

Redi Net Broadband Network
State Auditor's Report on Missing Information and Follow-Up to
Audit Report (period 2010 to March, 2016)
Of the Activities of the North Central New Mexico Economic
Development District (NCNMEDD), as Fiscal Agent

Executive Summary

This report was undertaken following a Special Audit of the NCNMEDD for its role as fiscal agent for the REDI Net Broadband Network's federal grant of approximately \$10.5 Million. Rio Arriba requested the audit before taking on the role as fiscal agent for REDI Net. The resulting Special Audit found that NCNMEDD failed to maintain and provide for audit purposes significant records regarding the expenditures from the REDI Net grant, as well as the inventory of fiber optic cable purchased for the project.

The Independent Public Accountant (IPA) retained by the parties to complete the audit was left to conclude, due to significant gaps and errors in the record-keeping by NCNMEDD, that it could not account for 12.12 miles of 144 ct. fiber optic cable, and \$955,000 in expenditures by NCNMEDD for the period from Fiscal Year 2011 to March 31, 2016, among other findings that also included a lack of supporting documentation.

As a result of delays associated with the incomplete and missing records, the audit remained incomplete as of December 29, 2017, nineteen months after it had been designated and there was no indication that the audit could move forward based on NCNMEDD's inability or unwillingness to provide the records of the capital assets of REDI Net, and documentation to support expenditures made by NCNMEDD on REDI Net's behalf.

After taking office in December, 2017, State Auditor Johnson determined that it was not in the public's best interest to allow the Special Audit process to be delayed any longer by the auditee, NCNMEDD. The IPA concluded the Special Audit and made the findings available to NCNMEDD for response prior to an exit conference. Following the exit conference, pursuant to the Audit Act and the Audit Rule, the Office of the State Auditor (OSA) publicly released the report of the Special Audit.

In his letter to NCNMEDD in conjunction with the release of the Special Audit, Auditor Johnson stated that he did not consider the matter closed, and would continue with the issuance of subpoenas to obtain the missing documentation that would allow the REDI Net Board to establish a complete inventory of its physical assets, as well as determine whether expenditures paid by NCNMEDD from REDI Net funds were appropriate and supported by documentation.

The OSA obtained copies of the relevant documentation from three (3) key sources – the materials suppliers, Wesco; the project manager, Broadband Planning Group; and the company

that prepared “as-built” maps of the fiber optic cable system near the end of the project, HP Communications.

The OSA compared the invoices and materials listings from Wesco with maps created from the “as-built” files developed by HP Communications. The OSA does not find there to be 12.12 miles of missing 144 ct. fiber optic cable, as explained in greater detail below.

With regard to the missing expenditures, the OSA obtained all invoices from all three of those vendors for comparison to the list of missing documentation. Of the \$955,000, the OSA was able to obtain documentation that appears to adequately support the expenditures for \$407,007 through subpoenas, as well as \$371,945 in invoices from Wesco that appear to be supported as well, although not yet confirmed. There remains \$178,007 in expenditures for which the OSA has not yet issued subpoenas to multiple additional vendors of smaller invoices. The OSA did find one invoice from Broadband Planning Group that did not match the amount of the payment, with an apparent overpayment of \$30,358, in 2011 as shown below.

The OSA finds that the REDI Net Board, as an entity formed by a joint powers agreement lacked sufficient oversight from the OSA from the time it was formed in Fiscal Year 2011 until December, 2017. Despite being the recipient of over \$10 Million in federal grant funding. The first and only stand-alone audit of REDI Net as an entity is the Special Audit released March 28, 2018 by the OSA. And that audit did not provide the REDI Net Board or its IPA with sufficient information to establish an accurate physical inventory of the REDI Net system and assets for the completion of the FY2016 and FY2017 audits, that are currently past due to the OSA. A key purpose of this report and the attendant subpoenas is to provide the REDI Net Board with key information to complete those past due audits.

The annual audits of the NCNMEDD from FY2012 to FY2016 show the REDI Net project as a single fund within the larger NCNMEDD audit, which meant that the REDI Net project did not receive a broader scope stand-alone audit. The NCNMEDD audit reports during that period indicate problems with maintenance of the inventory of physical assets of the NCNMEDD, and a repeat finding from FY2013 to FY2016 for failure to reconcile the general ledger of the entity. Those audits indicated a lack of adequate record-keeping and financial management by NCNMEDD throughout the years that NCNMEDD was serving as the fiscal agent for REDI Net.

The OSA has observed that there appears to have been a systemic failure within the OSA to oversee entities that were formed between political subdivisions through joint powers agreements during these years. The OSA is working to identify any additional entities which are expending public monies but not receiving annual audits as required by the Audit Act and Audit Rule.

Background of the RediNet Project

In November 2010, a joint powers agreement, (JPA) was executed among nine (9) parties to manage the BTOP Grant- the North Central New Mexico Economic Development District (NCNMEDD), the Counties of Los Alamos, Santa Fe and Rio Arriba, the City of Espanola, Ohkay Owingeh Pueblo, the Pueblo of Santa Clara, the Pueblo of Pojoaque, and the Pueblo of

Tesuque for the collective management, design, construction, implementation, and operation of REDI Net. Governance of REDI Net was to be accomplished by the Parties through the REDI Net Board which was composed of one representative from each Local Party appointed by the governing body of each Party, and one representative of NCNMEDD appointed by its governing body

The Joint Powers Agreement provided that:

"NCNMEDD shall act as Fiscal Agent in connection with the administration, disbursement, reporting and monitoring of the BTOP Grant and shall be strictly accountable for all receipts and disbursements thereunder and under this agreement until construction of REDI Net, transfer of REDI Net assets to the Local Parties have been completed, and NCNMEDD has verified that its responsibilities as BTOP Grant recipient have been satisfied. Following expiration of the BTOP Grant Period, REDI Net Board shall either extend the term of NCNMEDD as fiscal agent, or appoint a new fiscal agent, which in either case shall be strictly accountable for all receipts and disbursements hereunder."

The BTOP Grant period was defined as the period covering August, 2010 to July 31, 2013. In August 2013, the BTOP grant was amended to extend the award period through September 30, 2013. The REDI Net Board extended the fiscal agent arrangement to include the period of August 1, 2013 through June 30, 2014, and again for the period of July 1, 2014 through June 30, 2015. In August 2015, NCNMEDD was named as interim fiscal agent through December 31, 2015. However, in early 2015, NCNMEDD was directed by its Board to discontinue fiscal and general management services for REDI Net.

In the summer of 2015, Rio Arriba County indicated a willingness to act as fiscal agent and requested financial information from NCNMEDD in order to assess responsibilities and inform the Rio Arriba County Commission. During this process, questions arose and information came to the attention of the REDI Net Board that caused concerns about certain transactions NCNMEDD had charged to the grant. Reportedly, the information they requested was difficult to obtain from NCNMEDD. These concerns were communicated to the New Mexico Office of the State Auditor (OSA) and in October 2015, Rio Arriba County raised questions about REDI Net's compliance with the State Audit Act.

NCNMEDD ultimately ended their fiscal agent status as of March 31, 2016 and REDI Net's Board designated Rio Arriba County to be the new fiscal agent beginning April 30, 2016.

Annual Audits and Special Audit Designation

Although the REDI Net Board had enacted by-laws that required an annual audit in compliance with the State Audit Act, the entity did not receive audits from the time of its formation in 2010 until the commencement of the audit performed by the Jaramillo Accounting Group LLC (JAG) in 2017.

For Fiscal Years 2011 through 2014, the RediNet BTOP grant was audited as a major federal program by NCNMEDD's external auditor.

In October 2015, OSA apparently first became aware of the existing JPA-formed entity REDI Net. Several months later, in February 2016, OSA notified REDI Net of non-compliance with the Audit Act.

In March, 2016 the OSA formally designated NCNMEDD for a "special audit" to "evaluate financial transactions involving REDI Net", with the special audit covering the period from FY2011 through March 31, 2016. That designation ultimately resulted in the consulting procedures engagement with JAG.

Over a year after the office had formally designated the NCNMEDD for a special audit, in April 2017, REDI Net's governing Board approved a resolution recognizing that the entire expense of the special audit would fall solely to REDI Net.

After procurement, the contract with Jaramillo Accounting Group LLC (JAG) to conduct the special audit was executed with final approval on May 8, 2017, some 20 months after the OSA had become aware of the entity and the lack of compliance with the Audit Act. The audit proceeded for seven (7) months without resolution because the IPA did not receive sufficient documentation from NCNMEDD to complete its work, resulting in the finding of missing fiber optic cable and undocumented expenditures.

Purpose of this Report

This report is intended to serve several important purposes. First, the OSA's intent is to provide the REDI Net governing board with an accurate assessment of the physical inventory of the broadband system so that its future financial management, grants administration and annual audits will not be impaired by the NCNMEDD's inadequate and incomplete record-keeping during the first 6 years of the project. The OSA also sought to establish whether the majority of the undocumented expenditures, particularly the large payments to key contractors, were supported by adequate documentation, again, so that the REDI Net Board can move forward to produce accurate financial records and annual audits. In addition to issuing this Report, the OSA has provided copies of all invoices and files obtained through subpoena to the REDI Net Board so that it can also maintain an accurate record of public documents.

The second purpose of this Report is to address whether the findings related to the allegedly missing fiber optic cable and unsupported expenditures were the result of fraud or theft, or were the result of a failure by NCNMEDD to maintain adequate or accurate capital asset inventories for the REDI Net system and to properly maintain public records of expenditures.

The final purpose of this Report is to review whether failures or lack of oversight of the NCNMEDD led to the Special Audit commencing 6 years after the first annual audit should have been submitted. NCNMEDD's apparent indifference to the inventory and record-keeping requirements of the REDI Net Agreement and state law has resulted in significant additional

expense to REDI Net, as well as the need for the OSA to dedicate resources to issuing subpoenas and investigating the findings contained in the Special Audit.

This report addresses NCNMEDD's fiduciary responsibilities under the JPA to maintain an inventory of the system and account for all public dollars spent. This was coupled with an apparent lack of adequate oversight within the Office of the State Auditor from 2011 to 2017.

PART ONE:

Assessment of the Allegedly Missing Fiber Optic Cable

When the IPA conducted the audit, the lack of documentation provided by NCNMEDD meant that the IPA was required to make certain assumptions in trying to assess REDINet's capital assets. The IPA noted that it was required to rely on three (3) inventories prepared by the project manager which were not certified.

In order to assess whether the inventories do reflect missing fiber optic cable, the OSA subpoenaed records from three (3) key vendors –

Wesco Distribution Co. – the materials supplier;
Broadband Planning Group, the project manager
HP Communications – the GIS contractor that prepared the “as-built” maps

The OSA organized the responses from the vendors chronologically and compared those records to the inventories which supported the audit findings.

January 29, 2013 Inventory document

The IPA relied on a January 29, 2013 inventory that showed 34.65 miles of 144 ct. Fiber Optic Cable in inventory, rather than installed. That document includes a table showing the footage of each roll of cable in inventory. It shows 30.89 miles of Overhead cable, and 3.76 miles of Underground cable (144 ct).

The January inventory does not include any 48 ct (Overhead or Underground) fiber optic cable or 288 ct. fiber optic cable. That document does not contain sufficient information to match it to any invoices from Wesco, the materials supplier.

September 23, 2013 Inventory document

The document containing the spreadsheet titled, “Redi Net Capital Asset Inventory Fiscal Year 2012-2013” contains sufficient information to match the listing of fiber optic cable to the invoices from the materials supplier, Wesco. This inventory accounts for all of the 48ct, 144ct, and 288ct fiber optic cable found in the Wesco invoices. However, the inventory contains two items that are listed as 48 ct fiber optic which appear to be errors based on the product descriptors and the pricing. The invoices for the two highlighted items are attached as Appendices to this report.

The fiber optic cable shown on that inventory is filtered to a table below:

FIELD	ADSS (OH) Fiber, 144ct	2093	PRYS*0144ZBS1LAAEDJS-0740-	8/31/20	\$ 1.1	\$ 232,812.7
FIELD	ADSS (OH) Fiber, 144ct	110000	PRYS*0144ZBS1LAAEDJS-0740-	9/14/2011	\$ 1.11	\$ 122,320.00
FIELD	Loose-tube (UG) Fiber, 144ct	108678	PRYS*0144ZBS1LAFESJA*E*FIB	9/30/2011	\$ 0.84	\$ 90,746.13
FIELD	ADSS (OH) Fiber, 48ct	155500	PRYS*0048ZBS1LAAEDJZ*E*144	11/30/2011	\$ 0.48	\$ 75,262.00
FIELD	ADSS (OH) Fiber, 144ct	59532	PRYS*0144ZBS1LAAEDJS-0740-	9/15/2011	\$ 1.11	\$ 66,199.58
FIELD	ADSS (OH) Fiber, 144ct	34755	PRYS*0144ZBS1LAAEDJS-0740-	12/29/2011	\$ 1.11	\$ 38,647.56
FIELD	ADSS (OH) Fiber, 48ct	36362	PRYS*0048ZBS1LAAEDJZ*E*144	12/15/2011	\$ 0.48	\$ 17,599.21
FIELD	ADSS (OH) Fiber, 144ct	10000	PRYS*0144ZBS1LAAEDJS-0740-	9/30/2011	\$ 1.11	\$ 11,120.00
FIELD	Loose-tube (UG) Fiber, 48ct	35236	PRYS*0048ZBS1LAFESJA*E*FIB	11/30/2011	\$ 0.31	\$ 10,958.40
FIELD	Loose-tube (UG) Fiber, 288ct	6300	PRYS*0288ZBS1LAFESJA*E*FIB	9/30/2011	\$ 1.48	\$ 9,324.00
INVENTORY	ADSS (OH) Fiber, 144ct	63996	PRYS*0144ZBS1LAAEDJS-0740-	12/29/2011	\$ 1.11	\$ 71,163.55
INVENTORY	Loose-tube (UG) Fiber, 144ct	8322	PRYS*0144ZBS1LAFESJA*E*FIB	9/30/2011	\$ 0.84	\$ 6,948.87
INVENTORY	ADSS (OH) Fiber, 48ct	10000	PIRE*0048ZBS1LAAEDJZ-0532-1704*E*48	8/6/2012	\$ 0.82	\$ 8,150.00
INVENTORY	ADSS (OH) Fiber, 48ct	3482	PRYS*0048ZBS1LAAEDJZ*E*144	12/15/2011	\$ 0.48	\$ 1,685.29
INVENTORY	ADSS (OH) Fiber, 48ct	10000	PIRE*0048ZBS1LAJESJA*MFT*PRYSMIAN D	7/11/2012	\$ 0.44	\$ 4,434.90
INVENTORY	Loose-tube (UG) Fiber, 48ct	2264	PRYS*0048ZBS1LAFESJA*E*FIB	11/30/2011	\$ 0.31	\$ 704.10

Based on this inventory, the amount of 144 ct Overhead fiber optic cable in inventory was 63996 feet, or 12.12 miles. The amount of 144 ct Underground fiber optic cable is 8322 feet or 1.576 miles.

The IPA's Audit Finding of 12.12 Miles of Missing 144 ct. cable

The IPA relied upon the numbers contained in the January 2013 inventory to conclude that the 144 ct fiber optic cable in inventory at that time was 34.65 miles. That figure included both Overhead and Underground cable.

The IPA states that the amount of fiber optic cable used between January 1 and September 30, 2013 is 14.35 miles, or 75,768 feet. The IPA noted that this is a best estimate based on quarterly progress reports. The IPA also noted that 8.18 miles of fiber optic cable was sold to Los Alamos County on March 31, 2013.

The IPA states that the amount of 144 ct. fiber optic cable in inventory as of the September 2013 inventory is 12.12 miles. However, that figure only accounts for the Overhead cable shown on the inventory and does not include the Underground cable of 8322 feet that was included in the January figure.

The IPA was required to make these assumptions because the NCNMEDD failed to provide even minimally adequate documentation.

The OSA's findings with regard to the 144 ct. Fiber Optic Cable

The inventory that is identified as the September, 2013 inventory does account for all of the fiber optic cable purchased from Wesco, as shown by the Wesco invoices, including 144 ct. Overhead and Underground, 48 ct. Overhead and Underground and 288 ct. cable. (There is a relatively small 36 foot variance between the inventory and the Wesco invoices.)

Comparison of 144 Ct. Fiber Optic Cable Purchased with "As-Built" Maps provided by HP Communications

The OSA compared the total amount of 144 ct. Overhead and Underground fiber optic cable purchased from Wesco to the amount of fiber optic cable shown on the “as-built” system drawings prepared by HP Communications. The OSA provided all of the mapping files provided by HP Communications, Inc. to the personnel at the State Land Office who agreed to maintain the confidentiality of the investigative materials. The SLO staff compiled a map and itemized listing of the segments of fiber optic cable shown in those files, broken down into Overhead and Underground cable.

Overhead Cable

Both the September inventory and the subpoenaed Wesco Invoices show that overall, NCNMEDD purchased a total of 487,647 feet of 144 ct. Overhead fiber optic cable or 92.36 miles.

The SLO calculated the total Overhead cable in the REDI Net system to be 95.26 miles, or 2.9 miles more than 144 ct. Overhead cable purchased.

Underground Cable

Both the September 2013 inventory and the subpoenaed Wesco invoices show that overall, NCNMEDD purchased 117,000 feet of 144 ct. Underground fiber optic cable, or 22.16 miles.

The SLO calculated that the total Underground cable in the REDI Net system to be 141,188.98 feet, or 26.74 miles. This is 4.58 miles more Underground cable showing in the system than 144ct cable that appears to have been purchased by NCNMEDD.

Fiber Optic Cable Sold to Los Alamos County

The SLO found a segment in Los Alamos County that is identified as Conduit only, which is 43,555.85 feet, or 8.25 miles long. The OSA expects this to correspond to the 8.18 miles of fiber optic cable sold to Los Alamos County on March 31, 2013. The conduit is shown on the REDI Net system, but the cable appears to be owned by Los Alamos County.

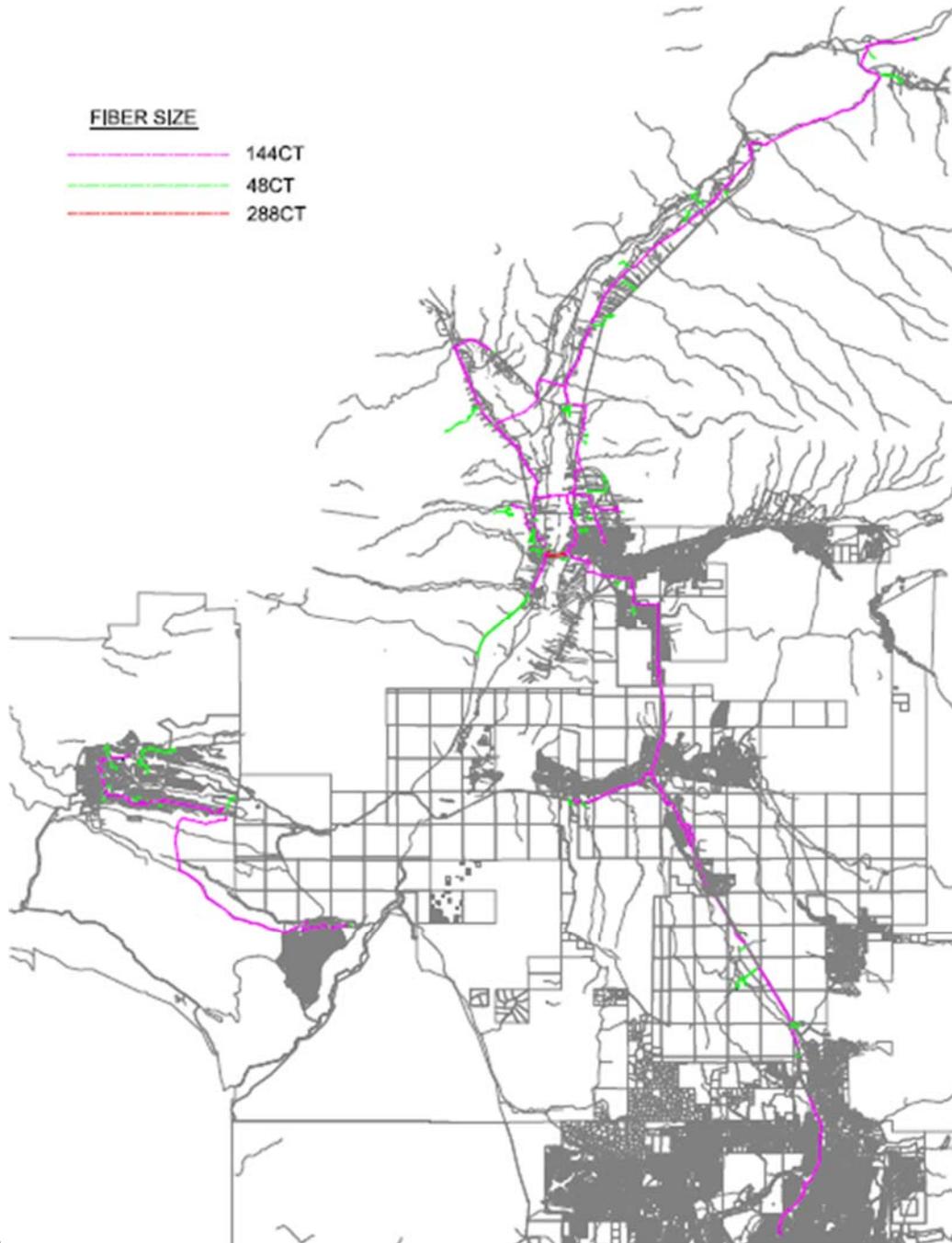
48 Ct. Overhead and Underground Fiber Optic Cable and 288 Ct. Fiber Optic Cable

The 144 ct. cable purchased from Wesco (both Overhead and Underground) – do not account for all of the fiber optic cable shown on the as-built maps.

The Wesco invoices show that NCNMEDD purchased a total of 114.52 miles of 144 ct. fiber optic cable, while the overall system, including the Los Alamos segment, totals 130.25 miles. The difference is 15.73 miles.

The OSA noted that NCNMEDD also purchased 36.99 miles of 48 ct. Overhead fiber optic cable, as well as 7.10 miles of 48 ct. Underground fiber optic cable for a total of 44.09 miles, as well as 1.19 miles of 288 ct. Underground fiber optic cable. The IPA did not address any 48 ct. or 288 ct. fiber optic cable in the underlying audit.

Since REDI Net is a “last mile” provider, the OSA expects that a significant portion of the 48 ct. fiber optic cable would have been used within location boxes and for extensions to direct access providers. However, the extra 15.73 miles of fiber optic cable shown on the as-built maps may be 48 ct. fiber optic cable or 288 ct. underground fiber optic cable. This is supported by the diagram provided in the September, 2013 update by Broadband Planning Group, which shows 48ct, 144 ct and 288 ct. fiber optic cable in the as-built system:



Part Two-

**Investigation into the Payment of \$955,000 in expenditures by NCNMEDD
without supporting documentation:**

The IPA provides a list of \$955,000 in expenditures for which NCNMEDD did not provide supporting documentation.

Based on the subpoena responses, the OSA has determined the following with regard to the \$955,000 in unsupported expenditures:

Vendor	Date	Amount		Status
33 Vendors with amounts under \$1000	Various	\$6,800.00	Not subpoenaed	
Abeita Consulting	10/17/2011	\$5,082.00	Not yet subpoenaed	
Abeita Consulting	12/20/2014	\$3,638.00	Not yet subpoenaed	
Abeita Consulting	12/20/2012	\$3,075.00	Not yet subpoenaed	
Abeita Consulting	6/21/2011	\$2,363.00	Not yet subpoenaed	
Advanced Communication & Electronic, Inc.	6/28/2013	\$1,600.00	Not yet subpoenaed	
Broadband Planning Group, LLC	3/8/2011	\$124,490.00	Invoice dated Mar. 1, 2011 for \$124,488.84; Inv. # 70	Found
Broadband Planning Group, LLC	6/20/2012	\$45,741.00	Invoice dated June 10, 2012 for \$45,740.99; Inv. # 96	Found
Broadband Planning Group, LLC	10/12/2011	\$43,242.00	Invoice dated October 4, 2011 for \$43,241.75; Inv. # 81	Found
Broadband Planning Group, LLC	1/20/2011	\$42,935.00	Invoice dated Jan. 11, 2011 for \$12,577.42 does not match	
Broadband Planning Group, LLC	8/15/2012	\$36,649.00	Invoice dated Aug. 5, 2012 for \$36,648.54; Inv. #99	Found
Broadband Planning Group, LLC	9/13/2011	\$33,370.00	Invoice dated Sept. 4, 2011 for \$33,370.47; Inv. #78	Found
Broadband Planning Group, LLC	2/23/2012	\$29,944.00	Invoice dated Feb. 6, 2012 for \$29,944.00; Inv. # 89	Found
Broadband Planning Group, LLC	12/20/2012	\$26,641.00	Invoice dated Dec. 2, 2012 for \$26,640.95; Inv. # 104	Found

Broadband Planning Group, LLC	1/12/2012	\$20,249.00	Invoice dated Jan. 2, 2012 for \$20,249.31; Inv. # 87	Found
Broadband Planning Group, LLC	6/28/2013	\$15,564.00	Invoice dated July 2, 2012 for \$15,564.13; Inv. #87 - dated after 6/28	Found
Broadband Planning Group, LLC	10/7/2015	\$6,275.00	No 2015 invoices in subpoena responses	Found
Broadband Planning Group, LLC	1/12/2015	\$4,647.00	No 2015 invoices in subpoena responses	Found
Broadband Planning Group, LLC	8/26/2015	\$4,326.00	No 2015 invoices in subpoena responses	Found
Broadband Planning Group, LLC	11/9/2015	\$2,991.00	No 2015 invoices in subpoena responses	Found
Calix Networks, Inc.	4/8/2013	\$24,193.00	Not yet subpoenaed	
Commissioner of Public Lands	9/27/2012	\$3,248.00	Not yet subpoenaed	
HP Communications, Inc.	9/25/2013	\$12,878.00	Invoice dated Sept. 17, 2013 for \$12,877.50;	Found
Integrated Technologies Corporation	7/10/2015	\$1,300.00	Not yet subpoenaed	
Jemez Mountain Electric	4/8/2013	\$19,558.00	Not yet subpoenaed	
Jemez Mountain Electric	6/20/2012	\$11,450.00	Not yet subpoenaed	
Parametrix	5/10/2011	\$15,250.00	Not yet subpoenaed	
Plateau Wireless	2/13/2013	\$18,514.00	Not yet subpoenaed	
Pueblo of Pojoaque Enterprise Corp. Realty	4/10/2014	\$1,200.00	Not yet subpoenaed	
Robert J. Rivera, CPA, PC	10/31/2012	\$11,375.00	Not yet subpoenaed-IPA performed FY2012 NCNMEDD audit	
Robert J. Rivera, CPA, PC	12/8/2011	\$1,845.00	Not yet subpoenaed – IPA performed FY2011 NCNMEDD audit	
Scheuer, Yost and Patterson	3/20/2012	\$2,244.00	Not yet subpoenaed	
Scheuer, Yost and Patterson	11/17/2011	\$1,170.00	Not yet subpoenaed	
Scheuer, Yost and Patterson	11/9/2010	\$1,167.00	Not yet subpoenaed	

Wesco Receivables Corp	10/20/2011	\$135,692.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Wesco Receivables Corp	9/13/2011	\$42,870.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Wesco Receivables Corp	10/12/2011	\$23,722.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Wesco Receivables Corp	12/14/2011	\$90,218.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices

Wesco Receivables Corp	2/2/2012	\$26,853.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Wesco Receivables Corp	4/10/2012	\$1,234.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Wesco Receivables Corp	8/15/2012	\$22,072.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Wesco Receivables Corp	10/23/2012	\$4,511.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices

Wesco Receivables Corp	11/20/2012	\$21,158.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Wesco Receivables Corp	4/16/2013	\$3,615.00	Wesco submitted 6.6 Million in invoices, but it appears NCNMEDD paid the invoices in batches. Have not yet been able to match batches of invoices to each payment.	appear to be within Wesco invoices based on total amount of Wesco invoices
Total Not Found by IPA		\$956,959.00		
Total Found by OSA		\$407,007.00		
Total Wesco - appear valid based on totals		\$371,945.00		
Balance not Found or subpoenaed		\$178,007.00		

Based on the comparison of the subpoena responses to the table of missing expenditures with missing documentation, the OSA does not find evidence of large scale theft or fraud of funds or assets. The OSA does note, as highlighted above, that there is an invoice in 2011 from Broadband Planning Group which does not match the amount paid, with a discrepancy of \$30,358.

Part Three

Analysis of the Historical Development of the Problems Identified in the Audit

REDI Net's Audit Status

As noted above, there was no audit of the REDI Net entity itself from its inception in 2011 through March, 2016, the end date of the Special Audit. In addition, the entity has not submitted its FY2016 and FY2017 audits to the State Auditor's Office, which were due in 2016 and 2017, respectively. The OSA has been working with the REDI Net Board to approve a contract for an IPA to perform those late audits. However, REDI Net has continued to be hindered by the incompleteness of the records transferred from NCNMEDD. As a result, the Special Audit is the only full stand-alone audit that has ever been undertaken and it was severely hampered by NCNMEDD's failure to supply adequate records.

NCNMEDD's FY2011 Audit

The FY2011 annual audit of NCNMEDD was performed by Robert Rivera, CPA. That audit notes that "NCNMEDD served as the applicant for a grant from the US Department of Commerce National Telecommunications and Information Administration for the Broadband Technology Opportunity Program , representing Los Alamos, Santa Fe and Rio Arriba Counties, the City of Española and the Pueblos of Pojoaque, Tesuque, San Ildefonso, Santa Clara and Ohkay Owingeh."

That audit also contains a single finding that foretells future audit problems:

Cause

*The lack of effective controls over capital asset management, including the tracking and safeguarding of capital assets. The District did not have an employee assigned to capital asset management, tracking and recording of capital asset activity during the audit period**

Effect

The District is not in compliance with Section 12-6-10, NMSA 1978 and Section 2.20.1.8 NMAC. There is a risk of loss or theft of capital assets which could go undetected. In addition, there is a risk that capital assets could be materially misstated on the financial statements.

NCNMEDD's FY2012 and FY2013 Audits

In the FY2012 Audit, the IPA, Robert Rivera found that the 2011 Finding had been resolved, but in the FY2013 Audit, made the following finding:

Reconciliation of Accounting Records-General Ledger - (Significant Deficiency)

Condition

Beginning in December 2012, the North Central New Mexico Economic Development District (District) failed to timely monitor and reconcile all general ledger accounts. The reconciliations for the period between December 2012 and June 30, 2013 were actually performed subsequent to June 30, 2013 by staff personnel. Many adjustments to the general ledger were made by the District covering this period; however, there were 41 additional auditor adjusting journal entries which were necessary to adjust the general ledger at year end.

In addition, bank reconciliations for the months of December 2012 through June 2013 were not completed timely and were actually reconciled subsequent to June 30, 2013. Also, our audit test work of revenues revealed that the District's system of internal control over receipting and posting to the general ledger did not function as designed by the District. Written receipts were missing or were written after the fact during the reconciliation process. The written receipts were not issued contiguously. Some receipts were not recorded in the general ledger until they were identified during the reconciliation process and some receipts were improperly recorded in the general ledger.

NCNMEDD's FY2014 Audit

In 2014, the number of findings for NCNMEDD increased to six (6). The 2013 finding for failing to maintain accurate financial books was repeated, as follows:

2013-001 Reconciliation of Accounting Records-General Ledger (Repeated and modified) (Significant Deficiency)

CONDITION

During fiscal year 2014, the North Central New Mexico Economic Development District (District) failed to timely monitor and reconcile all general ledger accounts. Many adjustments to the general ledger were made by the District covering this period; however, there were several adjustments made that we identified during our field work. As compared to the prior fiscal year, an improvement in this process was made.

NCNMEDD's FY2015 Audit

The 2013 Finding for failure to reconcile the General Ledger was repeated a third time in 2015, as follows:

2013-001

CONDITION

Reconciliation of Accounting Records-General Ledger (Repeated and modified) (Significant Deficiency in Internal Control)

Financial Management staff were trained as specified in the response to the finding at year ended June 30, 2014. However, the North Central New Mexico Economic Development District (District) continues to experience critical turnover of Financial Management staff. As a result, during fiscal year 2015, the District failed to timely monitor and reconcile all general ledger accounts. Many adjustments to the general ledger were made by the District covering this period; however, there were several adjustments made that we identified during our field work.

NCNMEDD's FY2016 Audit

The 2013 Finding for failure to reconcile the General Ledger was **again** repeated in 2016, for the 4th consecutive fiscal year, as follows:

2013-001 Reconciliation of Accounting Records – General Ledger (Material Weakness)

CONDITION: The District has not implemented an effective financial close and reporting process for the year ended June 30, 2016. The District failed to timely monitor and reconcile general ledger accounts. The District was reconciling account balances up to 5 months after year end. As a result, throughout our audit we noted journal entries were posted incorrectly, account balances were incorrectly stated, cash was not properly reconciled along with numerous other errors. Many adjustments to the general ledger had to be made by the District that were identified during the course of our audit. The District has not made progress in implementing the prior year corrective action plan.

EFFECT: An untimely reconciliation can result in financial statements misstatements or fraud going undetected. Additionally, numerous adjustments had to be made throughout the audit to ensure the financial statements were materially stated.

Oversight of Entities such as NCNMEDD and REDI Net

The failure to maintain public documents, which occurred over a period of several years, is a key cause of the findings in the Special Audit. Both the Audit Act and the REDI Net By-laws require annual financial audits of the entity. If proper procedures had been followed, it is unlikely the REDI Net Board or the OSA would be in the position of having to “reconstruct” REDI Net’s financial records and asset inventories. It is important that the OSA monitor and ensure that all entities which receive and spend public funds are audited annually. Annual audits ensure that these types of problems are discovered and can be addressed so that the entities are not left vulnerable to fraud, waste and theft of public resources.

To that end, the OSA has undertaken a project to identify all non-profit or joint powers agreement entities created through statute or by local governments and local public bodies that expend public dollars and are subject to the Audit Act. It is imperative that all public dollars are properly accounted for and that policies attached to the expenditure of public dollars are faithfully followed.