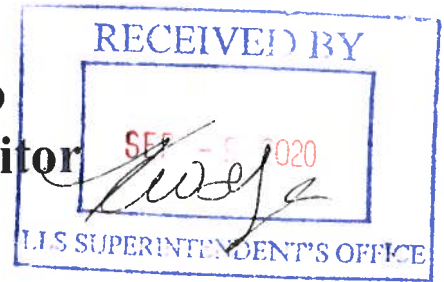




State of New Mexico
Office of the State Auditor

CONSTITUENT SERVICES
(505) 476-3821



September 9, 2020

SAO Ref. No. 7053

Walter G. Gibson, Acting Superintendent
Los Lunas Schools
wggibson@l1schools.net

Re: Authorization to Release Los Lunas Schools Special Audit Report

The Office of the State Auditor (OSA) received the special audit report for your agency. The OSA has completed the review of the special audit report required by NMSA 1978, Section 12-6-14(B) and 2.2.2.15(B) NMAC. This letter is your authorization to make the final payment to the Independent Public Accountant (IPA) who contracted with your agency to perform the special audit.

Pursuant to NMSA 1978, Section 12-6-5, the special audit report does not become a public record until five (5) days after the date of this release letter, unless your agency has already submitted a written waiver to the OSA. Once the five-day period has expired, or upon the OSA's receipt of a written waiver:

- the OSA will send the report to the Department of Finance and Administration, the Legislative Finance Committee and other relevant oversight agencies; and
- the OSA will post the report on its public website.

The IPA's comments are included in the special audit report. It is ultimately the responsibility of the governing authority of the agency to take any corrective action necessary.

Respectfully,

A blue ink signature of Brian S. Colón, Esq.

Brian S. Colón, Esq.
State Auditor

cc: REDW, LLC

Subject: RE: #7053 Los Lunas School Special Audit
Date: Wednesday, September 9, 2020 at 8:26:54 AM Mountain Daylight Time
From: Bernadet Martinez
To: Walter G. Gibson
Attachments: image001.jpg

Good Morning,
Report has been posted to OSA website.
Thank you,
Bernadet

From: Walter G. Gibson <wggibson@lsschools.net>
Sent: Wednesday, September 9, 2020 8:25 AM
To: Bernadet Martinez <Bernadet.Martinez@osa.state.nm.us>; estreet@redw.com
Subject: Re: #7053 Los Lunas School Special Audit

Ms. Martinez:

Thank you for the update. I look forward to receiving the report.

Walter Gibson

From: Bernadet Martinez <Bernadet.Martinez@osa.state.nm.us>
Date: Wednesday, September 9, 2020 at 6:54 AM
To: "Walter G. Gibson" <wggibson@lsschools.net>, "estreet@redw.com" <estreet@redw.com>
Subject: #7053 Los Lunas School Special Audit

Attached is release letter for #7053 Los Lunas School Special Audit for the FY20 report. The five day waiver is in effect, report will be released shortly.

Thank you,



Bernadet R. Martinez
Management Analyst
Records Custodian
NM Office of the State Auditor
2540 Camino Edward Ortiz, Suite A
Santa Fe, NM 87507
(505) 476-3838 (Office)
bernadet.martinez@osa.state.nm.us

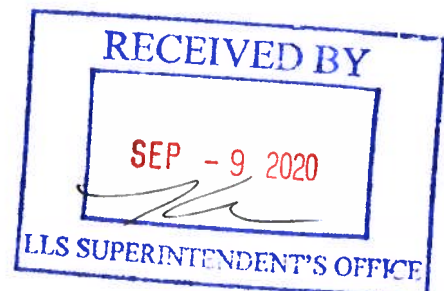


Audit Report Search

[Home](#) [Auditing](#) [Audit Report Search](#)

New Audit Report Search 2020

Welcome to our new Audit Report Search. Please [click here](#) if you are looking for a recent report release. If you are look for a **report released prior to May 1, 2020**, please scroll down and use the search below.



7053 - Los Lunas Schools, Los Lunas Schools Special Audit (2020)

Date received*: 2020-08-24

Date released: 2020-09-09

Audit ID: 7053

Report type: Special Audit

Special: Yes

Agency number: 7053

Agency name: Los Lunas Schools

Total number of findings: 0 **

Financial Statement Opinion:

[Special Audit](#)

Report file: [View/Download PDF Version](#) [411 KB]

*"Date received" does not necessarily indicate the date the report was accepted in accordance with the OSA report review process and whether a late audit finding is required in the audit report.

**Total number of findings may vary from the number listed in the audit report due to the same finding being reported under multiple sections.



Location



New Mexico Office of the State Auditor
2540 Camino Edwards Ortiz, Suite A Santa Fe, NM 87507

[View Map](#) 

Contact

Call: **505-476-3800**

Fax: 505-827-3512

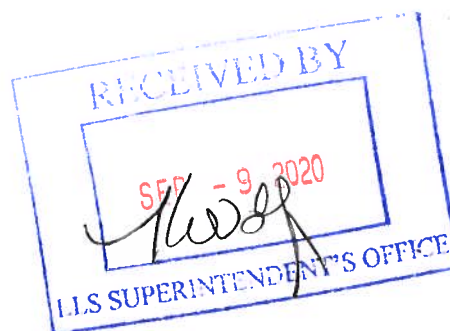
Click Here to Email:
Auditor Brian S. Colón

Work With OSA

[View Job Opportunities](#) 

July 17, 2020

The Los Lunas Schools Board of Education
Los Lunas Public School District
119 Luna Avenue
Los Lunas, New Mexico 87031



Re: ***Forensic Audit Services – Los Lunas Public School District***

Dear Board President Smith and Members of the Board:

We have conducted an investigation regarding issues raised by certain Los Lunas Schools (“LLS”) Board of Education members and LLS employees alleging potential improprieties and other concerns on the part of certain LLS departments and employees.

Executive Summary

Services

Our services were conducted in accordance with the Statement on Standards for Consulting Standards and the Statement on Standards for Forensic Services issued by the American Institute of Certified Public Accountants, and the terms of our engagement letter dated April 6, 2020.

The professional forensic audit services expected to be provided included the following:

- ◆ Conduct interviews with key personnel and Board Members to gain an understanding of the procurement process as well as the circumstances surrounding certain transactions in specific areas of concern. (Note: due to the current health crisis, many of these interviews conducted via telephone or video conferencing.)
- ◆ Inspection and review of relevant data, documents and accounting records.
- ◆ Potential physical inspection of school district equipment, inventory and property improvements related to the areas of concern.
- ◆ Issue a summary of observations based on our inspection, review, and analysis.

As part of our investigation, we have familiarized ourselves with the audited financial statements for the year ended June 30, 2019 (FY 2019) and note that Los Lunas Schools has received an unmodified opinion in the Independent Auditors’ Report for FY 2019 and that the audit was performed and the audited financial statements were delivered in a timely manner. The auditor’s comments regarding internal control matters were not extensive and no deficiencies in internal control were identified that were considered to be material weaknesses. Our investigation was limited to the procedures noted and we did not perform testing of the internal control over financial

reporting. LLS is a fairly large and complex organization with approximately \$250 million of assets and over \$100 million of annual expenditures.

We have interviewed many people, including certain LLS Board of Education Members and LLS employees. We have reviewed a significant amount of documents related to concerns raised, as well as other information to assist us in gaining an understanding of related policies, procedures, processes and the maintenance operations of the school district. We also conducted a site visit, which included the LLS warehouse facilities and sports fields at two LLS schools – Los Lunas High School and Katherine Gallegos Elementary. We have received excellent cooperation from the acting superintendent and the staff at LLS. They provided REDW with a significant amount of information on a timely basis.

Concerns Investigated Relate To:

1. Heating, Ventilating and Air Conditioning (HVAC) Units
 - a. Units removed from portables during Los Lunas High School renovations;
 - b. Units replaced at Katherine Gallegos Elementary;
 - c. HVAC units purchased by LLS potentially/allegedly sold “on the side” and installed by LLS employees.
2. R22 Refrigerant Purchases
3. Specific Items Purchased
4. Machinery and Equipment Believed to be Lost, Stolen, or Otherwise Missing
 - a. Truck bed
 - b. Welder generator
 - c. Gator utility vehicle
5. Scrap/Salvaged Material Sales
6. Los Lunas School’s Organic Fertilizer Vendor
 - a. Organic fertilizer and procurement through Cooperative Educational Services
 - b. Gratuities, gifts or other considerations
7. Vendor that Constructed Pole Barns
 - a. Pole barns at LLHS and VHS and related permitting issues
 - b. Continued cooperation with the New Mexico Regulation & Licensing Department – Construction Industries Division

We understand that there are other concerns that certain LLS Board Members and employees have. We have addressed those matters that we understand to have the most potential for financial significance. We are available to perform additional forensic analysis procedures if requested, and the Board and LLS may want to consider addressing additional concerns with in another manner such as with an internal audit process (see Recommendations).

Observations

As of the date of this report, REDW has not observed or found evidence of wrongdoing, misconduct, fraud, waste or abuse on the part of Los Lunas Schools or its employees. We believe there are opportunities for addressing certain concerns investigated including the following:

1. Proposed Process and Internal Control Improvements by Los Lunas Schools (see next section).
2. Consider periodic employee training and acknowledgement by employees of personnel policies and employee code of conduct to avoid misunderstandings and any appearance of impropriety related to maintenance department employees who engage in occasional projects outside of their employment with LLS (occasional projects referred to as “side jobs”).
3. Consideration of Recommendations regarding mechanisms and open communication channels for addressing questions and concerns going forward (see Recommendations section)

Proposed Process and Internal Control Improvements by Los Lunas Schools

We understand that the LLS Maintenance and Finance Departments, and LLS administration do not believe there are significant issues or internal control deficiencies related to the areas of concern that were addressed in our investigation. However, we also understand that LLS is evaluating certain improvements to processes and internal controls, which may address some of the concerns regarding areas that were included in our investigation. These potential improvements include the following:

1. Inventory control system for maintenance supplies, parts, and equipment.
2. Tool and special equipment inventory catalog and related processes to checkout tools and specialty equipment
3. Elimination of most open purchase orders
4. Greater utilization of State purchase agreements, cooperatives, or other purchasing avenues.

The Los Lunas Schools Board of Education
Los Lunas Public School District
July 17, 2020
Page 4

Recommendations

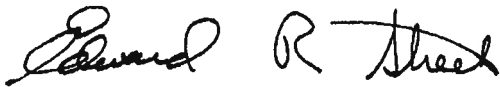
The LLS Board of Education and Boards of Directors in general have oversight responsibilities and should have mechanisms and open communication channels with management and staff to allow for questions and concerns to be raised and addressed in an appropriate manner.

Going forward, the Board of Education may want to consider the following –

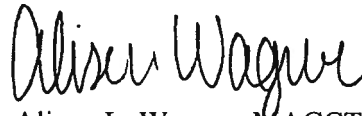
1. Implementing an internal audit function that would report to the Board with an expectation that an annual internal plan would be developed with input from the Board and/or appropriate Board committees that would include specific areas to be addressed;
2. An anonymous hotline so that concerns from employees and community members could be received and addressed. A process should be implemented to track, investigate when applicable, respond to and close complaints received;
3. Implementing a Non-Financial Conflict of Interest policy for both Los Lunas Board of Education Members and Los Lunas Schools employees.

We welcome the opportunity to discuss our analysis, observations, and findings with you and to perform additional forensic analysis regarding these and other matters as needed.

Sincerely,
REDW_{LLC}



Edward R. Street, CPA/ABV/CFF, CVA, ASA
Principal



Alison L. Wagner, MACCT, CFE
Analyst

Investigation of Concerns Raised to Date

Heating, Ventilating and Air Conditioning (HVAC) Units

Concerns were raised in regards to HVAC units sold or given to private homeowners by LLS employees performing “side jobs”. Specifically:

1. Units removed from portables during Los Lunas High School renovations;
2. Units replaced at Katherine Gallegos Elementary;
3. HVAC units purchased by LLS potentially/allegedly sold “on the side” and installed by LLS employees.

We were provided with certain vendor files which included copies of invoices, check stubs and purchase orders for an approximate time period of 2.5 most current years (fiscal year 2018, 2019 and through approximately February 2020). We reviewed these files in order to gain an understanding of the types of supplies, equipment and services that LLS purchased from these certain vendors.

Additionally, for fiscal years 2015 through 2019 and current fiscal year-to-date through June 5, 2020, we requested and reviewed:

- Vendor totals by amount for vendors with purchases over \$10,000/year;
- Vendor invoice histories for all vendors providing HVAC related supplies, equipment and services;
- A current listing of all HVAC related equipment (exhaust fans, evaporative coolers, refrigeration combo units, rooftop units, etc.); and,
- Work order history for the maintenance department.

Los Lunas High School HVAC Units

Specific concerns were raised related to HVAC units pulled from portable buildings during a demolition and renovation of Los Lunas High School and these units being stolen and resold to private homeowners by LLS employees performing side jobs to supplement their income and/or units sitting idle exposed to the elements. These particular units were installed in 2007 and removed in 2012 when a decision was made to demolish all portable buildings at this particular school site. In total, seven HVAC units were removed. Six of these HVAC units remain on the district-wide equipment listing, which indicates the condition, the specific location of where the unit was located while in use, model number, serial number, and asset tag number. The seventh unit is unaccounted for on the equipment listing, as it does not have a data plate.

We physically inspected these seven units on the LLS warehouse property and took photos of the six data plates. We were able to match up the serial numbers for the units to serial numbers on the equipment listing. We inquired as to why the units have been sitting idle, exposed to the elements, since they were removed from service in 2012 during the LLHS renovation. It was explained to us that because these units are still tied to work orders, the units cannot be auctioned off or disposed of. Additionally, it was the consensus that these units are still in good working condition and it is anticipated that the units will be placed back into service at a temporary school site when one of the elementary schools undergoes renovations sometime in the near future.

Katherine Gallegos Furnaces and HVAC Units

Additional concerns were raised regarding two furnaces and HVAC units that were purchased from a wholesale distributor of refrigeration, air conditioning, and heating parts, supplies and equipment (HVAC distributor) on August 9, 2018, and subsequently installed by a local HVAC contractor. The HVAC contractor's invoice dated August 10, 2018 indicates that the HVAC contractor removed and disposed of the existing furnaces and existing AC units, and installed two furnaces and two HVAC units. The model and serial numbers on the HVAC distributor invoices reflecting the purchases of the two furnaces and HVAC units dated August 9, 2018 match the data plates for the furnaces and HVAC units that were subsequently installed. The two furnaces and two HVAC units are present and accounted for on school property.

Side Jobs and Other Concerns Regarding HVAC Units

Additional concerns were raised whether LLS employees obtained HVAC units purchased by LLS, then subsequently resold the units to private homeowners. We were able to obtain the data plate from one unit that was installed several years ago at a private residence by LLS employees. With the assistance of a Board member, the serial number was researched. This unit was manufactured in 2014 and was eventually sold by a local HVAC distributor in Albuquerque for cash (different HVAC distributor than HVAC distributor noted in previous paragraph). This vendor does not have an account for the Los Lunas School District, nor has it ever been an approved vendor. The school district also does not use cash as a form of payment.

Additionally, the brand of this particular unit is York, whereas the school district only uses Trane or American Standard brands of HVAC equipment. It also became known through the course of our interviews that LLS employees who have performed installations of HVAC equipment at residential properties typically use Comfort Air or Evcon; however, we have not reviewed paperwork (invoices, warranties, rebates, etc.) in possession of private homeowners regarding the purchase and installation of HVAC units at their private residences.

We were not able to obtain data plates for any other HVAC units that are alleged to potentially have been purchased by LLS and installed at private residences by LLS employees. We noted that

furnaces and HVAC units are not purchased through open purchase orders; rather the purchase orders are for specific equipment and supplies tied to a work order.

Based upon our review of invoices and work orders and inspection of the LLS warehouse and warehouse yard, we have not witnessed evidence of excessive purchases or surplus HVAC units or furnaces being purchased and/or idle in storage.

In regards to claims of employee time theft in connection with the purchasing of supplies and installation of equipment at private residences by LLS employees, concerns were raised that employees may have been performing these side jobs during their normal working hours. All maintenance employees that we had an opportunity to interview stated that the instances in which they perform side jobs typically occur after hours or on the weekends, with rare instances needing to occur during normal working hours. In instances where LLS employees performed side jobs during normal working hours, all employees have stated that they take personal, vacation, or comp time to account for their leave of absence.

LLS employees are not required to submit a reason for their leave requests apart from indicating the pool of leave from which they are drawing (personal, vacation, sick, comp, etc.). LLS employees interviewed who perform side jobs all stated that they perform roughly 2-4 side jobs annually to supplement their income. We have reviewed a summary of leave requests obtained from the LLS Human Resources Department for the past 2 years for all Maintenance Department employees and have noted ample leave requests for those employees specifically identified as performing HVAC related side jobs.

However, *Los Lunas Schools Policy – Section V Personnel – 5.28 Non-School Employment* states:

“In accordance with NMSA 1978 Section 10-16-4.2 of the Governmental Conduct Act, all School District employees shall disclose annually in writing to the Personnel Department all employment engaged in by the employee other than employment with or service to the School District.”

To date, we have not reviewed, nor have we been made aware, of the existence of any such written disclosures provided to the Personnel Department by LLS employees, and specifically disclosures made by Maintenance Department staff.

Additionally, concerns were raised that LLS employees may be using school district vehicles, supplies, equipment, or funds in order to perform side jobs. LLS employees interviewed all state that it is against school policy to utilize school district resources for work occurring off premises. All employees interviewed stated that they utilize their personal vehicles and tools for such work and source their supplies independently.

Los Lunas Schools Policy – Section V Personnel – 5.6 Employee Code of Ethics and Conduct – 5.6.2 Code of Conduct for All Personnel states that, in general, all school employees shall:

“... use educational facilities and property only for purposes related to the legitimate school-related business for which they are intended, consistent with applicable policy, law and regulation, and avoid use of public school facilities or property to conduct personal business or personal affairs or to generate personal gain.”

We recommend in regards to *Los Lunas Schools Policy – Section V Personnel – 5.28 Non-School Employment* and *5.6 Employee Code of Ethics and Conduct – 5.6.2 Code of Ethics and Conduct for All Personnel* that the LLS Board of Education and LLS administration staff follow up to ensure full compliance with these policies, which may entail document review and employee education.

R22 Refrigerant Purchases

Concerns were raised over purchases of a particular type of refrigerant used in HVAC and split system units, specifically R22 Freon. R22 is becoming increasingly more expensive as this type of refrigerant is no longer manufactured, as it has been found to have severe negative environmental impacts, such as destruction to the ozone layer. As of January 1, 2020, production and import of R22 refrigerant is illegal in the United States. For these reasons, supply is decreasing and demand is increasing, causing the price of a 25-lb. canister of R22 to cost in excess of \$500, as noted on several vendor invoices.

During the course of our interviews, it was estimated that LLS has approximately 3,000 air conditioning units, which includes both evaporative coolers and HVAC units. Staff of the Maintenance Department have estimated that approximately 70% of these units use R22 refrigerant versus other types of refrigerant or no refrigerant at all.

LLS does not track or keep a current inventory listing of refrigerant. Refrigerant is purchased from multiple vendors and availability of R22 dictates where the purchases will be made. In the rare event that a unit develops a leak, for comfort and safety of the LLS students and teachers, we understand that the unit will be “triaged” – the unit will be recharged so that it may provide the proper ventilation and temperature control, then repaired the following day or days, which sometimes requires another recharge.

It is unclear as to how much R22 refrigerant usage is appropriate for an organization of this size in terms of facilities and number and size of HVAC units. Breaks and leaks are impossible to predict. We requested building plans for properties district-wide, and photos of HVAC data plates for properties in which building plans do not exist. As a sample of LLS HVAC units, we received 193 unique photos of HVAC unit data plates (serial numbers included for most) and noted the following:

- 176 of 193 units require R22 refrigerant
- 1 of 193 require a different type of refrigerant
- 16 of 193 plates were illegible due to sun damage

Building plans list the model number for each rooftop unit, as well as split systems (split systems refers to a unit that has an indoor section and a matching outdoor section connected by refrigerant tubing). In order to verify the refrigerant type required for each model number, we would need to look up the individual model numbers for each unit, which would require a significant amount of time. Otherwise, we would need to obtain photos of each data plate district-wide. The 193 photos we were able to obtain took approximately 2 days to obtain from four maintenance workers. To gather and obtain the remaining photos would also take a significant amount of time, regardless of whether that task were performed by REDW or LLS employees.

Additionally, in regards to the purchase and handling of refrigerant, we were provided with certification cards for 5 members of the LLS maintenance staff as required by the EPA 40 CFR Part 82, Subpart F. EPA regulations under Section 608 of the Clean Air Act require that technicians who maintain, service, repair, or dispose of equipment that could release ozone depleting refrigerants into the atmosphere must be certified.

Specific Items Purchased

1. Kitchen Items
2. Tools and Other Miscellaneous Items

Allegations of waste, abuse and excessive spending on the part of certain LLS Maintenance Department staff were brought to our attention. It is alleged that approximately \$2,400 of purchases over the past 2.5 most current years (fiscal year 2018, 2019 and through approximately February 2020) appear to be questionable. The purchases in question include backpacks, utility knives, various kitchen and custodial supplies and equipment, multi-tools, sunscreen, tower and pedestal fans, Wi-Fi enabled thermostats, and window AC units.

Specific items listed above that were identified by the LLS Board Member(s) interviewed were extracted from vendor websites using product descriptions and ID numbers. During our site visit to the LLS warehouse, we witnessed some of these items on-site. In a subsequent video interview with the Director of Maintenance and Construction, we reviewed the list of items flagged as questionable, to (1) verify their existence and location on LLS property to the extent practicable and (2) to understand a specific item's purpose.

- Backpacks are used by maintenance staff. These employees are on call 24/7, they are required to carry medical emergency kits (for themselves or LLS students), and many maintenance staff carry basic/essential tools, multi-tools, and food items in their backpack in the case they are called upon after-hours for a maintenance emergency. The two

particular backpacks we inquired about were produced and we were provided a brief description of the contents. We find these purchases to be reasonable.

- Utility knives and multi-tools are often carried by maintenance staff either on their person or in their backpacks. The specific utility knives and multi-tools we inquired about were produced and we were given a brief description as to when and how often the knives and tools are used. We find these purchases to be reasonable.
- Various kitchen and custodial supplies in question purchased by the Maintenance Department include disposable gloves, spatulas, food prep knives, food processors, stockpots and microwaves. During our site-visit to the LLS warehouse and warehouse yard and subsequent interviews, we learned that the LLS maintenance staff often provides catering services for school, charity, booster and other community events. We inspected two barbeque trailers and a storage room that contains various food prep and buffet line type items exclusive for the maintenance staff's usage during their catering events. We were provided with a listing containing 33 events over the past 2 years for which the maintenance staff had provided catering for faculty, student organizations and booster clubs, local community events for the fire department and the Hispano Chamber of Valencia County, and others. Additionally, some of the items in question are located in maintenance/custodial staff break rooms. We find these purchases to be reasonable.
- Tower/pedestal fans and window AC units are other items considered to be questionable purchases by the LLS Board Member(s) interviewed. We inquired about these items and were shown or informed where these items are located. Many of the maintenance and custodial offices are located in the warehousing areas, which are metal buildings with little to no ventilation located in certain areas. We find these purchases to be reasonable.
- Wi-Fi enabled thermostats are other purchases that have been questioned, as other (simpler) alternatives are available. However, we learned that the school district has been able to automate certain of the heating, ventilation and air conditioning systems district-wide. Maintenance staff are able to remotely control these systems by means of Wi-Fi enabled thermostats via laptop computers. This has reduced the number of occurrences that maintenance staff are required to visit a site after-hours or on weekends for a temperature adjustment or to turn a ventilation system on or off, in addition to contributing to reduced energy consumption. We find these purchases to be reasonable.
- Other purchases for items such as safety glasses, disposable gloves, and sunscreen have been questioned. These purchases are necessary for the safety of the maintenance and custodial staff. We find these purchases to be reasonable.

As part of our site visit to the LLS warehouse and warehouse yard, we observed the inventory kept on hand in the main warehouse area as well as a portable building used to store HVAC related supplies. The main warehouse area mainly houses custodial supplies. The portable building houses supplies that the Maintenance Department uses or replaces regularly and in high volume, such as

motors, belts and air filters. Both areas are clean and well organized and it was not our impression that either of these areas house an excessive stockpile of items. Given the amount of equipment and range of duties that the maintenance staff performs, it is understandable that a certain number of items are to be kept in inventory for maintenance emergencies or other needs.

Machinery and Equipment Believed to be Lost, Stolen, or Otherwise Missing

Concerns were raised by the LLS Board Member(s) interviewed and certain LLS employees regarding certain equipment items believed to be lost, stolen, or otherwise missing. We requested asset listings as well as listings for retired assets for the five most recent completed fiscal years and current fiscal year-to-date (fiscal years 2015 through 2019 and current fiscal year-to-date through June 5, 2020). In addition, we requested any police reports or insurance claims filed for the same time period in relation to lost, stolen, damaged, or otherwise missing equipment items. Items believed to be lost, stolen, or otherwise missing are as follows:

1. Truck Bed
2. Welder Generator
3. Gator Utility Vehicle

Truck Bed

Concerns were raised regarding a new maintenance truck acquired approximately 2 years ago. The truck was understood to have been taken to a trailer service center to remove the original truck bed and have a flatbed installed, and the question raised was as to what happened to the original truck bed. We requested information from LLS administrators and the Maintenance Department. We received copies of the Purchase Requisition for the 2019 Ford F350 in question, price agreements, quotes and the original vehicle sticker.

The Purchase Requisition notes. "2019 Ford F3B One-Ton Truck w/Bed and Bluetooth/Hands Free". However, the Purchase Agreement reflects a \$400 credit for "Item D Bed" and the original vehicle sticker reflects a credit of \$625 for "Pickup Box Delete". Based on documents reviewed, this particular truck was purchased without a truck bed.

Welder Generator

Allegations exist that a truck-mounted welding generator went missing several years ago. The welder was mounted to a 1999 Chevy one-ton utility truck (Unit 7) which was assigned to an individual who retired sometime in 2014. Upon his retirement, the truck was also retired, as it was no longer operable or near the end of its service life, and was subsequently auctioned off. It is alleged that the welder generator was moved from this vehicle to another maintenance worker's vehicle, then not seen again.

We requested information from LLS administration as well as the Maintenance Department in regards to this particular vehicle and the welder generator mounted to it. We received auction information for Unit 7, photos of the welder generator on Unit 7, fixed asset maintenance sheets for the welder generator attached to Unit 7, asset retirement list dated January 19, 2015, and email correspondence regarding plans for this particular welder generator.

The welder generator was purchased in January 2004 and the decision to retire the welder generator was made in September 2015 and is reflected on the retirement listing dated January 19, 2016. While this piece of equipment was retired, it is still housed on LLS property in a Conex storage container located at the maintenance yard. We were provided with photos of the welder generator in the storage container as well as a photo of the data plate. Information on the data plate matches information as reflected on the fixed asset maintenance sheets and retirement listing. Metadata related to these photos are consistent with the date on which we received the photos, meaning that the photos were taken the same day we received them.

Gator Utility Vehicle

Regarding a new Gator ATV utility vehicle, allegations have been made that this vehicle is no longer at LLS and may have been stolen. We requested from LLS administration any information related to this particular Gator. We received a police report that was taken on February 19, 2017, an insurance claim filed for the loss, and the original purchase order and invoice for the 2015 John Deere PR XUV160 Gator.

The police report states that the Director of Maintenance and Construction was notified by the LLS site security team that a number of vehicles had been broken into. The responding officer noted damage to four LLS vehicles, the chain link fence had been cut near the northwest corner of the property, and also noted tire tracks supposedly from the Gator ATV leading towards and exiting the portion of chain link fence that had been cut. Subsequent to the police report, an insurance claim was filed with the New Mexico Public Schools Insurance Authority. LLS received reimbursement for the stolen Gator on April 20, 2020 for the full cash value (less deductible).

We have not received any other information related to the stolen Gator ATV utility vehicle, its whereabouts, or any suspects in the occurrence of vandalism and theft reported on February 19, 2017.

Scrap/Salvaged Material Sales

We inquired about amounts received for sale of scrap/salvaged materials and related deposit information. In response to our information requests, we have received a listing of all deposits related to scrap/salvaged materials for FY 2016 through June 5, 2020, which in total for this time period approximates \$23,000. We interviewed two LLS employees who are involved with the sale of salvaged materials and we understand that in all instances except for two, checks were written

to LLS (“Maintenance Renaissance”) and were taken immediately to the business or central office for deposit. The two instances in which a check was not issued, we understand that check printers at the salvage yard(s) were down and cash was paid instead. Both employees involved informed us that the cash received was taken immediately to the central office for deposit.

Los Lunas School’s Organic Fertilizer Vendor

In response to our information requests regarding LLS’s organic fertilizer vendor, we have been provided with vendor invoice history listings for this vendor and Cooperative Educational Services (“CES”) Vendor Code 6133. It is our understanding that CES Vendor Code 6133 represents a category of bids related to nurseries and this is the vendor code for vendors such as organic fertilizer vendors. Vendor Code 6133 as presented on a summary of vendor totals provided by LLS represents purchases only from their organic fertilizer vendor.

We understand LLS began using the organic fertilizer vendor’s products and services through a sole source contract around the 2000-2001 school year. It is our understanding that at this time, this vendor’s products were unique and no other similar products existed. Sometime around the 2004-2005 time period, this organic fertilizer vendor went through the bidding process for CES and was approved as a vendor, and LLS began using CES to purchase this vendor’s services and products at that time. We have noted that amounts paid per fiscal year to this specific vendor and CES combined from fiscal year 2016 through June 5, 2020 range from approximately \$63,000 up to approximately \$183,000. Although these amounts are significant, based on our discussions with LLS employees and their research, we understand LLS believes there are many cost-saving and other benefits associated with using this organic fertilizer vendor’s products and services including :

- Significant reduction in water consumption;
- Site assessment which include irrigation evaluations, general turf/soil conditions, tree/shrub assessments and treatment protocols;
- Vendor performs all services related to the fertilization and testing of turf, trees and shrubs district wide, alleviating the need for extra grounds keeping staff and associated salary and benefits expenses (a rough cost-benefit analysis was provided to us);
- Periodic educational demonstrations, monitoring and maintenance of sports fields and landscaping (2-3 times per year);
- Fertilizer and treatment protocols are custom built for each site, as each site has different needs;
- Organic products are considered safer for the health of students, staff and community members.

We understand that LLS has approximately 47 acres of turf fields and that in addition to providing fertilizer and services related to the turf fields, the organic fertilizer vendor’s products are also used for some of the district’s trees and shrubs.

We have physically observed sports fields at Los Lunas High School and Katherine Gallegos Elementary, as well as the Enchantment Little League sports facility for comparison, which is maintained by the Village of Los Lunas. We noted the turf at the two school sites to be in excellent condition, with minimal weeds and dry spots, especially in comparison to the Village maintained turf. We were also provided with aerial photos of the Los Lunas High School site – one taken in July 1999 (prior to utilizing the organic fertilizer vendor's products) and one taken in August 2002 (after several months of using this vendor's products). The improvement in the conditions of the turf located at the high school site appears to be noticeable.

Also in response to our requests, we were provided with supplies maintained at LLS, which were purchased from LLS's organic fertilizer vendor, either independently or through the CES portal. We received photos of the organic fertilizer vendor's supplies maintained at LLS, which included 96 gallons of biological activator for waste treatment, which we understand is used in bathrooms, food service areas, and elsewhere in sewer drains and sinks, and approximately 140 50 lb. bags of organic fertilizer, kept on-hand for spot treatment on fields.

Concerns were raised as to potential inappropriate relationships or dealings that may exist between the organic fertilizer vendor's Managing Director and certain LLS employees. Concerns were shared with us that LLS employees may have received benefits in the form of elk hunting licenses, permits or vouchers, or gifts of alcohol in exchange for continued purchases of this vendor's products and services, which would be in violation of *Los Lunas Schools Policy – Section V Personnel – 5.6 Employee Code of Ethics and Conduct – 5.6.2 Code of Conduct for All Personnel*:

“...refrain from accepting any gratuity, gift, meal, discount, entertainment, hospitality, loan, forbearance, favor, off-contract time employment or other item, offered on the basis of the employee's employment with the District, and exceeding in fair market value one-hundred-dollars (\$100), excluding approved educational or employment-related awards, honoraria, plaques, trophies, and prizes.”

LLS employees that were interviewed have denied receiving any such benefits. We understand that around Christmas time each year, the vendor's Managing Director will drop off tamales and candy for the enjoyment of the entire maintenance staff, but that no other gifts or considerations are given. We do not perceive this to be unusual or inappropriate.

One employee interviewed informed us that he has received a voucher for the State's EPLUS program from a family friend who resides in Texas and owns private land in the East Mountains. He converted this voucher into a hunting license for this particular property. He has informed us that this private landowner is in no way affiliated with the school district.

Additionally, we filed an IPRA request (Inspection of Public Records Act that provides the public and media access to public information) with the State in regards to hunting related authorizations or vouchers awarded to the vendor's Managing Director, if any exist. The response(s) to this request should indicate whether any of the authorizations or vouchers were converted into hunting

licenses and by whom. We received a timely response to our request for public information. The response to our request informed us that the Managing Director of LLS's organic fertilizer vendor company is not a private landowner enrolled in the EPLUS program. He has never received any authorizations or vouchers for the EPLUS programs, nor has he ever applied for a hunting draw or received an authorization, voucher, or hunting license otherwise.

Vendor that Constructed Pole Barns

Concerns were raised in regards to certain structures constructed by an LLS vendor, specifically two pole barns located at Los Lunas High School and Valencia High School. The Los Lunas High School pole barn was built in January 2016 to house and protect maintenance grounds equipment and tractors. Security gates were added to the pole barn in October 2018 in response to occurrences of theft. The Valencia High School pole barn was built in May 2017 and security gates were also added in October 2018.

We had previously been provided with the vendor file, which contains copies of invoices, check payment stubs and corresponding purchase orders for approximately 2.5 most current years (fiscal year 2018, 2019 and through approximately February 2020). As part of our request to LLS, we were subsequently provided with the original Invitation To Bid ("ITB") for heavy equipment and industrial services (No. 2018-002-HR, dated October 12, 2017). We received a copy of the vendor's bid, as well as the bids of two other vendors, for this particular ITB. The bid indicates that the vendor has the appropriate insurance coverages; however, this bid does not provide any information in terms of business licenses or certificates, tax ID numbers, other types of certificates, licenses or qualifications (other than letters of recommendation), or required permits necessary to perform the requested work.

It is our understanding that this vendor provided the labor for many projects at LLS, for which the materials for these projects were purchased separately by LLS from another vendor. We conducted searches on the New Mexico Secretary of State website and the New Mexico Regulations & Licensing Department – Construction Industries Division website for any business licenses or permits for the vendor who built the pole barns and its owner. Our searches did not produce any results. It is also alleged that this vendor's owner would occasionally sign off on invoices for the purchase of pipe and steel on behalf of the school district. We obtained this vendor's owner's signature from the Invitation To Bid response and have not observed the same signature on supporting documentation provided to us by LLS staff and Board members.

It is our understanding that if work were performed without the appropriate and necessary permits, an inspection by the New Mexico Regulation & Licensing Department – Construction Industries Division would not be triggered; and would likely not happen in the absence of a permit. We have reviewed a structural inspection report prepared by a structural engineering company dated March 5, 2020 in regards to a metal equipment storage structure located at Los Lunas High School. There were concerns raised by the LLS Board member(s) interviewed regarding the structural integrity

of this structure, and an identical structure constructed at Valencia High School. The engineering report acknowledges that building permits were not obtained for either of the storage structures located at Los Lunas High School and Valencia High School; however, it is the structural engineering company's opinion that the structure observed at Los Lunas High School, as constructed, appears to be structurally sound. We understand that LLS will be obtaining a second opinion from a different structural engineer as to the structural integrity of these structures in the near future.

It is our understanding that Maintenance Department supervisors are actively working with the New Mexico Regulation & Licensing Department – Construction Industries Division to address permitting and inspection issues related to these two structures at Los Lunas High School and Valencia High School. When these structures were built, it was assumed that they were covered under the agriculture/farm and ranch designation and fell under the umbrella of LLS's annual permit. We have been informed by LLS staff that these are the only two structures built at LLS without permits.

Additional Comments

Through the course of our interviews and interactions with LLS administration staff and Maintenance Department staff, it became apparent that leadership is open to process improvements and tightening of internal controls, where necessary and appropriate. In relation to Maintenance Department purchases and procurement, the LLS administration and Maintenance Department are working to:

- Establish and manage an inventory control system through Inventory Direct and SchoolDude. Currently, the Maintenance Department and Warehouse staff are working to inventory all items held in storage in the warehousing areas, including the portable buildings which currently house electrical, mechanical, and other maintenance equipment and supplies.
- Establish a list of consumables, supplies, parts, etc. that are purchased frequently and utilized on an ongoing basis (e.g. filters, belts, pumps, lightbulbs, ceiling tiles) for a specified period of time (e.g. 6 months) in order to establish price agreements, identify State contracts or other purchasing avenues in order to mostly eliminate open purchase orders, except in the case of highly specialized supplies or equipment or open purchase orders in place in the case of an emergency with a few select vendors. These types of items would be purchased in bulk ahead of time and warehoused.
- Establish processes related to maintenance supplies and equipment requests. Rather than relying on open purchase orders going forward, maintenance staff will be required to go to

The Los Lunas Schools Board of Education
Los Lunas Public School District
July 17, 2020
Page 17

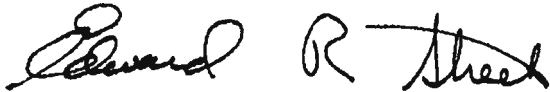
the warehouse with their request, which will be attached to a work order justifying the need and purpose for a specific item or item(s).

- Create a tool inventory for specialty tools and equipment, or tools and equipment not necessarily needed on a daily basis. Each tool would be entered into the system individually and assigned accordingly based on requests and work orders. Each tool would need to be checked out and could not be checked out again until the particular tool is checked back in.

The aforementioned proposed changes and process improvements will require time to maintain and could slow "production" down to some extent, and will take some time to implement, adopt, and make additional improvements as needed. It is anticipated by LLS staff that eliminating most open purchase orders and maintaining more items in inventory will provide a cost-savings benefit to the district and would alleviate disruptions in the workday for individuals who would often need to visit a local hardware or other store or drive to Albuquerque for extra parts and supplies.

We welcome the opportunity to discuss our analysis, observations, and findings with you and to perform additional forensic analysis regarding these and other matters as needed.

Sincerely,
REDWLLC



Edward R. Street, CPA/ABV/CFF, CVA, ASA
Principal



Alison L. Wagner, MACCT, CFE
Analyst