Written procedures, instructions, and assignments of duties will also prevent or reduce the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

2016-008 LACK OF INTERNAL CONTROLS OVER CASH RECEIPTS PROCESS (CONTINUED)

It is also critical that the new Administration continue their efforts to encourage staff to bring concerns up the chain of command, consider distributing an anonymous fraud hotline, and ensure that the HR function is a safe place for staff to go to with problems without fear of retaliation.

MANAGEMENT RESPONSE

Corrective action(s):

The College, in conversation with all employees sharing job responsibilities for the collection of cash receipts, deposit preparation, review and delivery of daily deposits, has completed an assessment and revision of its internal controls for the handling of cash. The College administration will provide the Board of Regents Finance Committee an overview of the previous process, prior to the knowledge that monies had been embezzled, versus the modified process. All financial staff members involved in this process will also be trained on the new procedures and the importance of sharing concerns with their superiors.

Timeline of corrective action:

The College will complete its overview of the modified procedures with the Board of Regent's Finance Committee and training of staff by June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-009 LACK OF INTERNAL CONTROLS OVER CASH DISBURSEMENTS AND TRANSFERS PROCESS

TYPE OF FINDING: Material Weakness

CATEGORY: Expenditures and Expenses – Other

CONDITION

During our testing of cash disbursements while interviewing staff, we noted that many payments to vendors and grant reimbursement requests were held back, awaiting the former Director of Financial Services' approval. We also noted during our interviews of staff that cash transfers and journal entries were at times performed without adequate backup documentation.

CRITERIA

A strong system of preparing, approving, and processing payments, transfers, and reimbursement requests is vital to the financial stability and reputation of the College.

EFFECT

Delay of approval to pay invoices and submit grant reimbursement requests indicates a lack of accountability for this process. The College was not paying vendors timely or receiving cash reimbursements timely.

CAUSE

There was lack of accountability and staff did not take their concerns to a high enough level in the organization.

RECOMMENDATION

It is recommended that the College develop, implement, and monitor sound policies and procedures related to the review and approval of cash disbursements, transfers, journal entries, and grant reimbursements. Additionally, documents must be safeguarded and staff should not record things without understanding them and/or without a proper audit trail.

MANAGEMENT RESPONSE

Corrective action(s):

The College believes it has a sound process for the review and approval of invoices but these processes were violated by the former Director of Financial Services, and documents were purposely retrieved and or removed from our filing systems. The process will, however, be revisited and staff will be trained to ensure that they understand the importance of proper authorizations for the payment of invoices and the importance of safeguarding the College's assets.

Timeline of corrective action:

Employee training and written revised procedures, if applicable, will be completed and presented to the Board of Regent's Finance Committee by June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-010 LACK OF INTERNAL CONTROLS OVER JOURNAL ENTRIES

TYPE OF FINDING: Material Weakness

CATEGORY: Lack of Policies, Procedures, and Internal Control Structure or Environment

CONDITION

Certain journal entries did not have adequate backup documentation, some were missing. The College did not provide appropriate supporting documentation to verify business purpose, accuracy or completeness for 4 of the 46 (8.7%) tested journal entries posted to the general ledger. These include: JE#16-06143 for $59,916.77 with the description "Arts Annex Spanish Colonial & Weaving Shops." JE#06-0271 for $92,777.18 with the description "Month end adjustments to cash for February 2016 Century General Fund bank reconciliations." JE#16-0852 for $1,332.45 with the description "Month-end adjustments to cash for August 2015 Community Bank Reconciliation." JE#16-0137 for $8,044 with the description "Gates Millennium Scholarship."

During our expanded testing of journal entry preparers and approvers, we noted that there may be a missing control in Banner resulting in a journal entry originally unfinished to be prepared and later approved by the same user.

It came to our attention that one accountant provided the former Director of Financial Services her password to enter an “emergency” journal entry. She then circumvented controls by using that accountant’s password to enter at least one journal entry into Banner in fiscal year 2017 that we are aware of. This particular journal entry was used to record a withdrawal of $1,500 cash from one of the College’s Bank accounts on September 7, 2016.

Per conversation with staff, it was mentioned that in certain cases the preparation of journal entries by the accountants were completed with the assistance of the former Director of Financial Services. It is our observation that certain accounting staff may not have the full understanding of the purpose and impact of the journal entries that they were initiating and signing off on as preparer. It circumvents controls over journal entries to have a superior give a preparer information and then approve that same information.

CRITERIA

Good accounting practices include a review and approval of journal entries posted to the general ledger.

EFFECT

The Board, Administration, staff, and the public may not be aware of transactions being posted to the general ledger.

CAUSE

The College does not have proper training or accountability for journal entries. There is a missing control in Banner and at least one staff member gave her password to the former Director of Financial Services.

RECOMMENDATION

The College should develop a process for journal entries, including a standard form, preparation guidelines, posting, and approvals. Additionally, staff must be trained and understand what they are posting or not be put in positions above their level of training.

2016-010 LACK OF INTERNAL CONTROLS OVER JOURNAL ENTRIES (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action(s):

The College has a process for journal entries, including a standard form, preparation guidelines, posting, and approvals. The process will be revisited and staff will be trained to ensure that they understand what they are posting and emphasis on the authorization process and the importance of maintaining confidentiality of all passwords, regardless of who is requesting. The College will also address the issue in policy regarding unauthorized use of employee passwords or system authorizations.

Timeline of corrective action:

Employee training and a written policy concerning unauthorized use of employee passwords or system authorizations will be developed and brought forward to the Board of Regents by June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-011 NEW MEXICO STATE CONSTITUTION VIOLATION – BOARD MEMBER VACANCY

TYPE OF FINDING: Non-compliance

CATEGORY: State Law Compliance – Other

CONDITION

The College is required to have a five member Board of Regents. The College has only had a four members since fiscal year 2015.

CRITERIA

Article 12, Section 13 of the New Mexico State Constitution requires that the College shall be governed by a Board of Regents consisting of five members.

EFFECT

The College needs a full Board of five Regents in order to operate effectively and as designed by the Constitution. The College has been addressing substantial changes in operations along with turnover and whistleblower litigation, all of which have caused a material increase in legal fees, settlements, and insurance premiums. The Board must have all positions filled in order to govern effectively. The College may be lacking a Regent with the ability to examine potential educational uses of the El Rito Campus.

CAUSE

The Governor of the State of New Mexico has not nominated and appointed, with Senate consent, a fifth Regent.

RECOMMENDATION

We recommend the new College President collaborate with the Governor’s Office to fill the current vacancy as timely as possible.

MANAGEMENT RESPONSE

Corrective action(s):

The Office of the President has been in contact with the Governor’s Office on this issue since October 2016. The President has spoken on this issue on several occasions to the Governor’s staff, and they are still considering nominees for the open seat. To mitigate the possibility of having less than four sitting members on the Board, in early November 2016, the President forwarded two nominees to fill the Student Regent position. These candidates were nominated and recommended by the Northern New Mexico College Student Senate. The Governor appointed one of the two nominees to fill the position, but the legislature did not confirm him during the 2017 legislative session. The Governor did re-appoint the Board President to an additional term, and the legislature confirmed her during the session. Thus, the Board of Regents in its present form will continue to run with only four members, with the current student regent continuing in her role until replaced. The NNMC President will continue to stress the importance of a full complement of Board Members to the Office of the Governor.

Timeline of corrective action:

Date of completion is expected to occur by the 2018 legislative session. This will continue to be an ongoing dialogue between the NNMC President, the NNMC Board of Regents, and the Governor’s Office.

Responsible person(s):

Board of Regents, President

2016-012 TRANSFERS, DISPOSALS, AND TRACKING OF INVENTORY ITEMS LESS THAN $5,000

TYPE OF FINDING: Material Weakness

CATEGORY: Inventory

CONDITION

The College does not have written policies or procedures in place to track assets and inventory costing less than $5,000, including items designated as “sensitive” such as electronics and equipment. The College did perform a physical count of these items; however, they did not reconcile it to their capital assets listing to confirm the items less than $5,000 were not repeated in their capital assets module (WASP), which is for assets over $5,000. The College did not verify the past physical inventory count of these items as to where they are on-campus

Assets costing less than $5,000 were transferred from the El Rito Campus during the year ended June 30, 2016; however, records are not available to verify where these and other items costing under $5,000 are located now.

Additionally, the College had 5 capital assets, with cost totaling $37,500 (fully depreciated), that were removed from the capital assets listing in fiscal year 2016 for items in the mechanic’s shop that could not be found.

CRITERIA

NM State Audit Rule 2.2.2.10 (U) Disposition of property: “Sections 13-6-1 and 13-6-2 NMSA 1978 govern the disposition of tangible personal property owned by state agencies, local public bodies, school districts, and state educational institutions.”

NMSA 1978 Section 13-6-1 (B): “The governing authority shall, as a prerequisite to the disposition of any items of tangible personal property: (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the state auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of the authority approving the action.”

EFFECT

Assets are at much higher risk for theft if the College is not adequately tracking these items. Assessment and monitoring of assets is required by both state law and federal grants.

CAUSE

The College has made progress with capital assets reconciliations and tracking through WASP over the past few years; however, not all items were found and not all items were properly tracked due to limited resources and lack of accountability for controls over safeguarding assets and inventory.

RECOMMENDATION

We recommend that the College add resources to this area to ensure compliance and the proper stewardship of taxpayer dollars, assets, and inventory. The Board will need to address in the policy specifically which items with cost less than $5,000 are to be tracked and inventoried at least annually. A physical count of these items will need to be performed at or near June 30, 2017 and be reconciled to WASP or whatever tracking system is chosen for these items.

2016-012 TRANSFERS, DISPOSALS, AND TRACKING OF INVENTORY ITEMS LESS THAN $5,000 (CONTINUED)

MANAGEMENT RESPONSE

Corrective action(s):

Currently, the College has implemented a Transfer Form that coincides with Work Orders and is approved in WASP. The College will also develop a policy for the inventory and disposal of non-fixed assets.

Timeline of corrective action:

A written policy will be developed and brought forward to the Board of Regents by June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-013 PUBLIC MONEY ACT VIOLATION – DEPOSITS NOT MADE WITHIN 24 HOURS

TYPE OF FINDING: Noncompliance

CATEGORY: State Law Compliance – Public Money Act

CONDITION

During our walkthrough of cash receipts at the College Bookstore, we traced one cash receipt for $9.23 through their process and noted that the Bookstore receipts are turned in at the end of the day to Finance and Finance processes them in their batch the following day. We confirmed with the former Director of Financial Services that because of the batching system process in Banner, the Bookstore's cash receipts are not deposited into the bank until the third day.

We conducted additional testing of cash receipts and noted 3 more 24-hour rule violations out of 40 additional transactions tested (7.5% of sample). 1 exception out of 5 tested for web-based credit card payments, totaling $130.48. 1 exception out of 4 tested for web-based ACH payments, totaling $70.25. 1 exception out of 19 tested for cashier payments, totaling $5.00.

CRITERIA

Public Money Act, 6-10-3 NMSA 1978 states, "It is the duty of every official or person in charge of any state agency receiving any money in cash or by check, draft or otherwise for or on behalf of the state or any agency thereof from any source….before the close of the next succeeding business day after the receipt of the money to deliver or remit it to the state treasurer".

EFFECT

The College did not properly safeguard cash receipts by promptly depositing the public monies received.

CAUSE

The Bookstore closes at the end of the day and locks up the cash receipts in the safe. The next morning, they are reconciled and taken to the cashier. The cashier accumulates the receipts for the day and secures them for them for the night. The next morning, the cashier prepares the deposit ticket and staff verified the amounts and take the cash receipts to the bank. The College did not monitor and hold staff accountable for compliance with the Public Monies Act.

RECOMMENDATION

We recommend the College implement controls over the receipts process so they may be made in compliance with the 24 hour rule of the Public Monies Act.

MANAGEMENT RESPONSE

Corrective action(s):

The College, in conversation with all employees sharing job responsibilities for the collection of cash receipts, deposit preparation, review and delivery of daily deposits, has completed the revision of its internal controls specifically as they pertain to the Bookstore process to ensure that they are in compliance with the 24-hour rule of the New Mexico Public Monies Act.

Timeline of corrective action:

The College completed its revised procedures to address the 24-hour rule in March of 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-014 NON-COMPLIANCE WITH AND INADEQUATE CONTROLS OVER THE GOVERNMENTAL CONDUCT ACT

TYPE OF FINDING: Noncompliance

CATEGORY: Lack of Policies, Procedures or Internal Controls

CONDITION

We noted the College does not have strong risk assessment, internal controls, training, and monitoring for maintaining compliance with the Governmental Conduct Act (GCA). Additionally, the College does not have a Code of Ethics or Code of Conduct that is signed by employees.

- During our testing, we noted 3 employees with outside employment/ownership of businesses which had not been disclosed <u>in writing</u> to the College's Board and Administration. Although the positions were disclosed verbally, the GCA requires the disclosure to be in writing.

- Our testing based on limited information from calendar years 2014 and 2015 revealed that the former College President received honorariums as follows:

  1. February 10-20, 2014 – Speech at Fresno State University – College paid $745.40 in travel expenses and the former President received $1,348.50 for speaking.
  2. July 16-19, 2014 – Latina/o Studies Conference – College did not pay for travel expenses and the former President received a $300 honorarium.
  3. October 21-26, 2014 – National Association of Chicana and Chicano Studies Midwest FOCO – College did not pay for travel expenses and the former President received an honorarium of an unknown amount.
  4. October 20-22, 2015 – Georgia Institute of Technology Diversity Summit – College paid for the travel expenses and the former President received an honorarium of an unknown amount.
  5. November 10, 2015 – University of Michigan – College did not pay for the travel expenses and the former President received an honorarium of an unknown amount.

We noted the former President spent approximately 40 weekdays at conferences during calendar year 2015, using only 8 days of her annual leave for those conferences. Documentation is incomplete on which events she received honorariums for speeches or services.

The former College President's contract allowed for budgeted expenses incurred for professional meetings at local, state, national and international levels to be reimbursed by the College. It also allowed for reasonable service on boards or committees of other public or educational entities and occasional speaking engagements as an invited speaker. However, per the GCA, public employees may not receive payment or honoraria exceeding $100 for speeches.

We did test another area of concern: one Board of Trustees member's spouse has a business that the College does transact with; however, it appears the business interest has been properly disclosed in accordance with the Financial Disclosures Act (Section 10-16A-1 to 10-16A-8 NMSA 1978), the member does not participate in the procurement, and the amounts are immaterial to the College ($1,055 for fiscal year ended June 30, 2016).

2016-014 NON-COMPLIANCE WITH AND INADEQUATE CONTROLS OVER THE GOVERNMENTAL CONDUCT ACT (CONTINUED)

CRITERIA

SB 432 – 2011 NM Legislature – 7/1/2011 Governmental Conduct Act Amendments, Disclosure of Outside Employment, Section 10-16-4.2 states: "All public officers or employees must disclose in writing to the employer all employment engaged in by the officer or employee, other than the employment with or service to the Public Employer."

Per NMSA 1978 Section 13-1-57 Procurement Code Restrictions Employees: "Financial interest" means officer, director, trustee, partner, or management position or more than 5% or more ownership interest.

Per NMSA 1978 Section 10-16-4.1, public officers and employees shall not "receive payment or honoraria exceeding $100, exclusive of per diem, mileage and lodging, for speeches or services related to performance of official duties."

NM State Audit Rule 2.2.2.10 K Possible violations of criminal statutes: GAGAS 2011 Revision, paragraphs 4.06 to 4.08 – audits extend procedures to abuse – behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable/necessary business practice. Abuse can also be the misuse of authority or position for personal financial interests or those of a close family member or business associate.

EFFECT

Possible Governmental Conduct Violations include consequences such as:

1) Other than those prohibitions which carry felony sanctions, violation of the Act constitutes a Criminal misdemeanor (max $1,000 or Imprisonment of up to 1 year or Both)
2) Discipline, Dismissal, Demotion, or Suspension
3) Attorney General may enforce Civil penalties ($250 per violation up to $5,000)
4) Basis for Recall efforts of board members from alleged violations
5) Section 10-16-3.1 Official Acts for personal financial interest – Knowing and willful violation is a 4^{th} degree felony

CAUSE

The College has not implemented complete training and monitoring for compliance with the Governmental Conduct Act.

RECOMMENDATION

We recommend College Board of Regents and the Administration become familiar with the requirements and add steps to ensure compliance and accountability for compliance. We also recommend that the College ensure the Financial Disclosures Act forms are completed timely not only by board members but also by any employees to which it would apply.

2016-014 NON-COMPLIANCE WITH AND INADEQUATE CONTROLS OVER THE GOVERNMENTAL CONDUCT ACT (CONTINUED)

MANAGEMENT RESPONSE

Corrective action(s):

The NNMC President has asked the Human Resources Director to draft a Code of Conduct for all employees, which will be signed by all faculty and staff during Convocation week 2017. In addition, the employees will undergo training on specific requirements in the Government Conduct Act, and will have an opportunity to disclose in writing any additional outside employment. In regards to the conduct of the President, the current President's contract was amended to prevent activities which might interfere or take precedence over NNMC duties. The following excerpts are taken directly from the current President's contract *(Italicized* print has been added to draw attention to the specific items that bind presidential activity):

(9) Professional Dues and Memberships. *Provided it does not interfere with the President's administrative duties*, the President may attend educational conferences, conventions, seminars and other similar professional growth activities. The reasonable expenses in connection with such activities and membership in professional organizations shall be paid by the Board . . .

(11) Consultation Activities: The President shall be permitted to undertake writing, teaching, legislative, and speaking engagements *provided that these activities do not interfere with the performance of his NNMC duties.*

Timeline of corrective action:

Was completed in October 2016.

Responsible person(s):

Board of Regents

2016-015 NEW MEXICO PREHISTORIC AND HISTORIC SITES PRESERVATIONS ACT VIOLATION

TYPE OF FINDING: Noncompliance

CATEGORY: State Law Compliance – Other

CONDITION

The College was not in compliance with NMSA 1978 Section 18-8-7, Preservation of significant prehistoric or historic sites. The College replaced and added fencing on certain properties around Chacon Park in El Rito without realizing that fences also require contacting New Mexico Energy and Minerals Natural Resources Department's New Mexico State Parks Division.

CRITERIA

New Mexico Prehistoric Sites and Preservations Act (PHSPA), NMSA 1978 Section 18-8-7, Preservation of significant prehistoric or historic sites which states: "No public funds of the state or any of its agencies or political subdivisions shall be spent on any program or project that requires the use of any portion of or any land from a significant prehistoric or historic site unless there is no feasible and prudent alternative to such use, and unless the program or project includes all possible planning to preserve and protect and to minimize harm to the significant prehistoric or historic site resulting from such use."

EFFECT

All possible planning to preserve and protect and to minimize harm to the significant prehistoric or historic site did not occur.

CAUSE

Although the College's Administration knew to contact the Division about larger projects (and has), they were not aware that fixing or adding fencing to properties were included in the requirements.

RECOMMENDATION

We recommend the College make it a standard practice and/or a written policy to contact the Division on each project the Act may apply.

MANAGEMENT RESPONSE

Corrective action(s):

The College is aware of the requirement of the "**New Mexico Prehistoric and Historic Sites Preservations Act which states** "No public funds of the state or any of its agencies or political subdivisions shall be spent on any *program or project* that requires the use of any portion of or any land from a significant prehistoric or historic site." The opening paragraph of the act also states the following with regard to "any program or project":

"This law, among other things, prohibits the use of state funds for any program or project that requires the use of any portion of or any land from a prehistoric or historic site listed in the State Register of Cultural Properties or the National Register of Historic Places, unless there is no feasible and prudent alternative to such use, and unless the program or project includes all possible planning to preserve and protect and to minimize harm to the significant prehistoric or historic site resulting from such use."

The only "program or project" on the State and National Registers for New Mexico, as referenced in the Prehistoric and Historic Site Preservation Act (Act), is Delgado Hall and the College does not believe it is in violation of this or any other sections of the Act. In fact the College specifically contacted the Office of Cultural Affairs before acquiring any permits for the roof repairs to Delgado Hall in compliance with their

2016-015 NEW MEXICO PREHISTORIC AND HISTORIC SITES PRESERVATIONS ACT VIOLATION (CONTINUED)

regulatory requirements. The College also contacted the appropriate representative of the New Mexico Energy, Minerals and Natural Resource Department (NMEMNRD) and we were informed that the department has no written policies or regulations requiring notification of any upgrades to the park facilities purchased years ago with federal funds. The College was also told that as long as the facilities were maintained and open to public during normal operating hours, we had no further obligation to notify him of any upgrades to the recreational facilities. I should also note that none of the specific park facilities on the NMEMNRD inventory for El Rito were the subject of any fencing or upgrades during the current or past fiscal years.

Timeline of corrective action:

Although the College has made it a standard operating practice to contact the Energy Minerals and Natural Resources Division on each project it believes is subject to the Act, a written policy will be developed and brought forward to the Board of Regents by June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-016 INADEQUATE CONTROLS OVER SABBATICAL & ANNUAL LEAVE

TYPE OF FINDING: Material Weakness

CATEGORY: Payroll and Related Liabilities

CONDITION

Our testing indicates that during calendar year 2015, the former College President used 45 days of personal vacation days, with only 9 of them on approved annual leave forms. In addition, it appears the former President was away from the College for conferences approximately 40 days, using only 8 days of annual leave. She also had 8 full days, 23 half-days, and 27 late afternoons on “do-not-disturb” time which could not be specifically identified as time in the office or preparing for meetings at the College. The estimated cost to the College of time for the potential non-approved leave for 744 hours is $87,000, not including taxes and certain benefits.

Additionally, the former College President’s accrued sabbatical leave was not recorded as a liability at June 30, 2016 and was adjusted as a result of the audit testing.

The payroll process to track leave, including the year-end calculation, is cumbersome and is a 100% manual process for each employee.

Lastly, several staff disclosed during interviews that the former Director of Financial Services was not working on-site very often, worked nights and weekends, and was not there when they needed her.

CRITERIA

Per the NM State Auditor’s website, theft of time by an employee is defined as “any act or omission which causes an employee to be paid for time not worked for the benefit of the client company”. There is also the higher likelihood of excesses in benefits and travel defined as “excessive contributions of organizational resources to an individual….excessive quantity and/or questionable travel activity, and/or excessive meal and entertainment expenditures.”

EFFECT

The College may have been paying for services not rendered. Working away from the College causes a lack of supervision, management, accountability, and likely wasteful spending of resources.

CAUSE

The President was allowed by her contract to attend conferences and the former Director of Financial Services was allowed to work away from the College.

RECOMMENDATION

We recommend the Board and Administration establish higher expectations of the professionals that work at the College and follow up with accountability.

MANAGEMENT RESPONSE

Corrective action(s):

As stated above in response to Finding 2016-14, the current NNMC President’s contract limits his activities so as not to interfere with the accomplishment of NNMC duties. In addition, the Executive Assistant to the President has been diligent about overseeing and managing forms requesting time off for any activities not covered in the line of NNMC duties. An assessment of the President’s calendar since October 17, 2016 (the current President’s first day of duty with NNMC) will show that all time off has been accounted for.

2016-016 INADEQUATE CONTROLS OVER SABBATICAL & ANNUAL LEAVE (CONTINUED)

Timeline of corrective action:

Completed on October 17, 2016.

Responsible person(s):

Vice President for Finance and Administration

2016-017 OUTDATED POLICIES AND PROCEDURES

TYPE OF FINDING: Significant Deficiency

CATEGORY: Lack of Policies, Procedures or Internal Control Structure or Environment

CONDITION

During fiscal year 2016, the College had high turnover in administration and eliminated and cut several positions due to budget and operational changes. As verified by the Vice President of Finance, the College's Staff Handbook is outdated and is at times conflicting with policies such as those covering hiring (Policy 3.26), terminations (Policy 3.19), and other personnel actions. The College had decided to update the Faculty Handbook first and will work on the Staff Handbook and related Board Policies when that is completed. The College's website indicates that other Board Policies are also in the process of being updated.

CRITERIA

Good accounting practices require updated and effectively designed and implemented policies and procedures to ensure internal controls are properly in place and monitored.

EFFECT

As new staff are hired, there is not a roadmap and proper training for them to understand the complexities of the College's financial activities and what they are responsible for. They may not understand what actions violate the internal controls that are in place.

CAUSE

There are limited resources and there was resistance by the former Director of Financial Services to fully update and implement new policies and procedures. The College had determined that the Faculty Handbook must be updated first.

RECOMMENDATION

We recommend the College obtain outside services to guide the current Administrative team and the Finance Department through the evaluations, risk assessments, changes to policies and procedures, etc. The College should also utilize a Policy Review Committee as a subsection of the Board with certain Board members and experts appointed to serve. It is common also to have Policy Review as a standing item on the Board of Trustee's meeting agenda.

MANAGEMENT RESPONSE

Corrective action(s):

The College completed an extensive revision of its organizational polices (Series 1000), Responsibility and Accountability of College Information and Transactions (Series 2000) and Purchasing Policy (Series 4300) within the past three years. These policies received legal review, public vetting and approval by the Board of Regents. The process to address changes in the faculty and staff handbooks has been complicated by the fact that the College also maintains three (3) collective bargaining agreements that were historically intermingled within the existing handbooks.

Regarding faculty and staff handbooks, the College is currently in the process of addressing changes to the Faculty Handbook which has been an extensive and time-consuming process (approximately 10 months) involving Administration, College Deans, faculty, faculty senate and union officials and has recently gone through legal review. The process to revise the Staff Handbook will follow the completion of the Faculty Handbook, due to limited staff resources, and will follow a similar process with an emphasis

2016-017 OUTDATED POLICIES AND PROCEDURES (CONTINUED)

on addressing outdated practices, conflicting language with other policies and collective bargaining agreements.

Timeline of corrective action:

The proposed Faculty Handbook changes have been completed and reviewed by the stakeholders identified and is scheduled for Board of Regent review on April 24, 2017, and formal adoption of the handbook is expected to be completed by the end of Fiscal Year 2016-2017. The process to begin revision of the Staff Handbook will begin immediately following the completion and adoption of the Faculty Handbook and is expected to be completed within Fiscal Year 2017-2018. The College will also continue to formally modify other operational and board policies on an as-needed basis.

Responsible person(s):

President and Vice President for Academic Affairs

2016-018 LACK OF MONITORING AND CORRECTIVE ACTIONS

TYPE OF FINDING: Material Weakness

CATEGORY: Lack of Policies, Procedures, and Internal Control Structure or Environment

CONDITION

Although the College did approve an Audit Committee Charter in the past and did contract for some Internal Audit work, the work was centered on operations and enrollment numbers, used to close programs. There was no indication that the Finance Committee or Administration was actively assessing various risks, tightening up internal controls over funds in response to complaints, following up on the thorough implementation of the independent auditors' recommended corrective actions, and monitoring the correction of the findings with staff accountability. Repeated findings year after year are red flags for administration and governance to analyze the causes and implement strong controls to take corrective action.

Because cash and internal control and compliance related findings in the College have been repeating for many years, the Administration may not be monitoring records and holding their staff accountable for corrective action on findings and implementation of strong internal controls.

The personnel file of the former Director of Financial Services had one performance review since her hire in 2010. Yet, there were several interviews and documentation corroborating the former Director of Financial Services' excessive time off work for appointments, working from home, failure to pay vendors timely, conflicts with roles and responsibilities within the Finance office, failure to submit accurate and timely reports to the auditors, avoidance of communications from staff regarding improvement suggestions, etc. We are not aware of any disciplinary actions taken.

The College has experienced high turnover in various positions. As each new staff was learning the College and their duties, the former Director of Financial Services had been a "go-to" person with the history and resources to help the new staff transition into their position. This built trust and a tendency to believe the answers she gave them. Additionally, high rates of turnover in other administrative positions highly contributed to the lack of consistent accountability.

CRITERIA

Internal Controls over Information and Communication The Board of Regents and Administration should obtain an understanding and describe the overall availability and timeliness of information (both internal and external) necessary for internal controls and the financial reporting system to function properly. This involves determining how the right information is made available to the right people at the right time. Also, describe how administration communicates financial reporting roles and responsibilities and significant financial reporting matters to employees, those charged with governance, and appropriate external parties (such as regulatory authorities) and how exceptions are brought to the attention of persons at the appropriate level to take corrective action. (Communication may be written, electronic, oral, or through the direct actions and involvement of administration.) Consider the following principles: The College obtains or generates and uses relevant, quality information to support the functioning of internal control over financial reporting and to compliance with major federal award program requirements. The College internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control over financial reporting and to compliance with major federal award program requirements. Lastly, the College communicates with external parties regarding matters affecting the functioning of internal control and to compliance with major federal award program requirements.

Internal Controls over Monitoring The College should obtain an understanding and describe how management monitors the operation of the entity's five components of internal control to make sure

2016-018 LACK OF MONITORING AND CORRECTIVE ACTIONS (CONTINUED)

(a) controls are operating as intended and (b) changes to controls are made when necessary. Also describe what reports or other information (such as budget variances, reconciliations, or monthly financial reports) administration uses for that purpose and why administration considers the information reliable. Consider controls relevant to the audit. Consider the following principles: The College selects, develops, and performs ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning. The College evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior administration and the governing body, as appropriate.

Internal Controls over Risk Assessment The College must identify and respond to risks that may affect accounting or financial reporting. Risk assessment involves administration identifying potential risks of misstatement in the financial statements or material noncompliance, estimating their significance, assessing the likelihood of their occurrence, and implementing control activities or taking other steps to address those risks. Document business risks that administration has identified and how they have addressed those risks and consider whether those risks may result in material misstatement of the financial statements or material noncompliance. Consider the following principles: The College specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to financial reporting objectives and compliance objectives relative to major programs. The College should identify risks to achieving its objectives including compliance objectives relative to major programs and analyze risks to determine how the risks should be managed. The College must consider the potential for fraud in assessing risks to the achievement of financial reporting objectives and compliance objectives relative to major programs. The College should also identify and assess changes that could significantly impact the system of internal control and its compliance with laws, regulations, and the provisions of contracts or grant agreements relative to federal award programs.

EFFECT

The College’s finances and operations do not have the proper independent monitoring and oversight. Corrective action on findings are not occurring as completely as they should. This leaves the College susceptible to fraud, waste, abuse, and errors.

CAUSE

The statutory powers of the Board of Regents and its Committees along with the responsibilities of Administration are not being utilized to their intended and fullest extent.

RECOMMENDATION

The Board of Regents, through its committees and any necessary policies, should monitor that corrective action is being taken and that all audit findings are resolved promptly. The committees should document their purposes, responsibilities, functions, and procedures to assess risks and monitor the correction of existing deficiencies in the accounting internal controls environment. The College President and the Vice President for Finance and Administration should provide a monthly report of progress to the Board.

We understand the Audit/Finance Committee has a Charter approved by the Board of Regents. We recommend that the Finance Committee remain active throughout the year to increase its effectiveness. Examples of remaining active are: attending finance and ethics trainings, performing random audits of Student Financial Aid funding, tuition payments, bookstore, book buybacks, athletic events, El Rito rentals, and concessions, requesting reports from Administration on specific areas with findings or risks, evaluating internal controls, etc. We recommend updating the Charter outlining committees’ purposes, responsibilities, functions, and planned actions.

2016-018 LACK OF MONITORING AND CORRECTIVE ACTIONS (CONTINUED)

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

The College's Administration should continue to monitor that corrective action is being taken and that all external and internal audit findings are resolved promptly. Setting an ethical and strong tone at the top, followed through with accountability for staff is critical, as this sets the tone for standard conduct.

We recommend analyzing the internal controls over the funds and implement an internal audit process to ensure the internal audits are testing everything they should and frequently enough to address various risks and set up stronger accountability for staff to remain in compliance with College and HED policies, procedures, and regulations. We recommend strong procedures and monitoring to ensure compliance with the Governmental Conduct Act.

The College should take a closer look at the reasons for the high rate of turnover in certain positions and the qualifications of new hires. Several employees did report that there is a strong pressure in the College to remain silent about problems (or did not feel heard) and did not feel they had the respect they deserved in their position. Whatever the reasons may be, we recommend the College identify the root causes and take actions to prevent such high turnover in the future.

Corrective action(s):

The College has included in the operating budget for FY18 (2017-2018) a contract for internal audit services to assist the Board of Regents, the Finance Committees, Administration, and other staff in an effort to further assess risk and to improve and strengthen internal controls. The College has also proposed corrective actions and timelines on numerous internal control findings within the scope of this audit. As a whole, the issue of internal controls will be the primary focus of the College over the upcoming fiscal year and the months remaining in FY17 (2016-2017).

Timeline of corrective action:

Efforts to address the issue of deficiencies in internal controls will begin immediately and continue throughout FY18 (2017-2018) until the College audit results substantiate the results in future audits.

Responsible person(s):

Vice President for Finance and Administration

2016-019 LACK OF ESTABLISHED PRACTICES FOR THE IDENTIFICATION, MITIGATION AND MONITORING OF RISKS

TYPE OF FINDING: Material Weakness

CATEGORY: Lack of Policies, Procedures, and Internal Control Structure or Environment

CONDITION

During our review of internal controls surrounding the College's risk assessment process, we noted that adequate mechanisms are not in place to identify risks applicable to the College and financial reporting objectives, including fraud and litigation risk and then mitigate and monitor them. The College's legal fees and settlements have increased significantly, along with the related insurance premiums; insurance expenses paid to the NM General Services Department were $331,337 in FY15, $353,418 in FY16, and $533,216 in FY17.

CRITERIA

Good internal control practices require that the Board and Administration have a process in place to identify risks potentially impacting the achievement of financial reporting objectives.

Pursuant to the AICPA *Audit and Accounting Guide for State and Local Governments*, AAG-SLV 13.08, "[m]anagement is responsible for the design and implementation of programs and controls to prevent and detect fraud; management's knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements; and management's knowledge of any allegations of fraud or suspected fraud affecting the entity."

EFFECT

Without a risk assessment approach to identify potential risks applicable to the College, the College is vulnerable to errors and/or fraud. Without a proactive risk assessment, errors or fraud could occur and go undetected.

CAUSE

The College's approach to risk has historically been to focus on urgent matters due to limited resources.

RECOMMENDATION

It is recommended that the Board of Regents establish a practice for the identification of risks affecting the College. Mechanisms that should be in place to identify risks applicable to the College and financial reporting objectives include a) changes in operating, economic, and regulatory environments; b) participation in new programs and activities. The College should consider routine events or activities that may affect the College's ability to meet its objectives as well as non-routine events. *We recommend developing forward looking mechanisms to provide early warning of potential risks relevant to all transaction cycles and preparation of financial statements.* Any risks related to the ability to initiate and process unauthorized transactions, skim cash, submit late reports, not pay vendors timely, not submit grant reimbursements timely, maintain a second set of books, etc. should be appropriately identified.

Fraud assessments should be part of the risk identification process. The assessment of fraud risk should consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud. The assessment of fraud risk should consider risk factors relevant to its activities and to the geographic and political region in which the College operates. Plans should be implemented to mitigate identified risks and then monitor them.

2016-019 LACK OF ESTABLISHED PRACTICES FOR THE IDENTIFICATION, MITIGATION AND MONITORING OF RISKS (CONTINUED)

MANAGEMENT RESPONSE

Corrective action(s):

The College has included in the operating budget for FY18 (2017-2018) a contract for internal audit services to assist the Board of Regents, the Finance Committees, Administration, and other staff in an effort to further assess risk and to improve and strengthen internal controls. The College has also proposed corrective actions and timelines on numerous internal control findings within the scope of this audit. As a whole, the issue of internal controls will be the primary focus of the College over the upcoming fiscal year and the months remaining in FY17 (2016-2017).

Timeline of corrective action:

Efforts to address the issue of deficiencies in internal controls will begin immediately and continue throughout FY18 (2017-2018) until the College audit results substantiate the results in future audits.

Responsible person(s):

Vice President for Finance and Administration

2016-020 BANK RECONCILIATIONS – STALE DATED CHECKS

TYPE OF FINDING: Significant Deficiency

CATEGORY: Cash and Investments

CONDITION

Total stale dated checks on bank reconciliation more than one year old are $56,857. This includes check #66455 written to Northern New Mexico College for $32,000 on April 11, 2013. It is possible that check #70094 written to Northern New Mexico College for $32,000 on January 30, 2014 and (cleared the bank shortly thereafter) is a replacement check for #66455.

Additionally, the College's bank reconciliations do not have the payee name or date of check on the reconciliation making it difficult for the preparer or reviewer to determine the age of the outstanding check and the payee.

CRITERIA

Section 7-8A-7d, NMSA 1978 requires the College to provide information about the payees and the related funds (by November 1 of each year and covering the twelve month period preceding July 1 of that year) to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year. Additionally, per Section 7-8A-7f, NMSA 1978, the College shall send a written notice to the apparent owner, not more than one hundred twenty days or less than sixty days before filing the report.

In the case of the $32,000 check to itself (or possibly to the Foundation), the College must perform additional research.

EFFECT

Carrying numerous bank reconciling items could result in a misstatement in the accounting records or related misappropriation of funds.

CAUSE

The College did not implement an internal control policy to account for stale dated outstanding checks and did not void or escheat these checks on a timely basis.

RECOMMENDATION

Management should put into place a better mechanism to account for and track stale dated checks.

Management should research all outstanding checks more than one year to determine if replacement checks were provided. All checks outstanding over one year should be moved off of the bank reconciliation to a liability for escheatment. The College should also send a written notice to the apparent owner, not more than one hundred twenty days or less than sixty days before filing the unclaimed property report. The College should provide information about the payees and the related funds (by November 1 of each year and covering the twelve month period preceding July 1 of that year) to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department for outstanding checks that were distributed but not cashed within one year.

2016-020 BANK RECONCILIATIONS – STALE DATED CHECKS (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action(s):

The College will modify established bank reconciliation procedures to include the periodic review and monitoring of outstanding checks to include researching all outstanding checks of more than one year to determine if checks should be reissued or escheated.

Timeline of corrective action:

Procedures will be modified by the end of FY17 (2016-2017).

Responsible person(s):

Vice President for Finance and Administration

2016-021 REVIEW AND CLEAN-UP OF CLEARING AND SUSPENSE AND ACCOUNTS

TYPE OF FINDING: Significant Deficiency

CATEGORY: Revenues and Receivables

CONDITION

We noted that there is not a clear assignment of accounting staff for the work to reconcile and clean-up suspense and clearing accounts. We reviewed several of these accounts and noted there is a substantial amount of transactional flow in most of these accounts (for example, the unapplied payments (which starts the year with a credit balance of approximately $150,000) has over 175,000 transactions that flow in and out of this account in fiscal year 2016. Therefore, it is imperative these accounts be reviewed and adjusted on a timely basis. All of these accounts, if reconciled timely (perhaps as often as daily) and adjusted accordingly, should have a zero or close to zero balance at June 30, 2016. Below are the clearing and suspense accounts at June 30, 2016:

Account	Name	June 30, 2016
11000-0000-21502	Refund Clearing	$ 1,929
11000-0000-21503	Financial Aid Clearing	19,913
11000-0000-21504	Third Party Clearing	1,034
11000-0000-21505	Unapplied Payments	(113,193)
11000-0000-21507	Receipts Clearing Account	(3,143)
11000-0000-21508	Unapplied Third Party	(2,550)
11000-0000-21600	Suspense Account	796
BANK-0000-21600	Suspense Account	(1,976)
		$ (97,190)

CRITERIA

Unreconciled accounts, even if immaterial, must be reconciled and monitored timely in order to ensure there are no errors or fraud and to close the books timely.

EFFECT

The College is at a higher risk or errors or fraud.

CAUSE

There are not specific assignments to staff for responsibility of these accounts.

RECOMMENDATION

We recommend clear assignment of accounting staff to work the clearing and suspense accounts. In some cases, these accounts may need to be reviewed, reconciled, and adjusted as often as daily. Some of these accounts may require close coordination between accounting staff and other departments. For example, the Finance Department and Student Financial Aid Office should work together to clean-up the Financial Aid Clearing Account.

2016-021 REVIEW AND CLEAN-UP OF CLEARING AND SUSPENSE AND ACCOUNTS (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action(s):

The College will modify its current bank reconciliation procedures to clearly define assignment of staff responsibilities for clearing and suspense accounts within the monthly bank reconciliation process. The Finance Department will also work with the Student Financial Aid Office to review and address any outstanding issues related to the Financial Aid Clearing Account.

Timeline of corrective action:

Procedures will be modified by the end of FY17 (2016-2017).

Responsible person(s):

Vice President for Finance and Administration

2016-022 PETTY CASH – SECURITY AND TRACKING

TYPE OF FINDING: Material Weakness

CATEGORY: Cash and Investments

CONDITION

The College writes checks to "petty cash" which are then cashed at the bank. Cash is then transported back to the College for certain uses as described below.

The College primarily uses petty cash to facilitate the book buy-back program held on campus one to three times a year. Petty cash is also used to replenish cash drawers as needed. Due to the elevated risks to cash noted as a result of the embezzlement **(Finding 2016-002),** JAG reviewed the College's use of petty cash for fiscal years 2014 to 2016.

Book buy-backs are the largest use of Petty Cash**.** The book buy-back vendor sends the College a check for an upcoming book buy-back. The College cashes the vendor check and obtains the related cash from the bank. The vendor uses this cash (under College supervision) to purchase used books from students. Unused cash from the book buy-back is redeposited in the College's bank account. The College then sends the vendor a check for the remaining difference. In certain cases, a majority of the petty cash was not used for certain book-buy backs and returned to the College's bank account.

Certain supporting detail could not be located for bookstore cash replenishment or other locations noted below.

Uses of petty cash for fiscal year 2014-2016 are noted below:

	Book-buy Back		Bookstore cash Replenishment		Other Locations		Small amounts Not examined	Total by year
Fiscal Year 2016	$ 33,000	*	$ -		$ -		$ 1,100	$ 34,100
Fiscal Year 2015	25,000	*	2,000	**	1,600	**	580	29,180
Fiscal Year 2014	15,000	*	5,400	***	-		200	20,600
	$ 73,000		$ 7,400		$ 1,600		$ 1,880	$ 83,880

* College has supporting documentation.

** College has cancelled check, no other detail to support receipt of cash. College has not been able to determine if amounts were returned to bank or are still on campus.

*** College has cancelled check and detail supporting receipt of cash. College has not been able to determine if amounts were returned to bank or are still on campus.

At June 30, 2016, petty cash in the general ledger was $3,180. There was no year-end count of petty cash, nor were there any surprise cash counts of cash drawers of safes taken during the year. Additionally, due to lack of complete documentation, JAG could not determine if petty cash amounts picked up at the bank, brought back to the College, and put in the safe at either the bookstore or the cashier's office were always under dual control or always accounted by the recipient of the petty cash.

CRITERIA

To ensure proper internal control, all cash counts of both cash drawers and cash safes should be done under dual control, there should be a written record and approval of all petty cash handling activities by an individual independent of the access to cash, and the cash drawers should be appropriately secured at all times.

2016-022 PETTY CASH – SECURITY AND TRACKING (CONTINUED)

EFFECT

There is higher potential for theft or misappropriation of cash.

CAUSE

While certain controls exist over petty cash, the established controls and processes are not implemented effectively to properly safeguard the assets.

RECOMMENDATION

First, the College should refine the process of transportation of petty cash. Petty cash should not be picked up or moved by anyone in the cash transaction cycle (those that handle cash or account for cash). There should also be a reconsideration of how much petty cash is to be picked up from the bank for the book buy-backs as in certain instances a large amount of petty cash had to be returned to the bank when the book-buy back was finished.

Second, the College should determine all locations of petty cash and immediately account for all the petty cash and ensure those amounts are properly recorded in the general ledger.

MANAGEMENT RESPONSE

Corrective Action(s):

The College has revised its process of transportation of daily deposits and cash to and from the bank. Effective March 2017, petty cash will now be picked, moved or handled in locked bank bags by the College's Security Department. Arrangements have already been made with Bank Management to provide bank tellers a key to deposit bags when handling the exchange of cash or receipts on behalf of the College, thus eliminating the need for any business office personnel handling or accounting for cash.

Timeline of corrective action:

Procedures were revised and completed in March 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-023 UNDERREPORTED PAYROLL TAX LIABILITIES

TYPE OF FINDING: Significant Deficiency

CATEGORY: Payroll and Related Liabilities

CONDITION

The Internal Revenue Service (IRS) examined the College's payroll activities for calendar year 2014 and completed this process in fiscal year 2016. We noted the following:

- Regents not taxed on $95 per day per diem. College paid $1,453 in taxes for the incorrect reporting.
- College paid $5,583 in meal allowances not included as employee compensation. The IRS examiner waived this deficiency but put the College on notice this needs to be reported correctly in the future.
- $600 paid to employee classified as an "independent contractor". IRS examiner waived as amount not significant.
- The College did not send Form 1099-Misc to ten vendors. College paid $2,000 in taxes for this incorrect reporting.
- The College did not pay employment taxes for Mentors. IRS examiner waived the incorrect reporting as the amount not significant.
- The College reported Social Security and Medicare incorrectly on their quarterly filings. The College paid $9,675 for this incorrect reporting.
- The College paid a $10,000 settlement for back pay. No taxes were withheld. The College is pending the IRS assessment for incorrect reporting as of the date of this letter.

CRITERIA

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements, including following IRS Regulations.

EFFECT

Noncompliance causes incorrect withholding and reporting and fines paid that would otherwise not be necessary.

CAUSE

The College did not comply with ensuring that all IRS regulations were met. This may be a result of limited resources and lack of training.

RECOMMENDATION

We recommend the College put controls in place to eliminate incorrect payroll reporting. Given the complexities of payroll reporting, we recommend the College consider additional training for those that work in the human resources and payroll area. Additionally, the College should review each of the above areas reported incorrect for both fiscal year 2015 and 2016 and self-report, then pay the appropriate assessments if there are any areas of incorrect reporting.

2016-023 UNDERREPORTED PAYROLL TAX LIABILITIES (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action(s):

The College has modified its payroll procedures in the current year to correct payroll reporting errors and in February 2017, the College also hired a Director of Human Resources with approximately 25 years of experience in the preparation of payroll and reporting.

Timeline of corrective action:

Task was completed in FY17 (2016-2017)

Responsible person(s):

Vice President for Finance and Administration

2016-024 UNUSED CREDIT CARD MACHINES AND RELATED MONTHLY FEE

TYPE OF FINDING: Significant Deficiency

CATEGORY: Expenditures and Expenses – Other

CONDITION

While reviewing the College's bank account used to process credit card transactions, JAG noted what the College appeared to be paying a monthly charge for each credit card machine no longer used.

We inquired of the accountant in charge of reconciling the accounts and she provided a detail of the credit card machines no longer in use. JAG obtained the rental amounts from the general ledger for each machine from the date of the apparent last activity:

		Credit Card Fees Incurred For Inactive Machines					
Merchant terminal ID	Last Activity	FY17 through Feb17	FY16	FY15	FY14	FY13	Total
El Rito Campus Cafeteria	August 2014	$ 435	$ 574	$ 553	N/A	N/A	$ 1,562
El Rito Campus Tuition Pymts	March 2014	435	605	396	123	N/A	1,559
College Bookstore #1	April 2013	440	907	623	570	81	2,620
La Tiendita	November 2013	386	957	678	543	N/A	2,563
Bookstore #3	May 2014	446	1,056	821	52	N/A	2,375
		$ 2,142	$ 4,099	$ 3,070	$ 1,287	$ 81	**$ 10,679**

JAG inquired as to the current location of the unused credit card machines. The accountant noted that El Rito Cafeteria still had a credit card machine. The accountant subsequently took possession of the El Rito Cafeteria credit card machine on March 23, 2017.

Per review of an April 2014 e-mail from the accountant, she provided the detail of the credit card terminals no longer used by the College to the former Director of Financial Services. Reportedly, the former Director of Financial Services asserted to the accountant that she was researching the terms of the contract with the credit card vendor to see if it was possible to break the contract.

CRITERIA

Although having extra access points to collect revenue is not prohibited, it appears as though the College may be wasting resources if the credit card machines are not deemed necessary.

EFFECT

There may be overcharges to the College or money spent unnecessarily that could be used for services provided to the students.

CAUSE

Due to changing conditions at the College, certain credit card machines were no longer needed. It is unknown what steps the former Director of Financial Services may have taken to review the credit card contract for termination date or early termination penalties and eliminate or reduce the charges for the unused credit card machines.

2016-024 UNUSED CREDIT CARD MACHINES AND RELATED MONTHLY FEE (CONTINUED)

RECOMMENDATION

We recommend the College closely scrutinize each bank statement for fees to ensure it is not be overcharged or charged for services no longer used. We also suggest the College consider requesting a refund for fees charged during the period of time that the credit card terminals were not in use. Lastly, we recommend that the appropriate custody of sensitive equipment such as credit card machines be observed.

MANAGEMENT RESPONSE

Corrective Action(s):

The College will review all bank statement related charges to identify cost savings and to discontinue services no longer required.

Timeline of corrective action:

Task will be completed by June 30, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-025 RECONCILIATION OF STUDENT ACCOUNTS RECEIVABLE

TYPE OF FINDING: Significant Deficiency

CATEGORY: Revenues and Receivables

CONDITION

The Student Accounts Receivable database feeds through an automated process to three general ledger accounts:

11000-0000-13121 Accts Receivable Students

11000-0000-13125 Accts Receivable Third Party

12005-0000-13140 Accts Receivable Bookstore

We obtained custom reports of for each general ledger line item and noted Accounts Receivable Student (Tuition and Fees) is understated by $953 and Accts Receivable Third Party is overstated by $90,022. There may be an offsetting amount in the "Unapplied Third Party" liability account for $2,550. It is also possible that there may be unapplied payments in the "Unapplied Payments" liability account.

CRITERIA

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements, including following properly recording and reconciling revenues and receivables.

EFFECT

There may be amounts not received or paid as should have been. The College is at higher risk for fraud and errors.

CAUSE

There were not staff assigned to this particular risk and reconciliation area.

RECOMMENDATION

We recommend the College research and determine the cause of these differences. We also recommend timely reconciliations of the related clearing accounts to ensure differences do not arise.

MANAGEMENT RESPONSE

Corrective Action(s):

The College will modify reconciliation procedures to define staff responsibilities for clearing and suspense accounts within the monthly bank reconciliation process. The Finance Department will also work with the Student Financial Aid Office to review and address any outstanding issues related to the Financial Aid Clearing Account.

Timeline of corrective action:

Procedures will be modified by the end of FY17 (2016-2017) to include the monthly reconciliation of clearing accounts.

Responsible person(s): Vice President for Finance and Administration

2016-026 ASSIGNED PERMISSIONS IN BANNER

TYPE OF FINDING: Material Weakness

CATEGORY: Information Technology

CONDITION

Certain College employee's profiles have or had too much access to various functions within their assigned functional areas. A review of those in the Finance Office shows that certain staff have functions assigned to them that they are unaware of, do not have the need for, or the experience to perform.

Additionally, we noted the audit tracking of the assigned date of permissions and date of change is not available as this audit tracking in Banner was never activated.

CRITERIA

Segregation of Duties. A strong system of internal controls requires separation between custody of assets, recording of transactions and authorization of transactions. If a small number of employees does not allow for proper separation of duties, supervisory review should be used to compensate for the lack of separation of duties.

Access. A strong system of internal control requires adequate controls over access to only the information required to complete the employee's job function and preventing employee's access or rights to areas they do not use or should not use.

EFFECT

The College is at a higher risk of errors and misappropriation of assets without proper segregation of duties.

CAUSE

This particular risk area was not addressed. Although there were some compensating controls in prior years (mainly review at higher levels), the controls were circumvented and not implemented thoroughly as designed.

RECOMMENDATION

We recommend this area be addressed as soon as possible. Each employee's permissions should be examined to ensure the employee has the need and the employee is adequately trained for the function being performed.

We also recommend the College turn on the audit tracking function that saves each change to every employee's permissions in the Banner System. It is our understanding the new version of Banner the College is upgrading to on April 21, 2017 has better functionally and uses less memory to track changes in employee's permissions.

MANAGEMENT RESPONSE

Corrective action(s):

The need to examine employee profiles in detail has been discussed for some time but staff resources have been limited in this area. The College will attempt to address this issue in the new fiscal year in order to evaluate staff needs by function to ensure that assigned employee access rights are relevant to their areas of responsibility.

2016-026 ASSIGNED PERMISSIONS IN BANNER (CONTINUED)

Timeline of corrective action:

The College will attempt to examine this issue within Fiscal Year 2017-2018.

Responsible person(s):

Vice President for Finance and Administration

2016-027 INFORMATION TECHNOLOGY (OTHER)

TYPE OF FINDING: Material Weakness

CATEGORY: Information Technology

CONDITION

Lack of a back-up generator. Power supply from Jemez Electric was interrupted several times at the beginning of the FY 2017 school year. Per discussion with the IT department, over the years there have been numerous power outages that have had a negative impact on the College's IT environment. As soon as there is a power outage, the IT department has a window of approximately 30 minutes to power down the servers through a controlled process. If a power outage occurs after hours, it can be difficult for a member of the IT staff to get to the campus quick enough and take the servers down before a hard crash occurs. A hard crash can damage sensitive IT equipment and can also result in a longer restart time after the power is restored.

- Per review of IT issues log,
  - power out on 8.23.2016 (IT systems down from 4:45 pm to 12:16 am)
  - power out on 8.30.2016 (IT systems down from 3:00 pm to 10:30 pm)

Use of College desktop/laptop. – There is currently no requirement to back up to Colleges servers, USB ports are not disabled, and working from home/remotely is allowed.

CRITERIA

Per COBIT, Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintain IT security and roles and responsibilities, policies, standards, and procedures. Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

EFFECT

The College's financial and other information may be at risk of theft, loss, or corruption.

CAUSE

This particular risk area had not yet been addressed by Administration due to limited resources.

RECOMMENDATION

The College should assess risks in IT and data and take swift action to safeguard assets and information.

MANAGEMENT RESPONSE

Corrective action(s):

The College has developed a Disaster Recovery Plan identifying this issue but lacks adequate funding to purchase and install required electrical backup equipment. The College requested unsuccessfully, in the 2017 legislative session, capital outlay funds to address this specific equipment need. The College is also preparing a request to the New Mexico Higher Education Department (NMHED) for this equipment with 2016 General Obligation Bonds.

Timeline of corrective action:

The College is expecting to complete a package for NMHED's Capital Outlay Committee consideration in the summer of 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-028 TRACKING OF BANNER FEEDS TO ENSURE FEEDS ARE NOT SUSPENDED / DELETED

TYPE OF FINDING: Significant Deficiency

CATEGORY: Information Technology

CONDITION

Nightly "feeds" of accounting data from the sub ledgers to the general ledger can become suspended if a prior job does not complete successfully or a power outage occurs. If a Banner feed has errors, it goes to suspense for manual correction and completion. Manual corrections allows for change of fund, organization, account, program, activity, and location, deletion of transactions, and/or modify transaction amount.

The nightly Banner feeds from the cashier's office were suspended / deleted in both November of 2015 and November of 2016. A November 16, 2015 feed was restored on November 22, 2015 and a November 9, 2016 feed was not restored until January 2017.

The November 9, 2016 feed was discovered by the Foundation as part of its process to reconcile its bank account to its books (cash received was recorded in the bank account but was not recorded in its books).

Review for and tracking of suspended feeds began in 2017. There is no systematic review for deleted /suspended feeds.

CRITERIA

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements, including following properly recording and reconciling revenues and receivables.

EFFECT

The College is at risk for errors and misappropriation without strong controls over this process. It is unknown if additional feeds were deleted.

CAUSE

This issues was only recently discovered and has not been fully researched and addressed. The former Director of Financial Services and the Banner System Administrator corrected these problems in the past.

RECOMMENDATION

We recommend Banner training not only for the IT Department but also for the Finance Department staff to understand where problems may occur with the general ledger.

MANAGEMENT RESPONSE

Corrective action(s):

The College will develop procedures and assign staff responsibility for the review and tracking of suspended and deleted feeds in order to minimize the risk that certain transactions could be subject to error in the current manual correction and re-submission approval process.

Timeline of corrective action:

The College will complete this task by December 31, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-029 COMPLIANCE VIOLATION - ANTI-DONATION CLAUSE OF THE NEW MEXICO CONSTITUTION

TYPE OF FINDING: Material Non-Compliance

CATEGORY: State Law Compliance - Anti-Donation Clause

CONDITION

We noted violations of the Anti-Donation Clause in the following three areas:

Disbursement. During our testing of cash disbursements, we discovered the College paid for a funeral flower bouquet, totaling approximately $150, for an employee of the College. These type of purchases are usually through staff collections or the College's Foundation.

Embezzlement. As noted in our testing, there are certain uncashed checks written to the College and currently in possession of the law enforcement. Once the College receives the uncashed checks back, the College will need to research what checks relate to goods or services provided by the College to students and other third parties and determine if the students or other third parties have provided replacement checks subsequently cashed by the College. If no replacement check is found, the College will need to record an accounts receivable and put forth efforts to collect the related amounts.

Student Receivables. We were informed that student accounts receivables outstanding at the time of the conversion to Banner (approximately 2006) were not transferred over with the necessary account detail into the Student Accounts Receivable database. As a result, efforts to collect these old receivables are not currently in process.

CRITERIA

New Mexico Constitution Article IX, Section 14 states, "neither the state, nor any county, school district, or municipality, except as otherwise provided in this constitution, shall directly or indirectly lend or pledge its credit, or make any donation to or in aid of any person, association or public or private corporation. A donation within the meaning of this provision is a "gift", an allocation or appropriation of something of value, without consideration." This section is commonly referred to as the Anti-Donation Clause.

EFFECT

Non-compliance with the State Constitution subjects College officials to penalties as required by state statutes.

CAUSE

The College staff may be unware of how specific circumstances violate the State Constitution's Anti-Donation Clause.

RECOMMENDATION

We recommend College staff, including all department heads, review its policies and procedures concerning cash disbursements, receivables, and the Anti-Donation Clause to ensure the College is not benefiting a particular individual or organization without an exchange transaction (i.e. receiving something in return). After such review, all necessary changes or adjustments should be approved, instituted, and included in the College's accounting policies.

2016-029 COMPLIANCE VIOLATION - ANTI-DONATION CLAUSE OF THE NEW MEXICO CONSTITUTION (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action(s):

A policy will be developed and training of the issue will be discussed with financial department staff and administrative personnel responsible for the payment of invoices on behalf of the College and its departments.

In addition, training on the topic of the Anti-Donation Clause will be included in convocation training for faculty and staff before the start of the 2017 fall semester.

Timeline of corrective action:

This will be done by December 31, 2017.

Responsible person(s):

Vice President for Finance and Administration

Section III – Federal Findings

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE

SEE SECTION II – FINANCIAL STATEMENT FINDINGS

CATEGORY: Grant Compliance and Internal Control

FEDERAL PROGRAMS:

Student Financial Assistance Cluster (CFDA # 84.007, 84.033, 84.063, 84.268, 84.038)

Higher Education Institutional Aid (CFDA 84.031)

FEDERAL AGENCY:

US Department of Education

APPLICABLE COMPLIANCE REQUIREMENT:

All

2016-030 RECONCILIATION OF STUDENT FINANCIAL AID DISBURSEMENTS

TYPE OF FINDING: Material Weakness

CATEGORY: Grant Compliance

FEDERAL PROGRAMS:

Student Financial Assistance Cluster (CFDA # 84.007, 84.033, 84.063, 84.268, 84.038)

FEDERAL AGENCY:

US Department of Education

APPLICABLE COMPLIANCE REQUIREMENT:

Special Tests and Provisions – Controls over Disbursements to or on behalf of Students

CONDITION

The College's Student Financial Aid Office maintains the detail of students that receive financial aid and scholarships. Each semester, financial aid awards and scholarships are credited to the respective student's accounts. The student's tuition, fees and books are charged to each student's account. Those students that do not receive enough financial aid and/or scholarships are added to the student accounts receivable list until the student pays of their balance. The excess of student financial aid and / or scholarships is "refunded" to the student through an ACH with their respective bank account.

The process to "refund" students is a detailed and complicated process (manual and automated) that involve both the Student Financial Aid Office and the Finance Office. Some of the processes the Finance Office performs in this transaction cycle include coordinating the draw-downs of financial aid (with the Student Financial Aid Office), accounting for financial aid and scholarships received, updating the ACH file for those students to be "refunded", and uploading the ACH file of refunds to students, and reconciling all grant money received, transfers of grant money between bank accounts and a reconciliation of the ACH activity in the bank account. There is no reconciliation of the ACH file sent to the Bank by the Finance Office (by student) back to the file of students receiving student financial aid and scholarships. The amount of the difference, if any, is unknown but be may be related to the financial aid clearing account which has a debit balance for almost $20,000 and grew from the prior year balance of almost $11,000.

CRITERIA

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements, including following properly recording and reconciling revenues and receivables.

EFFECT

Refunds may not be issued properly and there is higher risk of error or misappropriation of assets.

CAUSE

This step was performed in the past until there was employee turnover.

2016-030 RECONCILIATION OF STUDENT FINANCIAL AID DISBURSEMENTS (CONTINUED)

RECOMMENDATION

We recommend the Student Financial Aid Office reconcile the ACH file of student “refunds” (by student) back to the detail of students receiving student financial aid and scholarships to ensure all processes ran as designed. As the former Director of Financial Services (also see **Finding 2016-002**) oversaw **both** the upload of the ACH file containing the student “refunds” and the bank reconciliation process, we consider the former Director of Financial Service’s previous involvement to be an area of heightened risk and recommend the Student Financial Aid Office perform reconciliations of this process for each student receiving aid back to the point in time the former Director of Financial Services was hired.

MANAGEMENT RESPONSE

Corrective Action(s):

The College will develop a student refund reconciliation process to ensure that the Student Financial Aid Office ACH upload files containing the student “refunds” and distribution are reconciled with the Business Office refund distributions and the bank reconciliation process. The Finance Department will also work with the Student Financial Aid Office to review and address any outstanding issues related to the Financial Aid Clearing Account.

With respect to the recommendation that the College perform reconciliations of the student refund process for each student receiving aid back to the point the former Director of Financial Services was hired may be unrealistic. The College does not have the resources and must rely on the automated refund process and built in edits within the Banner processes to insure the refunds were calculated correctly. The refund process begins with the recalculation for the student's tuition and fees, application of payment, unapplication of payment, and re-application of payment prior to initiating the automated refund process to insure the refund amount is correct. Only calculated refund amounts that equal to the A/R account credit balance are posted in batch to the student's account. Discrepant refund amounts calculated are removed from TSARFND (auto refund form), researched, and the refund is manually calculated by the A/R staff person updating the correct refund amount to the student's account prior to generating the ACH file or submission of request for a check.

Timeline of corrective action:

Procedures will be modified by December 31, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-031 CONTROLS OVER RECORDING PAID TIME-OFF TO FEDERAL GRANTS

TYPE OF FINDING: Significant Deficiency

CATEGORY: Grant Compliance

FEDERAL PROGRAMS:

Higher Education Institutional Aid (CFDA 84.031)

FEDERAL AGENCY:

US Department of Education

APPLICABLE COMPLIANCE REQUIREMENT:

Period of Availability

CONDITION

We noted two employees in our payroll sample of forty whose employment was terminated during the payroll period selected for testwork. For those two employees, unused paid time-off was charged to the grant at the date of termination. There were no compliance deficiencies noted in the PTO allocated. However, the internal control structure over this compliance requirement is weak, due to the cumbersome and manual processes in place, which result in an increased risk that employee's PTO costs could be paid outside the period of availability.

Paid time-off is a fringe benefit that is earned as the employee works. The College does not charge the federal grant for an employee's unused paid time off while the employee works on the grant. When the employee leaves employment, the employee's paid time-off accrual is allocated to the grant. The process of allocating to the grant includes a look back to the number of hours the employee previously worked on the grant at their payroll accrual rate. This process is a very manual process which is not always well documented.

Because the Higher Education Assistance Grant award is for one year at a time, under the current internal control structure, the College is at risk for employees that leave after grant is ended (and thus outside the period of availability) without charging the grant the employee's paid time off benefit. Also, under the current internal control structure, the College is at risk for charging paid time-off to the current grant from previously earned paid time-off on a prior grant (and thus outside the period of availability).

CRITERIA

The Uniform Guidance requires that all expenditures be charged to the grants in the period in which they apply to.

EFFECT

Leave amounts may be charged to the incorrect grant years.

CAUSE

Management did not have a different process in place to charge leave as it is accrued.

RECOMMENDATION

We recommend the College re-examine the process of how PTO is allocated to grants and other projects. This re-examination should include consideration of an automated process to allocate time to grants based while the PTO benefit is earned.

2016-031 CONTROLS OVER RECORDING PAID TIME-OFF TO FEDERAL GRANTS (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action(s):

The College will re-examine the current manual process used to determine the accrual and calculation of Paid Time-Off (PTO) for grants and other projects and transition to an automated process.

Timeline of corrective action:

This will be done by December 31, 2017.

Responsible person(s):

Vice President for Finance and Administration

2016-032 LACK OF COMPLETE POLICIES AND PROCEDURES

TYPE OF FINDING: Material Weakness and Non-Compliance

CATEGORY: Grant Compliance

FEDERAL PROGRAMS:

Higher Education Institutional Aid (CFDA 84.031)

FEDERAL AGENCY:

US Department of Education

APPLICABLE COMPLIANCE REQUIREMENT:

All direct and direct and material compliance requirements

CONDITION

The College has not assessed and revised their current policies to ensure the five areas of internal control are covered as required under §200.303 of the Uniform Grant Guidance The Uniform guidance requires effective controls to manage federal awards, show compliance with federal statutes, regulations and terms and conditions of the award, and identify how the organization evaluates and monitors compliance.

- Control environment (approval processes)
- Risk assessment (processes to assess risk)
- Control activities (processes to check accuracy)
- Information and communication (training)
- Monitoring (review processes)

Direct and material areas to be assessed for the five control components noted above and included in the grant policies for the Higher Education Institutional Aid grant include cash management, allowable operating and payroll costs and activities and reporting.

CRITERIA

The Uniform Guidance requires (§200.303) effective controls to manage federal awards, show compliance with federal statutes, regulations and terms and conditions of the award, and identify how the organization evaluates and monitors compliance.

EFFECT

The College does not have strong controls to ensure compliance with federal grants and the new Uniform Guidance.

CAUSE

The College has limited resources and the former Director of Financial Services was filling in as the Grants Manager, reportedly without time to address these requirements.

RECOMMENDATION

We recommend grants management take additional training related to the Uniform Grant Guidance requirements. We also recommend the grants management team network with other colleges and universities in the State to obtain guidance over best practices used in the creation of policies and procedures for the types of grants the College has.

2016-032 LACK OF COMPLETE POLICIES AND PROCEDURES (CONTINUED)

MANAGEMENT RESPONSE

Corrective Action(s):

The College in the current fiscal year eliminated the Vice President for Advancement which was previously responsible for managing all grant activities. The College has restructured the department and shifted all grant program managers under the supervision of the Vice President for Academic Affairs and the Grant Manager under the Finance Department. The College will develop a professional development plan to address training related to the Uniform Grant Guidance requirements and to obtain best practices and policies from other colleges and universities in the State.

Timeline of corrective action:

This will be in FY18 (2017-2018).

Responsible person(s):

Vice President for Finance and Administration

NORTHERN NEW MEXICO COLLEGE
EXIT CONFERENCE
Year Ended June 30, 2016

The contents of this report were discussed in a closed meeting exit conference held on March 27, 2017 at the Jaramillo Accounting Group (JAG) office, with the following in attendance (* attended telephonically):

Representing Northern New Mexico College

Rosario "Chayo" Garcia	President, Board of Regents
Kevin Powers*	Secretary Treasurer, Board of Regents
Dr. Rick J. Bailey, Jr.	President
Domingo Sanchez III	Vice President for Finance and Administration
Jacob Pacheco	Director, Financial Aid
Alex Williams	Senior Financial Analyst
Evette E. Abeyta	Budget Analyst

Representing Northern New Mexico College Foundation

Alfred Herrera*	Foundation Treasurer
Dr. Rick J. Bailey Jr.	Foundation Board Member
Terry Mulert *	Foundation Executive Director

Representing the New Mexico Office of the State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA*	Deputy State Auditor
Sunalei Stewart, JD, CFE*	Chief of Staff
Kevin Sourisseau, CPA*	Special Investigations Division Director

Representing Jaramillo Accounting Group LLC (JAG)

Audrey J. Jaramillo, CPA, CFE	Managing Partner
Scott Eliason, CPA	Partner
Phillip Gonzales, CGFM	Audit Senior

These financial statements and Management's Discussion and Analysis were prepared by the College's staff. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are current and in balance. Management and Governance have reviewed and approved the financial statements.