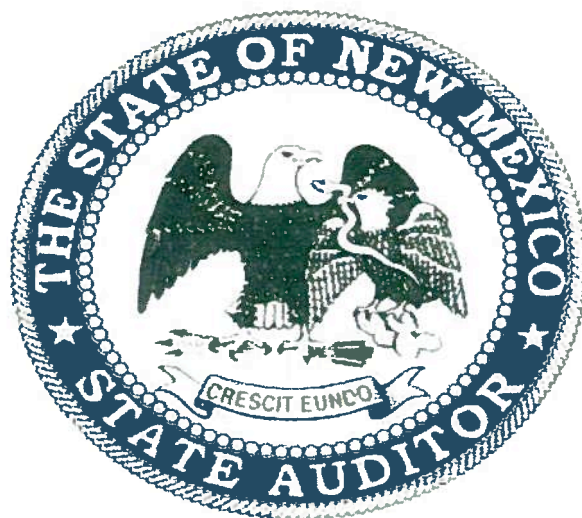


**STATE OF NEW MEXICO
OFFICE OF THE STATE AUDITOR**



EXECUTIVE SUMMARY

**SPECIAL AUDIT REPORT
JEMEZ MOUNTAIN SCHOOL DISTRICT**

**Hector H. Balderas
State Auditor
August 13, 2009**

TABLE OF CONTENTS

I. OVERVIEW.....	2
II. SCOPE AND METHODOLOGY	2
III. FINDINGS	4
IV. CONCLUSION.....	4

I. OVERVIEW

In early June 2009, the Superintendent of the Jemez Mountain School District (District), Adan Delgado, reported to the Office of the State Auditor (OSA) that the District's business manager, Kathy Borrego, appeared to have embezzled funds from the District. The Rio Arriba County Sheriff's Department and the First Judicial District Attorney also received notification of the suspected embezzlement. The District terminated Ms. Borrego's employment on June 18, 2009.

After discussions with representatives of the District, the New Mexico Public Education Department (PED) and law enforcement agencies, the OSA engaged in a special audit of the District to determine the amount of funds allegedly embezzled from the District by Kathy Borrego.

In late June 2009, the OSA sent a letter to the District to inform the District about the results of our special audit to date in order to assist the District with: 1) the District's request for emergency financial assistance from PED; 2) the District's insurance claim with the New Mexico Public School Insurance Authority; and 3) the investigation by the prosecuting authorities. The letter also stated that, based on the procedures the OSA performed as of June 18, 2009, the OSA verified that warrants totaling \$292,399.06 cleared two of the District's bank accounts at the Valley National Bank in Espanola, New Mexico from July 1, 2008 through May 31, 2009. The OSA conveyed to the District it appeared that Kathy Borrego embezzled \$292,399.06 out of these bank accounts during this time period. Finally, the OSA informed the District that the OSA would provide the District a special audit report following completion of the special audit.

Pursuant to Section 12-6-5 NMSA 1978, the OSA is required to release the final special audit report to the District, the Secretary of Finance and Administration, the Legislative Finance Committee and the public. However, due to the ongoing criminal investigation of this matter and the sensitive nature of some of the information in the final report, the OSA, at this time, has released only this executive summary of the special audit report in accordance with Section 12-6-5 NMSA 1978. The OSA has provided the final special audit report confidentially to state and federal agencies that are charged with the investigation and prosecution of crimes related to financial affairs. The OSA will release the final report once the appropriate state and federal law enforcement agencies deem the final, complete special audit report appropriate for public release.

The following sections summarize the scope, methodology, findings and conclusions of the special audit.

II. SCOPE AND METHODOLOGY

The scope of the special audit consisted of all the bank accounts of the District and the check activity in those accounts from January 1, 2002 through June 30, 2009. Although Ms. Borrego began working for the District in 1999, the Valley National Bank was

unable to provide copies of the District's bank statements and cancelled checks from 1999 through most of 2001.

We performed the following procedures:

1. Interviewed the District's superintendent and obtained statements about his initial findings on June 3, 2009.
2. Listened to a taped discussion between the superintendent and Kathy Borrego regarding the superintendent's initial findings. The discussion was recorded by the superintendent on June 4, 2009.
3. Held a meeting with two employees at the Valley National Bank to obtain images of certain checks that cleared the District's bank accounts, and to determine why numerous images of checks were missing in their bank statements.
4. Requested and obtained the District's bank statements from Valley National Bank and Wells Fargo for all of their bank accounts for the time period noted above.
5. If the bank statement stated "image not available" for the cleared check, we requested and obtained copies of all the cleared checks in excess of \$2,000 from Valley National Bank.
6. Searched the images of the cleared checks for those made payable to the order of Kathy Borrego or any unusual payee.
7. Searched the back of the images for checks endorsed by Kathy Borrego or any unusual payee. We also searched the back of the cleared checks for any personal bank account numbers owned or related to Kathy Borrego.
8. Provided information obtained from the back of the cleared checks to a Rio Arriba County detective who determined the owners of the personal bank accounts where the embezzled checks may have been deposited.
9. Requested and obtained information from District personnel to verify that none of the cleared checks in question were for personal services or goods provided to the District.
10. Interviewed the current president of the Merced del Pueblo Abiquiu land grant (hereinafter referred to as the "land grant") and obtained statements and documentation about a questionable \$27,509.24 check made payable to the "Abiquiu Grant Association" from the District's Debt Service bank account.
11. Summarized and totaled all of the stolen checks and embezzled amounts that cleared the District's bank accounts.

12. Analyzed and summarized the information on the back of the cleared checks to provide information about who endorsed, cashed or deposited the embezzled checks.

III. FINDINGS

Over this time period, at least 538 checks were removed from the District’s blank check stock. Those checks were made payable to Kathy Borrego and other persons. The two authorized signatures on the checks were forged and 535 checks were cashed or deposited into various personal bank accounts. Three checks were provided to other subjects who cashed or deposited the amounts into their bank accounts. Also, the data in the District’s accounting system was altered to conceal the unauthorized cash disbursements and expenditures, and someone removed or destroyed most of the District’s bank account records.

The stolen checks and embezzled amounts cleared the District’s bank accounts at the Valley National Bank in Espanola, New Mexico, as summarized below:

<u>Name of Bank Account</u>	<u>Bank Account Number</u>	<u>Number of Checks</u>	<u>Embezzled Amount</u>
Operational Fund	804059101	74	\$ 446,178.36
Payroll Account	805012001	104	621,128.59
Transportation Fund	805127501	17	104,951.25
Teacherage Fund	804058301	16	74,872.99
Cafeteria Fund	804053201	5	25,916.79
Federal Projects	804056701	46	281,272.03
SB-9	805128301	210	1,345,389.59
Bond Fund	804837101	41	285,408.31
Debt Service	804057501	24	187,433.36
Activity Fund	804062101	1	6,150.00
	Total	538	\$ 3,378,701.27

The full report provides a detailed listing of the cleared checks in chronological order, a detailed listing of the checks that cleared each bank account, copies of each check (front and back) that cleared each bank account, and comments regarding our analysis of the bank account activity.

IV. CONCLUSION

Based on the procedures we performed, there is sufficient evidence to conclude that Kathy Borrego embezzled \$3,378,701.27 from the District’s bank accounts from January 8, 2002 through June 4, 2009 and violated the following criminal statutes of New Mexico:

1. Fraud, Section 30-16-6 NMSA 1978;
2. Embezzlement, Section 30-16-8 NMSA 1978;
3. Forgery, Section 30-16-10 NMSA 1978;
4. Paying or receiving public money for services not rendered, Section 30-23-2 NMSA 1978
5. Tampering with public records, Section 30-26-1 NMSA 1978; and
6. Computer access with intent to defraud or embezzle, Section 30-45-3 NMSA 1978;

The evidence indicates that the other subjects involved, who were not employees of the District, may have violated the following criminal statutes of New Mexico:

1. Receiving stolen property, Section 30-16-11 NMSA 1978; and
2. Paying or receiving public money for services not rendered, Section 30-23-2 NMSA 1978.

Finally, the subjects involved may have violated the following New Mexico and federal criminal statutes:

1. Money Laundering, Section 30-51-4 NMSA 1978;
2. Racketeering, Section 30-42-4 NMSA 1978;
3. State Income Tax Evasion, Section 7-1-72 NMSA 1978;
4. Money Laundering, 18 U.S.C. § 1956;
5. Racketeering, 18 U.S.C. § 1957; and
6. Federal Income Tax Evasion, 26 U.S.C. § 7201.

Pursuant to the Audit Act, Section 12-6-6 NMSA 1978, the OSA will provide the final special audit report to the following state and federal agencies that are charged with the investigation and prosecution of crimes related to financial affairs:

1. First Judicial District Attorney;
2. Rio Arriba County Sheriff's Department;
3. New Mexico State Police;
4. New Mexico Attorney General;

5. Tax Fraud Investigations Division, New Mexico Taxation and Revenue Department;
6. U.S. District Attorney;
7. U.S. Federal Bureau of Investigation;
8. U.S. Department of Education, Office of Inspector General; and
9. U.S. Internal Revenue Service.