



North East Independent School District

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Internal Audit Department

DRAFT

DATE: March 20, 2018

TO: Mrs. Shannon Grona, President Board of Trustees NEISD

FROM: Dr. Anthony J. Mitchell, Director of Internal Audit

SUBJECT: Review of ETA Rocket Club Expenditures

SUMMARY

The Complaint

On January 26, 2018, Internal Audit received a complaint from a parent of a student at the Engineering and Technologies Academy (ETA) located at the Roosevelt High School campus. The student is also the Treasurer of the ETA Rocket Club. The parent had two complaints about the Rocket Club Sponsor, Ms. Christina A. Moreno. The parent alleged that there is a conflict of interest with Ms. Moreno and a vendor. The parent alleged that Ms. Moreno is ordering rocket club supplies from a company, Un Manned Propulsion (UMP), which is owned by her son, Joshua Moreno. The parent also alleged that UMP marks up their products and sells them to ETA at an inflated price.

ETA Teacher and Rocket Club Sponsor

Ms. Christina A. Moreno is a full-time teacher at ETA. She is also the sponsor of the Rocket Club. Ms. Moreno denied to the ETA Director that her son Joshua Moreno owned or even worked at UMP. Later Ms. Moreno stated that her son had only participated in an internship with UMP. Although Ms. Moreno was responsible for ordering supplies for the rocketry club, she stated that she was not aware of UMP inflating the prices that they charged ETA. Beginning in November 2016, Ms. Moreno started ordering rocket supplies and other items almost exclusively from UMP.

Un Manned Propulsion Corporation (UMP)

UMP applied to be a Sole Source vendor with NEISD on September 26, 2016. NEISD procurement approved UMP's application on October 10, 2016 (see Appendix 1). There was no disclosure by UMP of a conflict of interest between Joshua Moreno and his mother, Ms. Moreno.

Approximately a month later, UMP became a vendor with North East ISD. UMP completed the paperwork required by the purchasing department on November 3, 2016 (see Appendix 2). UMP did not disclose to NEISD that Mr. Joshua Moreno was the president of their company.

Furthermore, UMP applied to become a bid vendor with North East ISD on October 20, 2017. North East ISD awarded UMP bid number 39-18: *Software, Product Support, Annual Renewal of Software Licenses, and Software Consultants II*. In the bid packet, there is no disclosure of the relationship and conflict of interest between Joshua Moreno and his mother, Christina A. Moreno (Appendix 3).

Conflict of Interest

According to records obtained from the Florida Secretary of State web site, Mr. Joshua Moreno is the owner and president of Un Manned Propulsion Corporation (UMP). Neither Ms. Moreno nor her son Joshua Moreno disclosed this conflict of interest with North East ISD.

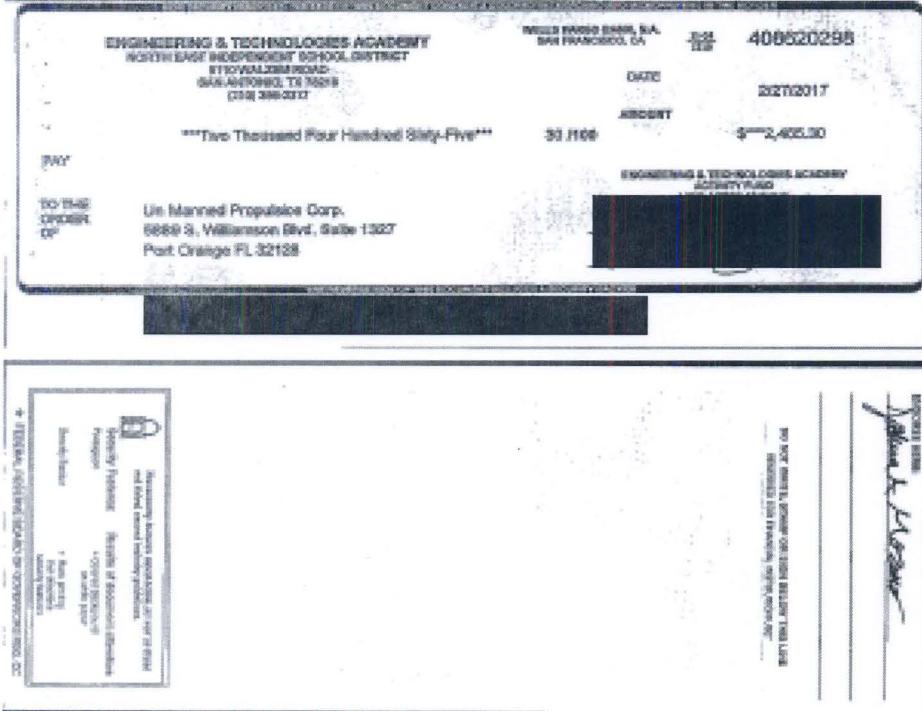
Un Manned Prolusion Corporation (UMP) is a Florida based company. According to the Florida Secretary of State's office, Joshua Moreno incorporated UMP on August 24, 2016 (Appendix 4).

Joshua Moreno also filed UMP's 2017 Florida Profit Corporation Annual Report and signed the document as the President of UMP (Appendix 5).

In addition, Joshua Moreno posted on different social media sites that he is the president of UMP (Appendix 6).

Furthermore, Joshua Moreno endorsed an Engineering & Technologies Academy (ETA) check made out to Un Manned Propulsions Corp. on March 1, 2017. ETA issued Check #408620298 on February 27, 2017 to pay UMP invoices 4005 and 4009 for \$2,465.30 (Appendix 7).

Figure 1.1 ETA Check Made Out to UMP Endorsed by Joshua Moreno, Ms. Moreno's son



Finally, Ms. Moreno received items she ordered from UMP at her home address. The packing slips from two different orders indicate the bill to address to be Joshua Moreno at UMP and the ship to address as Ms. Moreno's home. Ms. Moreno should have been aware that her son, Joshua Moreno, was involved with UMP (see Appendix 8 for the packing slips).

Overcharging by UMP

To order rocketry parts and supplies, Ms. Moreno sent UMP a list of parts and supplies that she needed (instead of ordering directly from the rocket supply vendors). Then UMP purchased the rocket supplies from those same vendors that ETA would normally purchase. Next, UMP would sell those items to ETA at an inflated rate. Ms. Moreno overpaid for rocket supplies ordered from UMP by \$6,145.23 from January 2017 until January 2018 (see Appendix 9 for individual invoices).

Figure 1.2 Invoices from UMP January 2017-January 2018 (price comparison)

##	Invoice	Date	UMP Price	Vendors Price	Total Markup	% Markup
1	4005	1/27/2017	1,874.40	1,146.27	728.13	64%
2	4008	2/27/2017	2,067.88	982.07	1,085.81	111%
3	4009	2/10/2017	600.90	482.19	118.71	25%
4	4010	3/21/2017	639.52	410.44	229.08	56%
5	4018	9/26/2017	510.00	260.00	250.00	96%
6	4025	11/7/2017	1,934.98	1,516.00	418.98	28%
7	4026	11/14/2017	3,802.65	1,891.83	1,910.82	101%
8	4027	11/17/2017	2,010.21	984.38	1,025.83	104%
9	4028	1/18/2018	1,090.58	712.71	377.87	53%
			14,531.12	8,385.89	6,145.23	73%

In addition, Ms. Moreno ordered items from UMP that seemed unrelated to the purchase of rocketry supplies (Appendix 10). These items included a laptop computer, t-shirts, and embroidered Polo shirts. Ms. Moreno also recommended UMP to three of her co-workers without disclosing that her son was the owner and president (Appendix 11). One co-worker placed an order with UMP but CTE Department cancelled this order because the cost of the UMP products were too high. Another employee only got a quote. The third employee ordered from UMP.

Fictitious Invoices

Between November 2016 and April 2017, Ms. Moreno submitted fifteen (15) invoices from Unmanned Systems Source (USS) for reimbursement. Ms. Moreno purchased rocket supply items from USS with her personal credit card. Ms. Moreno then submitted these invoices to the ETA bookkeeper to be reimbursed from the Rocketry Club Grant Fund. Internal Audit contacted USS regarding these fifteen invoices. USS claimed that these fifteen invoices are not valid invoices. USS never sold any goods to Ms. Moreno or to ETA. In addition, the invoice numbering sequence on the invoices that Ms. Moreno turned in for reimbursement does not match with USS's actual invoice numbering sequence.

Ms. Moreno claims that rocket club students went online to order these products. They would tell her the purchase was ready for payment and she would input her credit card information.

The total for the fictitious USS invoices that Ms. Moreno submitted for reimbursement total \$5,500.04 (appendix 13).

Figure 1.3 Fictitious USS Invoices submitted for Reimbursement by Ms. Moreno

##	Invoice	Date	Amount
1	TJ8062RV	11/7/2016	\$ 409.00
2	GT258470	11/10/2016	\$ 254.00
3	GYEKI95TT	11/22/2016	\$ 359.00
4	IUBEDPIJJ	11/26/2016	\$ 203.00
5	254880ZCTR	11/30/2016	\$ 389.00
6	568429RTH	12/15/2016	\$ 375.76
7	1455689NES	1/13/2017	\$ 311.69
8	158422100CSW	1/18/2017	\$ 204.16
9	81756880870ZZE	1/26/2017	\$ 359.54
10	00568425500JFL	1/30/2017	\$ 282.47
11	584129CBT	2/7/2017	\$ 279.40
12	56822415OMR	2/15/2017	\$ 653.60
13	18678YMEPS42	3/7/2017	\$ 391.69
14	8567895OPUTR	3/14/2017	\$ 690.75
15	9845210NBR	4/17/2017	\$ 336.98
			\$ 5,500.04

Paleta Fundraiser

Ms. Moreno conducted an ongoing fundraiser for the Rocket Club that sold paletas (popsicles). Between February 2016 and January 2018, Ms. Moreno spent \$3,386 to purchase approximately 7,695 paletas. Ms. Moreno and the rocket club sold the paletas for \$1.00 each. This fundraiser had the potential to generate sales of \$7,695.00. However, only \$2,267.36 was deposited into the rocket club account from the paleta sales. This left a difference between potential sales and actual sales at \$5,428.09. After taking an inventory and accounting for spoilage (480 paletas), there is still \$4,719.09 of paletas sales that Ms. Moreno cannot account for. Ms. Moreno does not know what happened to the missing money or paletas (appendix 14).

Figure 1.4. Rocket Club Paleta Fundraiser Reconciliation

Items	Amount
Purchase Price	\$ 3,386.00
Price Per Unit	\$ 0.44
Total Quantity Purchased	7,695
Sales Price Per Unit	\$ 1.00
Potential Sales	\$ 7,695.00
Total Sales Deposited	\$ 2,267.36
Difference	\$ 5,428.09
Spoilage	\$ 480.00
Inventory	\$ 229.00
Total Unaccounted	\$ 4,719.09

Sunglass Fundraiser

On September 20, 2016, Ms. Moreno spent \$550.00 to purchase 300 pair of sunglasses from Fundraisers, Etc. Ms. Moreno and the rocket club sold the sunglasses for \$5.00 a pair. This fundraiser had the potential to generate sales of \$1,500.00. However, only \$69.28 was deposited into the rocket club account from the sunglasses sale. This left a difference between potential and actual sales at \$1,430.72. After taking an inventory of the sunglasses (98 located at ETA), there is still \$940.72 of sunglasses sales that Ms. Moreno cannot account for (appendix 15).

Ms. Moreno claims that two former students ordered the 300 pairs of sunglasses unbeknownst to her. In addition, Ms. Moreno claims that she never collected any money from this fundraiser.

Figure 1.5 Rocket Club Sunglass Fundraiser Reconciliation

Items	Amount
Purchase Price	\$ 550.00
Price Per Unit	\$ 1.83
Total Quantity Purchased	300
Sales Price Per Unit	\$ 5.00
Potential Sales	\$ 1,500.00
Total Sales Deposited	\$ 69.28
Difference	\$ 1,430.72
Spoilage	\$ -
Inventory	\$ 490.00
Total Unaccounted	\$ 940.72

Auto Desk Inventor Training

Ms. Moreno claimed that she attended Autodesk Inventor (a computer aided design software) training from July 31, 2017 to August 4, 2017. Ms. Moreno paid for the training at the training site, the Embassy Suites in San Antonio, with her personal credit card. Ms. Moreno then submitted an invoice and mileage traveling to the training for reimbursement through the NEISD Travel Reimbursement system. Ms. Moreno received reimbursement of \$1,603.50 for the class (\$1,550.00) and for her mileage (\$53.50) (appendix 16).

Internal Audit contacted the Embassy Suites and they do not have any record of Auto Desk Inventor training at their facility during that timeframe. Ms. Moreno then stated that they were not in a conference room. Instead, they just sat in the Embassy Suites' lobby with their laptops with the instructor for twelve hours a day for the class.

The invoice for the Auto Desk Inventor training was prepared by Un Manned Propulsion (UMP) the company owned by Ms. Moreno's son, Joshua Moreno. Internal Audit attempted to reach UMP about the training by calling their phone number listed on the invoice. The call went directly to a

mailbox with a 210 area code. The phone number of that mailbox belongs to Joshua Moreno, son of Ms. Moreno.

Ms. Moreno was unable to provide the original certificate from the training, the flash drive provided to her with all the training material, or a credit card statement showing she actually paid for this training. In addition, Ms. Moreno's professional development portfolio does not list this training.

OVERALL EVALUATION

There are many indications that UMP is a company formed to do business almost exclusively with NEISD. One is that UMP does not carry any products or have a product catalog. Another is that their online store does not contain any products. Finally, several invoices sent to NEISD are consecutive in numbering indicating a lack of business for UMP with other organizations.

According to State of Florida records and Mr. Moreno's social media posts, he is the owner and president of UMP. There is evidence that Ms. Moreno knew or should have known that Mr. Moreno is the owner and president of UMP and failed to disclose this conflict of interest.

Ms. Moreno overpaid for rocketry supplies by \$6,145 over a one-year period by ordering from UMP instead of directly from rocket supply vendors.

MS. Moreno also created and submitted fictitious invoices for reimbursement. Ms. Moreno submitted fifteen invoices over a five-month period (November 2016-April 2017). These fifteen invoices totaled \$5,500.04.

Ms. Moreno failed to account for two fundraisers that she conducted as the rocket club sponsor. The total amount of funds unaccounted for the fundraisers is \$5,659.81.

Finally, Ms. Moreno submitted a reimbursement claim for a training that she did not pay for or attend. The amount of the reimbursement was \$1,603.50.

Total Dollar Value in Question:

<u>Items</u>	<u>Amount</u>
Overcharging by Un Manned Propulsion	\$6,145
Fictitious Invoice Reimbursement	\$5,500
Unaccounted for Fundraiser Proceeds	\$5,659
Fictitious Training Reimbursement	<u>\$1,603</u>
Total	<u>\$18,907</u>

FINDING ONE

Condition: There is an undisclosed conflict of interest between ETA Teacher Ms. Christina Moreno and NEISD vendor UMP, owned by her son.

Criteria: Board Policy CAA (LOCAL) states that the District prohibits fraud and financial impropriety, as defined below, in the actions of its Trustees, employees, vendors, contractors, agents, consultants, volunteers, and others seeking or maintaining a business relationship with the District. Fraud and financial impropriety shall include but not be limited to: (11) Failure to disclose conflicts of interest as required by law or District policy.

Board Policy CHE (LEGAL) states that a vendor shall file a completed conflict of interest questionnaire if the vendor has a business relationship with the district and: (3) Has a family relationship with a local government officer of the district.

Board Policy DBD (LEGAL) states that a local government officer shall file a conflict disclosure statement with respect to a vendor if the vendor enters into a contract with the district or the district is considering entering into a contract with the vendor; and the vendor: (3) Has a family relationship with the local government officer.

Board Policy DBD (LEGAL) defines “Local Government Officer” as member of the board; the superintendent; or agent (including employee) who exercises discretion in the planning, recommending, selecting, or contracting of a vendor.

Board Policy DBD (LOCAL) states an employee shall disclose to his or her immediate supervisor a personal financial interest, a business interest, or any other obligation of relationship that in any way creates a potential conflict of interest with the proper discharge of assigned duties and responsibilities or with the best interest of the district.

Cause: Neither Ms. Moreno nor UMP disclosed the Joshua Moreno, Ms. Moreno’s son, was the president and owner of UMP.

Effect: Ms. Moreno purchased items from her son’s company at a highly inflated rate. Ms. Moreno overpaid for rocket supply items by \$6,145 over a one-year period.

Recommendation: These are the following recommendations:

- Purchasing Department remove UMP as a District Vendor
- Human Resources review this issue for possible personnel action
- Director of ETA thoroughly review purchase requests from his staff for appropriateness

FINDING TWO

Condition: Ms. Moreno overpaid for rocket supply items purchased from her son's company, UMP, by \$6,145 over a one-year period.

Criteria: Board Policy CAA (LOCAL) states that the District prohibits fraud and financial impropriety, as defined below, in the actions of its Trustees, employees, vendors, contractors, agents, consultants, volunteers, and others seeking or maintaining a business relationship with the District. Fraud and financial impropriety shall include but not be limited to: (4) Impropriety in the handling of money or reporting of District financial transactions.

Board Policy CAA (LOCAL) states that each employee who supervises or prepared District financial reports or transactions shall set an example of honest and ethical behavior and shall actively monitor his or her area of responsibility for fraud and financial impropriety.

Board Policy CAA (LOCAL) states that if an employee is found to have committed fraud or financial impropriety, the Superintendent or designee shall take or recommend appropriate disciplinary action, which may include termination of employment.

Board Policy CAA (LOCAL) states if a contractor or vendor is found to have committed fraud or financial impropriety, the District shall take appropriated action, which may include cancellation of the District's relationship with the contractor or vendor.

Cause: Ms. Moreno decided to purchase rocket supplies and other items almost exclusively from UMP, her son's company. Ms. Moreno stated that she did not know that UMP was charging more for items than other vendors.

Effect: Ms. Moreno purchased items from her son's company at a highly inflated rate. Ms. Moreno overpaid for rocket supply items by \$6,145 over a one-year period.

Recommendation: These are the following recommendations:

- Purchasing Department remove UMP as a District Vendor
- Human Resources review this issue for possible personnel action
- Director of ETA thoroughly review purchase requests from his staff for appropriateness

FINDING THREE

- Condition:** Fictitious Invoices Submitted for Reimbursement
- Criteria:** Board Policy CAA (LOCAL) states that each employee who supervises or prepared District financial reports or transactions shall set an example of honest and ethical behavior and shall actively monitor his or her area of responsibility for fraud and financial impropriety.
- Board Policy CAA (LOCAL) states that if an employee is found to have committed fraud or financial impropriety, the Superintendent or designee shall take or recommend appropriate disciplinary action, which may include termination of employment.
- Cause:** Ms. Moreno created fictitious invoices and submitted them for reimbursement from ETA.
- Effect:** Ms. Moreno received \$5,500.04 in invalid reimbursement from ETA.
- Recommendation:** These are the following recommendations:
- Human Resources review this issue for possible personnel action
 - Director of ETA thoroughly review expense reimbursement requests from his staff for appropriateness
 - Sponsors at ETA utilize purchase orders instead of purchasing items with their personal credit cards
 - The sponsor should reimburse the rocket club grant fund for reimbursement of the fictitious invoices

FINDING FOUR

Condition:	Unaccounted for and Missing Fundraising Proceeds
Criteria:	The school principal has ultimate responsibility for the proper collection, disbursement, and control of all school activity monies relative to the funds in his/her trust. This responsibility includes providing for the safekeeping of monies in the school, the proper accounting and administration of the same, and disbursing monies for purposes within the guidelines set forth in this manual (SAF/CAF Accounting Procedure Manual, p. 3). The sponsor (custodian) of each SAF/CAF account is responsible for maintaining adequate financial records as evidence of proper custodianship of monies received into and disbursed from these funds. Only certified personnel may be assigned as official sponsors of Activity Fund Accounts. Paraprofessionals may assist with the collections and preparation of various paperwork transactions for the accounts. Parents and students may help with activities and count money. However, the official sponsor (administrator, counselor, or teacher) should be cognizant of all of the account activity (SAF/CAF Accounting Procedure Manual, p. 3).
	The account sponsor is responsible for maintaining accurate records of all sales activities, and ensuring all items purchased from the approved fundraiser vendor for resale are accounted for (SAF/CAF Accounting Procedure Manual, p. 39).
	Board Policy CAA (LOCAL) states that if an employee is found to have committed fraud or financial impropriety, the Superintendent or designee shall take or recommend appropriate disciplinary action, which may include termination of employment.
Cause:	The rocket club sponsor, Ms. Moreno, failed to maintain accurate fundraising record and was not able to account for missing paleta and sunglass fundraising sales.
Effect:	Total missing rocket club fundraising funds unaccounted for totaled \$5,659.81 (paleta and sunglass fundraisers).
Recommendation:	These are the following recommendations: <ul style="list-style-type: none">• Human Resources review this issue for possible personnel action• Director of ETA thoroughly review all fundraising requests from his staff for appropriateness• Sponsors at ETA maintain proper and accurate accounting of all club fundraisers• The rocket club sponsor should reimburse the rocket club for the missing fundraising funds

FINDING FIVE

Condition:	Fictitious Training Expense Submitted for Reimbursement
Criteria:	Board Policy CAA (LOCAL) states that each employee who supervises or prepared District financial reports or transactions shall set an example of honest and ethical behavior and shall actively monitor his or her area of responsibility for fraud and financial impropriety.
	Board Policy CAA (LOCAL) states that if an employee is found to have committed fraud or financial impropriety, the Superintendent or designee shall take or recommend appropriate disciplinary action, which may include termination of employment.
Cause:	The rocket club sponsor submitted an invoice from a fictitious training for reimbursement.
Effect:	The sponsor received a travel reimbursement from the Career and Technology Education (CTE) Department of \$1,603.50 for training she did not purchase nor attend.
Recommendation:	<p>These are the following recommendations:</p> <ul style="list-style-type: none">• Human Resources review this issue for possible personnel action• Director of ETA thoroughly review all training requests from his staff for appropriateness• The rocket club sponsor should reimburse the CTE department for the missing fundraising funds.

OBJECTIVE

The overall objective of this review was to determine if Ms. Christina Moreno, ETA teacher and rocket club sponsor, violated district policies and procedures by failing to disclose the purchase of rocketry supplies from a company owned by her son, Joshua Moreno. In addition, internal audit reviewed Ms. Moreno's purchases to determine if UMP charged the district appropriate prices or if they inflated them.

SCOPE

The scope of this review is narrow. The review only focuses on the purchasing initiated by Ms. Christina Moreno with the company allegedly owned by her son, UMP.

WORK PERFORMED

Internal Audit completed the following during the review:

- Reviewed purchases initiated by Ms. Moreno with Un Manned Propulsion
- Reviewed purchases initiated by Ms. Moreno with Unmanned System Sources
- Reviewed travel reimbursement for training initiated by Ms. Moreno
- Reviewed and reconciled rocket club fundraisers initiated by Ms. Moreno
- Reviewed catalogs and pricing from other rocket supply vendors
- Examined documents found at the Florida Secretary of State web site
- Interviewed the following employees:
 - Director of ETA, supervisor of Ms. Moreno
 - ETA Administrative Assistant
 - Ms. Moreno, ETA teacher and club sponsor
 - Two ETA teachers and co-workers of Ms. Moreno

CLOSING COMMENTS

Internal Audit is appreciative of the cooperation provided by the ETA campus administration and staff throughout this review.

- c: Dr. Brian G. Gottardy, Superintendent North East ISD
Mr. Wallace McCampbell, Chief of Police, NEISD
Dr. Donna Newman, Associate Superintendent of Campus Administration and HR
Mr. Dan Villarreal, CPA Associate Superintendent of Business Services and CFO
Dr. Sean Maika, Interim Assistant Superintendent of Instruction and Campus Admin
Mr. Joel S. Treviño, Executive Director, Human Resources
Mrs. Colleen Bohrmann, Executive Director Learning Support Services
Mr. David Bohannon, Executive Director Procurement and e-Commerce
Mr. Ben Peterson, Senior Director Career and Technical Education
Mr. Melvin Echard, Principal Roosevelt High School