

**IBERO AMERICAN SCIENCE & TECHNOLOGY EDUCATION
CONSORTIUM BUSINESS REVIEW**

THE UNIVERSITY OF NEW MEXICO

**Report 2006-23
June 27, 2006**



The University of New Mexico

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ABBREVIATIONS

- ISTEC.....Ibero American Science & Technology Education Consortium
- LAI.....Latin American and Iberian Institute
- MOU.....Memo of Understanding
- Outside corporation...ISTEC’s related outside corporation
- University.....The University of New Mexico

EXECUTIVE SUMMARY

The Deputy Provost requested our assistance in reviewing the Ibero American Science & Technology Education Consortium (ISTEC) Executive Office, mostly funded by a New Mexico State appropriation, because of concerns regarding possible overspending and lack of internal controls.

We performed a limited business review of the operations of both ISTEC and their related outside corporation. In our business review, we assessed the current processes to verify that they had adequate internal controls to protect The University of New Mexico's (University) assets and reduce potential risks. During the course of our review, the outside corporation agreed with our recommendations to have the Treasurer of the outside corporation review the bank reconciliations and to eliminate the corporate credit card. We found that the University does not have a written agreement with the related outside corporation and that the outside corporation should revise their by-laws to have an additional person to review, approve, and sign checks.

The following summary provides management with an overview of conditions requiring attention.

OVERSPENDING

The University management had concerns regarding overspending which is no longer an issue.

WRITTEN AGREEMENT

The University should have a written agreement with the related outside corporation.

SEPARATION OF DUTIES

The outside corporation had one individual performing multiple duties without adequate review. The Treasurer is now reviewing the bank reconciliations and cash withdrawals.

CREDIT CARD

The outside corporation had the unnecessary risk of a credit card issued to an individual. It has subsequently canceled the credit card.

CHECK SIGNING

Someone, in addition to the Treasurer of the outside corporation, should be authorized to approve expenses and sign checks written to the Treasurer.

INTRODUCTION

BACKGROUND

The Deputy Provost requested our assistance in reviewing ISTECS because of concerns regarding possible overspending and lack of internal controls.

In December of 1990, ISTECS was founded at the University with representatives from fourteen universities and institutions of higher education from the United States, Latin America, and Spain which has increased to 120 and eventually twelve international companies with headquarters in both the United States and Spain; and governmental institutions from both the United States and Spain. As stated in the Summary Report from the ISTECS Conference on December 3 and 4 [of 1990], one of the objectives was to “create an international infrastructure for the promotion and exchange of education and research and for the transfer of technical information.” In addition, ISTECS was to, “form partnerships between industry and educational institutions so as to narrow the gap between engineering education and industry practice.” Over the years, the ISTECS Executive Office has worked together with the University’s Electrical & Computer Engineering Department and the University’s Latin American and Iberian Institute (LAI). The majority of ISTECS Executive Office’s operations are funded by a separate appropriation to the University from the State of New Mexico.

In June of 1999, several members of ISTECS formed an independent 501(c)3 nonprofit corporation (outside corporation). The outside corporation is financially supported by membership contributions from academic and industrial/institutional members. The outside corporation was established to foster scientific, engineering, and technology education; foster joint international research and development efforts among universities and industries; and provide a cost-effective vehicle for the application of technology.

In March of 2006, we received permission from the outside corporation’s Board of Directors to perform a limited business review. Therefore, our review is of: ISTECS, which is primarily the Executive Office that is principally funded by a State of New Mexico appropriation, and the outside corporation.

PURPOSE

The purpose of our audit was to perform a business review of both the ISTECS Executive Office and the related outside corporation to ensure there are adequate internal controls over the revenue and expense processes.

SCOPE

Our audit procedures were limited to reviewing the processes of ISTECS and the outside corporation for the calendar year ending December 31, 2005. The fieldwork was completed on May 16, 2006.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OVERSPENDING

University management had concerns with ISTECH overspending its budget. ISTECH's appropriation from the State of New Mexico was included in an LAII index code. In addition, ISTECH charged expenses to a different LAII index code and the outside corporation reimbursed the University after the fact. ISTECH is now an independent Institute at the University and maintains its own budget. Because of enhancements, the Banner accounting system will no longer allow ISTECH to over-spend its budget.

WRITTEN AGREEMENT

The University provides space and support to the outside corporation. In addition, some ISTECH employees are paid through the University via the State of New Mexico appropriation and work closely with the outside corporation. However, the University does not have an agreement with the corporation to identify the roles and responsibilities of both parties. Without an agreement, the University could become responsible for the outside corporation's liabilities. A written agreement that defines the relationship between the parties should decrease the likelihood of misunderstanding.

Recommendation 1

We recommend that the University and the outside corporation work together to generate a written agreement or Memorandum of Understanding (MOU).

Response from the Vice President for Research and Economic Development

The Office of Vice President for Research and Economic Development has been working with ISTECH management to develop an MOU between the University and ISTECH. A draft of the MOU has been generated. The completion of the draft requires additional information from ISTECH which they have not supplied. After the draft is completed it will undergo legal review. We hope to have the MOU completed by 1 August 2006 but have no control over the response time of ISTECH.

SEPARATION OF DUTIES

Separation of duties or adequate reviews should be in place to ensure that all revenues are deposited and expenses are appropriate. At the time of our review, the Executive Office Administrator for the outside corporation opened the mail, made copies of the checks, made the deposit, withdrew cash from the bank when needed, and reconciled the bank and membership accounts. The lack of separation of duties is a control weakness because monies could be taken without being detected. We recommended that the Treasurer review the detailed bank reconciliations to both the bank statements and the membership list, and compare the cash

withdrawals to the appropriate paperwork monthly. The Treasurer agreed to this added control and began reviewing the reconciliations and cash withdrawals.

CREDIT CARD

For the past several years, the outside corporation had a credit card that was used principally by the ISTECH Vice President for Planning for business travel and entertainment expenses. Because the outside corporation has developed the necessary infrastructure to handle normal business expense reimbursements, the credit card was no longer needed. We recommended that the outside corporation cancel the credit card to eliminate any potential liability. The credit card was canceled in April of 2006.

CHECK SIGNING

The Treasurer is the only person authorized by the outside corporation bylaws to approve expenses and sign checks for the outside corporation. Therefore, he approves and writes checks to himself with no other approval signature. The Treasurer should not be approving his own expenses.

Recommendation 2

We recommend that the outside corporation consider amending their by-laws to authorize someone, perhaps the Secretary of the Board, to review, approve, and write checks when they are payable to the Treasurer.

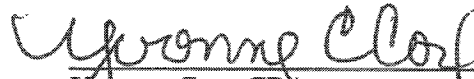
Response from the President of the outside corporation

The President of the outside corporation, whose office is in Brazil, was apprised of these recommendations during his working visit to the University. The outside corporation's By-laws are presently being amended and will be presented to the Board of Directors in their next meeting in Loja, Ecuador in mid-November of 2006. A temporary authorization for the Executive Office Administrator for check signing was approved. This text was approved by Dr. Miskulin electronically.

CONCLUSION

We performed a limited business review of the operations of both ISTECH and their related outside corporation. In our business review, we assessed the current processes to verify that they had adequate internal controls to protect the University's assets and reduce potential risks. During the course of our review, the outside corporation agreed with our recommendations to have the Treasurer of the outside corporation review the bank reconciliations and to eliminate the corporate credit card. We found that the University does not have a written agreement with the related outside corporation and that the outside corporation should revise their by-laws to have an additional person to review, approve, and sign checks.

APPROVALS



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Approved for Publication



Vice Chair, Audit Committee