

**THE UNIVERSITY OF NEW MEXICO - HARWOOD MUSEUM
PRELIMINARY ASSESSMENT OF SELECT OPERATIONS**

THE UNIVERSITY OF NEW MEXICO

**Report 2006-63
April 4, 2007**



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ABBREVIATIONS

FY.....	Fiscal Year
Museum.....	Harwood Museum
Resolution.....	Resolution Affirming the Governing Board
UBP.....	University Business Policies and Procedures Manual
University.....	University of New Mexico
Staff.....	Museum Staff
I & G.....	Instruction and General

EXECUTIVE SUMMARY

The Internal Audit Director and the Financial Officer from the Office of the Provost visited the Harwood Museum (Museum) on January 22 and 23, 2007, to conduct a preliminary assessment of the Museum's operations. The purpose of the assessment is to:

- Determine adequacy of financial and budgetary reporting
- Assess internal controls
- Determine security and inventory of the art collection
- Provide recommendations

The following preliminary assessment and recommendations are based on interviews, review of available documentation and observations made during our two-day visit. We did not review the data presented to determine either its accuracy or validity.

The Internal Audit Department should conduct a follow-up review within in a year to evaluate the Museum's progress.

Issues emerged in two areas during the course of this preliminary assessment: governance and operational.

GOVERNANCE

The Deputy Provost and the Governing Board have differing opinions on their roles and responsibilities as contained in the Resolution Affirming the Governing Board. This situation is contributing to ineffective and inefficient operations as well as impeding fundraising efforts.

University Counsel should review the Resolution and provide recommendations on the Museum's governance structure to the Board of Regents. University Counsel agreed with this recommendation and is preparing a report to present to the Audit Committee that will include alternative governance structures that the Board of Regents may consider to clarify the roles of the Provost and the Harwood Governing Board in governing and managing the museum.

OPERATIONAL

Most of the following operational concerns are systemic issues the Deputy Provost has been dealing with for some time. It is our understanding that this situation is also affecting fundraising efforts. These issues appear to be a combination of inadequate planning, insufficient funding, poor fiscal management, inappropriate staff skill sets, and low salaries.

- Financial and budgetary reports are inadequate because the Museum does not have a fiscally sound management structure that allows for adequate analysis. The current financial standing of the Museum is unknown due to unrecorded transactions and lack of encumbrance management. The deficit reduction plan submitted to the Office of the

Provost in January 2006 is ineffective because the Museum's deficit continues to increase.

- The Museum has a weak internal and budgetary control structure, and inadequate planning.
- The \$ [REDACTED] art collection value may be unreliable because some items are not valued and some are valued without performing research. The museum also lacks an [REDACTED].

Once the Museum's governance structure is determined, the appropriate staff should provide the Museum the following assistance as soon as possible to improve the Museum's financial and budgetary reporting, internal controls and [REDACTED] and inventory.

- establish appropriate Banner indexes;
- analyze the Museum's funding structure;
- analyze the Museum fee and membership structure;
- implement adequate internal controls;
- complete the collection inventory; and
- [REDACTED].

The Acting President agreed with this recommendation. Once a formal governance structure is established, a strategic plan should be developed. This plan will necessarily include fund raising, appropriate staffing, and the need for continued monitoring. Also, effective internal control will be established as soon as possible.

The Director should require review of outstanding encumbrances, make every effort to complete the art collection inventory as soon as possible and require a periodic physical inventory. The Director agreed with the recommendations. The Director will review outstanding encumbrances on a quarterly basis and complete a preliminary collection inventory in three months and a final inventory within a year.

INTRODUCTION

BACKGROUND

The Harwood Museum of Art of the University preserves, collects, and exhibits historic and contemporary art and culture of the Taos region. Its mission is to present Taos art to the world and world art to Taos.

The University of New Mexico (University) was given the Harwood Museum (Museum) in 1935 pursuant to a deed of gift from Mrs. Lucy Case Harwood. In 1997, the Museum underwent a \$1.5 million renovation project, expanding from two to seven galleries.

Two of the conditions included in the deed that conveyed the Museum property to the University are:

1. The property shall remain the property of the University in perpetuity and shall be kept intact in Taos, New Mexico, by the University and be used as an educational, cultural and art center in connection with the work of the University.
2. The property shall be administered by the Board of Regents of the University operating through a committee to be known as the Governing Board of the Harwood Foundation of the University, which committee shall be from time to time designated and appointed by the Board of Regents.

Before May 2005, the Museum had an advisory board that provided input to the Provost and the Museum Director (Director). In May 2005, the University Board of Regents approved a Resolution Affirming the Governing Board (Resolution) of the Harwood Foundation. The Board consists of 20 members. In May 2005, the Board of Regents also approved the Bylaws of the Governing Board. The Resolution requires the Governing Board to exercise the authority and carry out the functions specified in the Resolution. Any disagreements between the Governing Board and the Provost are required to be resolved by the President of the University. If the Governing Board remains in disagreement with such resolution, the Board of Regents shall make the determination.

The Resolution states:

- The Director and other employees of the Museum are employees of the University, subject to the sole control and policies of the University.
- The Director is appointed by, and reports to, the Provost and Executive Vice President for Academic Affairs or his designee. Currently the designee is the Deputy Provost.
- The Director and University administration are required to work cooperatively with the Governing Board in all matters regarding the operations and management of the Museum.

- The entire budget of the Museum from all sources is subject to approval by the Provost, University President, and Board of Regents.

In cooperation with the Director, the functions and responsibilities of the Governing Board include:

- Adopt a mission statement and strategic and long-range plan, subject to the Provost's approval.
- Provide plans and implement fundraising strategies. Coordinate and support the annual fundraising priorities of the Harwood Museum Alliance.
- Supervise the overall operations of the Museum, including management of the grounds and facilities of the Museum, its collections and exhibitions practices, and its public programs in light of its strategic and long-range plans.
- Adopt policies concerning the Museum as needed, consistent with the mission statement and its strategic and long-range plans subject to the approval of the Provost.
- Approve an annual budget for expenditure of all funds raised to benefit the Museum from private sources. Advise the Director and Provost concerning the annual budget for expenditure of public funds.

The Museum's fiscal year (FY) 07 budget is \$621,096 of which \$292,721 (47%) is Instruction and General (I&G). The remaining 53% of the budget is derived from fundraising activities, gift shop sales, educational programs, exhibits, and facility rental. The Museum employs 11 staff (some of whom work part-time), four on-call customer services assistants, and two work-study students. The Museum also has a group of volunteers and docents.

PURPOSE

The purpose of the assessment is to:

- Determine adequacy of financial and budgetary reporting
- Assess internal controls
- Determine security and inventory of the art collection
- Provide recommendations

SCOPE

The preliminary assessment was limited to a review of the FY07 financial and budget reports, review of internal controls and review of the art collection inventory and security. We did not validate the accuracy of the information provided. The preliminary assessment was added to the FY07 Audit Plan.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

GOVERNANCE

Organizational Structure

The current organizational structure of the Museum is making it difficult for the Museum staff (staff) to understand to whom they are accountable and reportable. The Deputy Provost and the Governing Board disagree on the Governing Board's authority over Museum operations. It is our understanding that the governance issue is impeding fundraising efforts.

The deed that conveyed the Museum property to the University states:

The property shall be administered by the Board of Regents of the University of New Mexico operating through a committee to be known as the Governing Board of the Harwood Foundation of the University of New Mexico, which committee shall be from time to time designated and appointed by the Board of Regents.

The Board of Regents approved a Resolution Affirming the Governing Board in May 2005. The Resolution Part 3 "Director and Employees of the Harwood Museum" states: "The Director and other employees of the Harwood Museum shall be employees of the University, subject to the sole control and policies of the University." Part 4.3 states the Governing Board shall supervise the overall operations of the Museum.

According to the organizational chart, the Museum's Director (Director) reports directly to the Deputy Provost and works cooperatively with:

- the Governing Board (membership 20);
- the Harwood Alliance (membership 10); and
- the Director's circle (membership 20).

Recommendation 1

University Counsel should review the current Resolution and provide the Board of Regents the necessary changes to clarify roles and responsibilities of all parties to create an effective and efficient governance structure. If this situation is not resolved, it may be difficult to implement several of the following recommendations.

Response from University Counsel

University Counsel agrees with the recommendation. University Counsel will make a report regarding the current governance Resolution to the Board of Regents' Audit Committee at its meeting of April 9, 2007. The report will include alternative governance structures that the Board of Regents may consider in order to clarify the roles of the Provost and the Harwood Governing Board in governing and managing the museum.

Harwood Museum Alliance

There is no formal agreement that describes the roles and responsibilities among the Alliance, Museum, and the University. The Alliance is a 501 (c) (3) organization that raises funds for educational programs, collections and exhibitions, and provides volunteer support for the Museum.

The Museum staff provides administrative support to the Alliance. The duties of one staff member include Alliance membership renewal. Another staff member maintains the financial records for the Alliance.

As of December 2006, the Alliance had a cash balance of \$29,572 while the Museum's deficit in the public service fund was \$568,708. Financial reports provided to the Governing Board at the January 22, 2007, meeting projected a \$571,430 deficit, which is a \$2,722 increase.

The Museum paid some expenses through the Alliance, which conflicts with University policy and understates the expenditures recorded in Banner. According to staff, the financial reports presented to the Governing Board on January 22, 2007, do not reflect the expenditures paid by the Alliance.

The Resolution Affirming the Governing Board Part 4.2 states "The Governing Board is required to coordinate with and support the annual fundraising priorities of the Harwood Museum Alliance . . . a non-profit organization dedicated to providing public support to the Museum." Part 4.3 states the Governing Board shall also supervise and support the activities and operations of the Alliance in consultation with its Board of Directors.

Section 2. "Allowable and Unallowable Expenditures" Policy 4000, University Business Policy and Procedures Manual (UBP) states, "It is the general policy of the University that all financial resources received by the University, irrespective of their sources, shall be expended under common policy and procedures. All funds made available to the University shall be expended through University accounting systems and in accordance with *University Business Policies and Procedures*. This includes funds obtained through the appropriation of tax revenues, gifts from individual donors, income earned for services rendered such as research and public service, or through transfers from affiliated organizations such as foundations. University employees may

not directly control, expend funds, or be reimbursed from affiliated organization accounts for University business unless the funds are transferred to an appropriate University account. All funds must be deposited in a University account; no other bank accounts may be set up except those established by the University Associate Vice President for Financial Services with the approval of the Executive Vice President for Administration.”

The Alliance membership was once as high as 462. According to the Director, Alliance membership has been about 291 for several years. The Museum staff sends out letters encouraging membership renewal. At the January 22, 2007, Governing Board meeting we learned that contributors are concerned with governance and the Museum’s deficit. Documentation provided by the Director indicates that endowments have increased by approximately \$550,000 over the last five years.

Recommendation 2

The role of the Alliance and the method in which the Museum receives contributions collected through the Alliance should be included in the University Counsel’s review of the Resolution. If necessary, the Provost, Governing Board, University Counsel, and the Alliance should work together to develop an agreement that is acceptable to all parties and the community.

Response from University Counsel

University Counsel agrees with the recommendation. University Counsel’s report to the Board of Regents’ Audit Committee will address the matters concerning the Alliance as well (see response to Recommendation 1).

University Counsel will work with the Provost and Harwood Governing Board to develop an appropriate agreement regarding the role of the Alliance that is consistent with such authority as may be delegated by the Board of Regents to the Harwood Governing Board and the Alliance.

Recommendation 3

The Director should require compliance with Section 2. “Allowable and Unallowable Expenditures” Policy 4000, UBP by requiring all Museum expenditures flow through the University accounts and discontinue paying for expenditures through the Alliance.

Response from Harwood Museum Director

Management concurs. We will begin paying all museum expenditures from our UNM budget, rather than having the Alliance pay for specific costs. This will be implemented during the next month.

OPERATIONAL

Staffing

Based on the number of observations identified during this preliminary assessment, it appears that some staff members did not receive sufficient training to perform their duties in compliance with University policy. In addition, staff duties have changed with the expansion of the Museum and fund raising activities. Therefore, the skill sets of the staff may not be adequate to meet the current needs of Museum operations.

A comparison of permanent staff resumes to job descriptions indicates the staff appears to hold more education and training than their position requires. Most of the positions require a high school diploma or GED and six months to five years direct experience. Several staff have degrees or college credit hours in history or art history. All staff list prior experience in the relevant areas. However, the staff may require different skill sets and job functions may need adjustment to meet the current needs of the Museum.

The Museum has 11 employees of which four are on-call and two are work-study students. At the time of our visit, the staff was behind in several of their tasks, they had not reviewed encumbrances to determine their validity, they had not recorded revenues, and compliance with University policy was lacking. The Director delegated much of his approval authority to the Administrative Assistant 3 who is already overwhelmed. According to the Director, the Governing Board expected him to increase contributions, which had an effect on his ability to properly monitor operations. According to documentation provided by the Director, endowments increased by approximately \$550,000 over the last five years and attendance has increased by 5,233 over the same period.

The Deputy Provost stated that the Human Resources Department scheduled an organizational and staffing assessment at his request. However, the Human Resources Department did not perform the assessment due to staff turnover. The Deputy Provost has again requested an assessment and scheduling is currently in process.

Section 2. “Responsibility and Accountability for University Information and Transactions” Policy 2000, UBP states:

Deans, directors, and department heads are responsible for ensuring designated individuals have attended the necessary training required to effectively and efficiently complete authorized business and/or administrative processes and transactions. Deans, directors, and department heads are accountable for exercising good judgment, upholding ethical standards, and should have internal procedures in place to ensure periodic review of designations and related training.

Recommendation 4

The Deputy Provost should continue working with the Human Resources Department to reschedule an assessment to determine if the staffing structure needs realignment. This assessment should also take into consideration the need for a manager or qualified accountant with management experience.

Response from Deputy Provost

Management concurs. Human Resources has responded to the Deputy Provost's second request for a staff audit by agreeing to carry one out once the governance matters are resolved. The Deputy Provost and the Director have agreed, however, that a business manager is needed on the staff, and that the salary line vacated by the individual who operated the gift shop will be used to fund the business manager position. This search will begin once the governance issues are resolved.

Recommendation 5

The Director should require staff to obtain training or re-training in Banner, Hyperion, and cash management. The Director and Administrative Assistant 3 should review Learning Central to determine other beneficial training needs to address and mitigate the concerns identified throughout this preliminary assessment.

Response from Harwood Museum Director

Management concurs. Director will work with staff to schedule re-training, Banner and Hyperion training to increase staff job skills within the next year.

Planning

The Museum has not finalized its long-range strategic plan with specific goals and objectives. This results in decisions being made without adequate planning and coordination. According to the Director, the staff has been working on the strategic plan for several years but the Governing Board or the Provost have not approved it. The Museum has developed a facilities master plan.

Based on our observations, it appears some purchases are made without a means of funding them. The Museum requests and receives funding from the legislature for building expansion without planning for corresponding operations and maintenance costs; therefore the deficit could grow because of increased costs such as utilities, equipment and maintenance. The expansion could also increase administrative costs.

Because of inadequate planning for exhibits, the Governing Board now requires budgets to demonstrate that the cost of the exhibit does not exceed expected revenue.

The Resolution Affirming the Governing Board states that one of the responsibilities of the Governing Board is to adopt strategic and long-range plans as appropriate. The Governing Board is required to review the plans with the Director and adopt changes as appropriate.

Recommendation 6

Once the governance structure is determined, the governing body should finalize the strategic plan to include reasonable objectives and goals.

Response from Acting President

The audit report is correct; i.e., as soon as a formal governance structure is established, a strategic plan should be developed. This plan will necessarily include fund raising, appropriate staffing and the need for continued monitoring. Also, effective internal control will be established as soon as possible.

Recommendation 7

Once the governance structure is determined, the governing body should establish a fundraising cycle that coincides with the budget approval process to assist in developing the budget based on revenues that are more realistic.

Response from Acting President

The audit report is correct; i.e., as soon as a formal governance structure is established, a strategic plan should be developed. This plan will necessarily include fund raising, appropriate staffing and the need for continued monitoring. Also, effective internal control will be established as soon as possible.

Recommendation 8

Once the governance structure is determined, the governing body should require adequate planning and budgets to demonstrate that adequate resources are available and funding is secured to support exhibits and future expansion.

Response from Acting President

The audit report is correct; i.e., as soon as a formal governance structure is established, a strategic plan should be developed. This plan will necessarily include fund raising, appropriate

staffing and the need for continued monitoring. Also, effective internal control will be established as soon as possible.

Financial and Budgetary Reporting

The current financial accounting structure within Banner consolidates all of the Museum's activities making it difficult to perform adequate financial analysis by type of activity. Sound business decisions are difficult to make because it is difficult to determine which activities (gift shop, museum admissions, exhibits, education program) are generating revenues sufficient to cover expenses. As a result, individual Executive Committee members of the Governing Board are working with Museum staff to develop financial reports that segregate Museum activities. This creates inefficiency in Museum operations because staff spends time generating off-line reports and is falling behind in recording transactions. In some cases, the staff is behind up to six months in recording revenue in Banner.

The Museum is considering using a shadow system to assist in providing more timely financial reports. Currently internal records are not reconciled to Banner monthly reports. Therefore, a shadow system will exacerbate the problems because additional reconciliations will be required due to maintenance of two accounting systems.

Based on documentation provided by staff, which is unaudited, the Museum had a \$138,696 deficit in FY 01 in the public service fund. A transfer from endowment funds relieved the deficit. Since FY04, the Museum has been in a deficit position. The Museum's current financial position is indeterminable due to lack of timeliness in posting transactions and lack of encumbrance management. As stated previously some Museum expenses are paid through the Alliance account; therefore, expenditures in the University accounting system are understated.

Harwood Museum
Historical Fund Balances

Fiscal Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
I&G	\$13,437	\$12,083	\$11,353	\$6,421	\$(5)	\$3,437	\$2,899	\$3,319	\$8,186	\$24,262
Public Service	\$621	\$(9,827)	\$(29,473)	\$(87,931)	\$(138,696)	\$8,836	\$20,974	\$(25,261)	\$(92,976)	\$(129,266)

The above does not include non-endowed and endowed funds
Source: FRS and Banner

As of March 2, 2006, the total available in non-endowed accounts was \$437,252. It appears that non-endowed funds are not used for Museum operations and are treated as restricted funds. A review of the source and nature of these gifts would determine if they are available to relieve the deficit.

At the request of the Office of the Provost, the Director submitted a deficit reduction plan in January 2006 that explains what caused the deficit and his plans to reduce it. The plan states that the deficit is the result of limited University funding (40% of the budget is I&G); reliance on

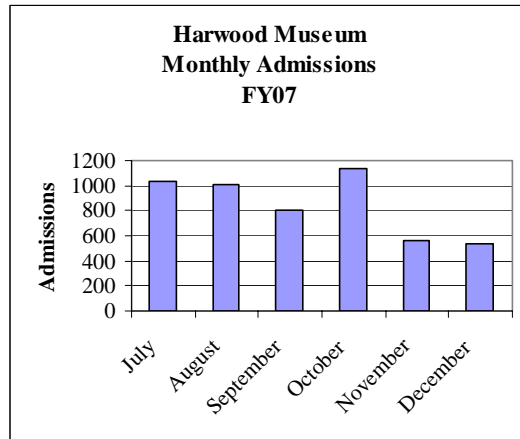
private donations, museum attendance and gift shop sales; and the cost of exhibits exceeding revenue. The plan states that the Governing Board formally requested that the Board of Regents forgive the deficit. The plan also states that the steps outlined in the plan will reduce the total FY05 deficit within four years, and are expected to prevent future deficits; however, the deficit grew an additional \$36,289 in FY06.

The Museum had a large encumbrance reservation at December 2006, which resulted in an unfavorable budget balance. Since our visit, the Financial Officer in the Office of the Provost worked with the Administrative Assistant 3 to liquidate encumbrances. As a result, encumbrances decreased in the public service fund by \$194,101. As of March 7, 2007 the Museum's FY07 financial position in the public service fund is:

Harwood Museum Public Service Fund Financial Position Actual from July 1, 2007 through March 7, 2007			
	FY07 Budget	FY07 Year-to-date Actual	Variance Fav (Unfav)
Revenues	328,375	107,881	(220,494)
Expenditures	328,375	216,202	112,173
Net Revenue/(Expenditures)		(108,321)	(108,321)
FY06 Deficit Carryover		(129,265)	
Cumulative Deficit		(237,586)	
Encumbrance Reservation			(126,352)
Budget Balance			(234,673)

Source: Banner

Museum attendance has increased by 5,233 since 2001; however, approximately half of the admissions are free based on the Museum's annual reports. As can be seen on the following graph, attendance is seasonal. It is our understanding that Museum admissions have dropped significantly since the Christmas holiday. Some days there have been no admissions or gift shop sales. In FY07, the Museum developed a database to capture attendance. Since the Museum is in a deficit position, analysis of attendance data by month will be useful to determine if there is potential savings by adjusting the hours and days of operations during the year and if admission and membership fees are adequate.



Source: Harwood Museum Admissions Report

The Resolution states that the Governing Board in cooperation with the Director shall approve an annual budget for expenditure of all funds raised to benefit the Museum from private sources and shall advise the Director and Provost concerning the annual budget for expenditure of public funds that may be allocated to the Museum.

Recommendation 9

The Director should assign tasks to the staff based on priority and workload establishing reasonable completion dates that take into account routine duties.

Response from Harwood Museum Director

Management concurs. The Director will work with staff to evaluate job responsibilities, and reassign staff reasonable workloads during the next year.

Recommendation 10

The Director should review the non-endowed accounts to determine if these funds are available for Museum operations.

Response from Harwood Museum Director

Management concurs. The Director will review the non-endowed accounts with Administrative Assistant III and release funds to operations budget by April 30, 2007.

Recommendation 11

The Fiscal Agent should work with Museum staff to develop Banner indexes that provide the ability for adequate analysis.

Response from Fiscal Agent

Management concurs. The Provost/Academic Affairs Financial Officer has discussed the reporting needs of the Harwood Museum with staff and members of the Governing Board. The establishment of new indices is dependent upon the resolution of the Governance issue.

Recommendation 12

The Acting President working with appropriate staff should consider one or all of the following options:

- Send an experienced team or accountant from the Controller's Division to the Museum, preferably prior to the close of the fiscal year, to assist them with their accounting, bring their accounts current and train Museum staff on how to maintain the system.
- Develop an accounting service center that supports the Museum and other similar departments lacking adequate resources. The service center would perform the accounting function for these departments.
- As previously stated, analyze the staffing structure to determine if realignment is necessary to provide the appropriate skill sets for this type of operation.
- Hire an experienced business or accounting manager.

Response from Acting President

The audit report is correct; i.e., as soon as a formal governance structure is established, a strategic plan should be developed. This plan will necessarily include fund raising, appropriate staffing and the need for continued monitoring. Also, effective internal control will be established as soon as possible.

Recommendation 13

The Director should work with the Administrative Assistant 3 to regularly analyze outstanding encumbrances and expenditures to determine where adjustments can be made so that expenditures do not exceed budget authority and realistically projected revenue.

Response from Harwood Museum Director

Management concurs. The Director will work with the Administrative Assistant III to review encumbrances in April 2007 and remove items not required for FY 2006-2007 budget. In the future, Director will review encumbrances for accuracy on a quarterly basis.

Recommendation 14

The Director should regularly review and analyze Museum attendance to determine if adjusting the days and hours the Museum is open will result in cost savings.

Response from Harwood Museum Director

Management concurs. The Director will work with the Harwood staff to review the past three years of admissions and gift shop statistics. The director will make a recommendation to the University on future hours and admissions costs for the museum. This task will be completed in the next two months to work with next year's budget.

Recommendation 15

The Director should obtain assistance from the Associate Vice President for Business Development and Auxiliary Services to determine if the current fee and membership structure is adequate to meet the financial needs of the Museum and the community.

Response from Harwood Museum Director

Management concurs. The Director will send the information to the Associate Vice President for Business Development and Auxiliary services, and seek advice regarding the museum's fee and membership structure. This task will be completed within 8 months.

Policies and Procedures

The Museum does not have internal written policies and procedures for administrative and financial operations. The Museum staff has no written guidance on how to perform their duties as a result guidance is provided verbally, which results in inefficient operations and violation of University policies and procedures.

The Resolution states that the Governing Board is required to adopt policies concerning the Museum, which are consistent with its mission statement and with its strategic and long-range plans subject to the approval of the Provost.

Recommendation 16

The Director should obtain an existing policy and procedure manual from a similar Museum or research the American Association of Museums web site to find a template to adapt to the Museum's operations.

Response from Harwood Museum Director

Management concurs. The Director and Harwood staff will develop a policies and procedures manual for museum operations within the next year using American Association of Museum's accredited museum's models.

Cash Controls

The Museum operations do not comply with "Cash Management" Policy 7200, UBP in admissions, gift shop, donations, educational programs, and event rentals. The following are noted exceptions to the policy.

- Checks are not always restrictively endorsed upon receipt.
- Pre-numbered refund slips are not used in the gift shop and there is no segregation of duties in the receiving of money and issuing of refunds.
- Cash register tapes are adjusted to match actual monies received through voiding and re-entering the transaction rather than performing reconciliations to document why differences exist.
- Pre-numbered receipts are not issued upon receipt of fees for educational programs and events.
- When monies are transferred from one individual to another, the transfer of responsibility is not documented.
- Deposits are not made intact within 24 hours and overages and shortages are not recorded immediately upon discovery. Cash overages are not deposited and shortages are taken out of these overages. During our visit, approximately \$25 was not deposited. Currently the Museum makes deposits once a week regardless of the amount or source of the monies collected. In addition, donations in excess of \$100 are submitted weekly to the UNM Foundation.
- Only one person accounts for Alliance membership fees received through the mail. This individual opens the mail and records the fee received in the membership database.
- The admissions desk and gift shop are not using a separate cash drawer or performing cash counts when on-call staff take over during breaks.
- One person has full control over depositing, recording, reconciling, and reporting functions. A proper segregation of duties reduces the likelihood that a person who has access to money cannot conceal a fraud or an error. Section 3.3 "Cash Management" Policy 7200, UBP states "...When the size of a department does not allow for proper segregation of duties, the

Financial Services' Office will provide assistance in designing systems which ensure adequate internal control.”

- Signed petty cash checks are released to staff without a specified amount on the check. The Museum has \$500.00 in a petty cash checking account. The Administrative Assistant 3 dates and signs petty cash checks, places a copy in the file, gives the check to staff to make the purchase and staff fills in the amount for the purchase. The staff submits the receipt and the Administrative Assistant 3 writes the amount of the check on the copy.
- Revenue/Cash Collection Reports are not submitted to the Bursar's Office on a timely basis for recording into Banner. At the time of our visit, staff was behind six months in posting revenues. Therefore, the financial position of the Museum is misstated.

Recommendation 17_

The Administrative Assistant 3 attended the cash management training held in February 2007; however, the Director should require all staff working with monies to attend the training as soon as possible.

Response from Harwood Museum Director

Management concurs. The Director is requiring all staff who handle cash to complete the UNM Cash Management training, which will be held in Taos in April 2007.

Recommendation 18

The Acting President, working with appropriate staff, should contact the Financial Services' Office immediately to provide assistance to Museum staff in designing an adequate internal control system.

Response from Acting President

The audit report is correct; i.e., as soon as a formal governance structure is established, a strategic plan should be developed. This plan will necessarily include fund raising, appropriate staffing and the need for continued monitoring. Also, effective internal control will be established as soon as possible.

Recommendation 19

The Director should require compliance with all requirements of the University's "Cash Management" policy.

Response from Harwood Museum Director

Management concurs. The Director will work with staff to implement full compliance with UNM cash management policy to be completed by June 30, 2007.

Recommendation 20

The Associate Vice President for Financial Services should review the Museum's petty cash fund to determine if the current amount is reasonable, and should provide guidance to the Director and Administrative Assistant 3 on the proper handling of petty cash.

Response from Associate Vice President for Financial Services

Harwood Museum has a Petty Cash fund of \$1,200.00 (Banner fund 2U0217). Of this, \$700.00 is used as a change fund for the Museum's cash drawers. The \$700.00 is broken down as follows: \$300 in Admissions (\$150 in register, and \$150 in reserve); \$400 in Gift Shop (\$120 in register, and \$280 in reserve). Reserve bags are stored in the safe, and locked up at the end of the day. The remaining \$500.00 is in a checking account at the First Community Bank in Taos, and is used to make purchases appropriate for a petty cash fund.

Harwood has submitted four (4) Petty Cash reimbursement requests since the July 1, 2004 inception of Banner.

The first request (I0049560) was submitted on 12/9/04, and was for eight (8) purchases made during July through October 2004. All purchases were made via Petty Cash check.

The second request (I0059448) was submitted on 1/17/05, and was for purchases made in November and December 2004, and January 2005. All purchases were made via Petty Cash check.

The third request (I0104657) was submitted on 5/23/05, and was for four (4) purchases made in January through March 2005. Three (3) purchases were via Petty Cash check, and one was via an auto-withdrawal from the Petty Cash bank account, for a check reorder.

The fourth request (I0232896) was submitted on 6/30/06, and was for eleven (11) purchases made in June 2005 through January 2006. All purchases were made via Petty Cash check.

Per this analysis, the Harwood Museum has been advised to reduce their Petty Cash fund to \$850. The entire \$350 reduction will represent a decrease in the balance of the checking account from \$500 to \$150. General Accounting will grant a purchasing card exception to allow for the purchase of food and decorating items from Smith's, Wal-Mart and the like, for various events that Harwood Museum sponsors. These types of purchases represent the great majority of petty cash purchases that are currently made. The \$150 remaining balance will allow for

necessary small purchases from vendors who do not accept p-card. The Harwood Museum personnel have also been instructed to submit future petty cash reimbursement requests in a more timely fashion, at least monthly. The \$700 change fund will remain intact, however, Harwood Museum has been advised that all personnel who handle this cash should take the Cash Management course as soon as possible.

Recommendation 21

The Director should require that the Administrative Assistant 3 discontinue issuing signed checks with a blank payment amount.

Response from Harwood Museum Director

Management concurs. This practice has been discontinued permanently.

Gift Shop Inventory

Access to gift shop inventory is not limited to authorized personnel and controls are not in place to account for inventory. The gift shop's inventory of books and posters is stored throughout the administrative offices and is easily accessible to anyone in the area. Reconciliations are not performed between sales and inventory balances.

Recommendation 22

The Director should move book and poster inventory into a secure area until the gift shop expansion is complete. The Director should identify a secure storage area for gift shop inventory and incorporate secure storage into the gift shop expansion plans.

Response from Harwood Museum Director

Management concurs. The Director will work with Harwood maintenance staff and UNM expansion project manager to provide a secure storage area for gift shop inventory. This task will be completed within 12 months.

Recommendation 23

The Director should require periodic reconciliations between sales and inventory balances.

Response from Harwood Museum Director

Management concurs. The Director will work to implement reconciliations between sales and inventory balances within the next year. We may need assistance from the University Business Office to set up these policies and checkpoints.

Purchasing

University policy is not always followed in the procurement of services. The following are examples of non-compliance.

- Not all purchases of services from independent contractors comply with University Purchasing Policy. The Director procured book editing services for \$4,288 and marketing and media relations for \$9,300 without going through the Purchasing Department.

Section 2. "Purchasing Services from Independent Contractors", Policy 4325, UBP states "to purchase services from an independent contractor, the department must prepare a Purchase Requisition in LoboMart and submit it electronically for approval. The requisition must include a detailed description of the purpose or function of the service. The appropriate accounting office must approve the request and the Purchasing Department must issue a Purchase Order before an independent contractor may be engaged. The University Counsel's Office must approve the purchase of legal services. These approvals are necessary to ensure compliance with IRS regulations, the State Procurement Code, and other laws."

- Staff is not verifying that all purchases are allowable and reasonable before making the purchase. According to staff, purchases are frequently made without proper documentation and approval. Documented justification for most purchases is obtained after the items are received.

Section 1. "Allowable and Unallowable Expenditures" Policy 4000, UBP states "... all managers of University funds shall ensure that any obligation for the procurement of goods and services is supported by appropriate financial resources and approved by the person in the department who has authority over the account before the purchase is made."

- The Director delegated approval authority for purchases to the Administrative Assistant 3 who is already overwhelmed. According to Banner, the Director is the Financial Manager.

Section 4.1.2. "Responsibility and Accountability for University Information and Transactions" Policy 2000, UBP states:

Each department designates organization financial managers which are recorded in the finance system. Financial managers or designees are responsible for a monthly review of the transactions affecting their funds to ensure allowability and appropriateness of transactions, conformity with approved budget, and financial integrity of the fund. If this responsibility is delegated, the delegation must be signed by the cognizant financial manager and kept on file in the department.

Recommendation 24

The Director should require compliance with University purchasing policy when procuring services from independent contractors, require verification that purchases are allowable and reasonable before incurring the expenditures and should approve purchases.

Response from Harwood Museum Director

Management concurs. All staff and Director will be required to review UNM purchasing policies, and Director will require verification before any purchasing is completed. A new approval process will be established within 6 months which follows UNM business guidelines.

Accountability and Security of Art Collection

The \$ [REDACTED] art collection value at December 31, 2006, does not appear reliable because numerous items on the collection inventory are not valued. According to the Curator, the previous Curator used judgment instead of research to value items. The Curator is performing a physical inventory to properly identify, tag, and value the collection. This task may take another 6 to 12 months to complete.

The Curator determines the fair market value for each piece based on research. The Curator enters the fair market value into the inventory database. The value of the collection is provided to Risk Management on an annual basis. It is our understanding that no significant losses have been identified.

The collection inventory list contains approximately 2,520 items many of which are valued at less than \$500. According to the Curator, the Museum receives on average 100 gifts per year.

[REDACTED]



Source: Hardwood Museum Records

The University's FY06 financial audit included a finding that stated annual inventories of art collections are not required by University policy and recommended such a policy. The Museum developed and implemented a collection policy using a template from the American Association of Museums. The collection inventory is currently maintained on a database. The Museum is in the process of purchasing a computer software package more suitable to collection inventory maintenance.



Recommendation 25

The Director should make every effort to have the Curator complete the collection's physical inventory before the end of the fiscal year and notify the Controller and Risk Management of material discrepancies identified. The Director should require a periodic inventory that includes adjusting the collection to market value.

Response from Harwood Museum Director

Management concurs. A preliminary inventory of the collection will be completed within 3 months. A final inventory will be complete within 1 year if additional staff, a Registrar can be hired.

Recommendation 26

Once the governance structure is determined, the governing body should review the facility and security inspection reports to determine the status of implementation of the recommendations and develop a funding plan for any outstanding recommendations that may be implemented.

Response from Acting President

The audit report is correct; i.e., as soon as a formal governance structure is established, a strategic plan should be developed. This plan will necessarily include fund raising, appropriate staffing and the need for continued monitoring. Also, effective internal control will be established as soon as possible.

GENERAL OBSERVATIONS

- Supervisory approval is not obtained and an equipment checkout form is not completed for use of computer equipment off site. Section 3. “Taking University Property Off Campus” Policy 7730, UBP states “University property not assigned to a departmental location must be recorded on an equipment check out form before taking it to an off campus location. This form is used both to authorize and record the off campus use of University property.
- Telecommunication billable-calls reports are not reviewed and long distance telephone logs are not used to ensure that long distance telephone calls are for official business purposes. Section 2. “Long Distance Telephone Calls” Policy 2110, UBP states “Departments should maintain long distance telephone logs to ensure the accuracy and appropriateness of University long distance charges and reconcile the logs to the invoices provided by Telecommunications.”
- The Museum is not maintaining back-up copies of software and data files. It is important for back-up copies of data files to be maintained off site in case of fire or other damage to equipment and buildings. This is especially important for the collection inventory database. Section 5.2, “Computer Use Guidelines” Policy 2510, UBP states “Security of information is an essential responsibility of computer system managers and users alike.” Users are responsible for ensuring the routine backup of their files.

- A laptop did not have an inventory tag. Section 4.1. “Property Management and Control” Policy 7710, UBP requires certain computer items such as laptops be included in the University inventory and be properly tagged. Departments are responsible for placing property tags on the item(s) in a location that is easily identifiable.
- The Museum receives items on consignment and rents the facility to the public; however, agreements do not contain a clause covering liability in case of lost or stolen art or damage to the facility.
- The Museum administrative offices are disorganized and not well kept. Some workstations are located in high traffic areas and are not large enough to accommodate filing cabinets. Files and other documentation are stacked wherever space is available. Good business practice requires an adequate filing system to maintain documentation in an organized and orderly manner to readily access and safeguard information.

Recommendations 27

The Director should comply with University policy by requiring staff to complete the checkout form and obtain supervisory approval before taking equipment off site.

Response from Harwood Museum Director

Management concurs. The form from the Plant Fund Accounting website will be used beginning immediately for supervisor approval when taking office computers offsite.

Recommendation 28

The Director should comply with University policies by requiring staff to sign off on Telecommunication billable-calls reports indicating calls are for legitimate business purposes and by requiring staff to reimburse the Museum for personal calls if any are identified.

Response from Harwood Museum Director

Management concurs. Personal phone calls will be monitored on long distance phone bills, and employees charged for non-work calls, beginning immediately.

Recommendation 29

The Director should comply with University policy by requiring back-up copies of all software and data file be made as soon as possible and store the copies off site.

Response from Harwood Museum Director

Management concurs. The Director will ask all employees to back up work data, for storage at an appropriate archive. This task will be completed within 8 months.

Recommendation 30

The Director should comply with University policy by properly tagging all laptops.

Response from Harwood Museum Director

Management concurs. All work computers have now been tagged, so we are now in compliance.

Recommendation 31

The Director should have University Counsel review the consignment and rental agreements to include a liability clause.

Response from Harwood Museum Director

Management concurs. A revised agreement has been submitted to University Counsel for review. An approved agreement will be used for all new consignments and rental agreements after current agreements expire.

Recommendation 32

The Director should require that administrative offices are free of clutter, provide sufficient work and storage space to staff to assist in the performance of their duties, and require that an adequate filing system is developed to properly organize, maintain, easily locate and secure Museum documentation.

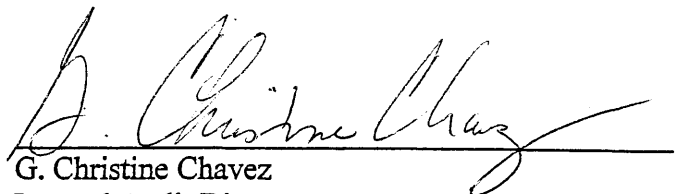
Response from Harwood Museum Director

Management concurs. The Director will require a clean work area from all staff, and will secure adequate filing systems and storage areas for all employees. This task will be complete within 8 months.

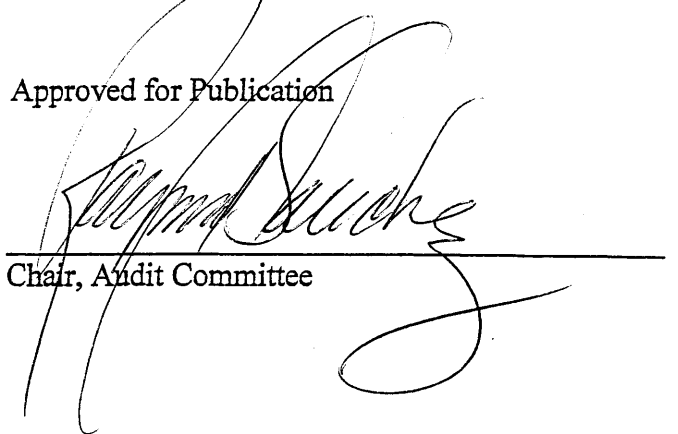
CONCLUSION

The differing opinions on the roles and responsibilities of the Deputy Provost and the Governing Board as contained in the Resolution Affirming the Governing Board is contributing to ineffective and inefficient operations. The financial, [REDACTED] and internal control issues appear to be a combination of inadequate planning, insufficient funding, poor fiscal management, inappropriate staff skill sets, and low salaries. Most of the operational concerns are systemic issues the Deputy Provost has been dealing with for some time. It is our understanding that this situation is impeding fundraising efforts.

APPROVALS


G. Christine Chavez
Internal Audit Director

Approved for Publication


Chair, Audit Committee