

**THE UNIVERSITY OF NEW MEXICO – GALLUP
AUDIT OF FINANCIAL AND OPERATIONAL EFFICIENCY**

THE UNIVERSITY OF NEW MEXICO

**Report 2007-05
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ABBREVIATIONS

Bookstore.....UNM – Gallup Bookstore

FERPA.....Federal Educational Rights and Privacy Act

GED Testing.....General Educational Development Testing

HR.....Department of Human Resources

IT DepartmentInformation Technology Department

P-CardPurchase Card

UNM – Gallup.....The University of New Mexico – Gallup

UBP.....University Business Policies and Procedures Manual

UNM.....The University of New Mexico

EXECUTIVE SUMMARY

As part of the fiscal year 2007 audit plan, the Internal Audit Department conducted an audit of The University of New Mexico – Gallup (UNM - Gallup) business operations. Our audit centered on the UNM – Gallup Bookstore (Bookstore) operations, cash management, and various other business processes. The following summary provides management with an overview of conditions that require attention.

BOOKSTORE OPERATIONS

A recent theft indicates the need to strengthen internal controls at the Bookstore. Management should document the Bookstore operating procedures and provide management training to personnel. UNM - Gallup should also evaluate Bookstore performance and consider alternative operating formats. The Executive Director of UNM – Gallup concurs and will implement recommendations for training and updated software.

CASH MANAGEMENT

To enhance internal controls UNM - Gallup should implement surprise cash counts, set up an imprest petty cash fund for student activities, and reduce the overall balance of the petty cash account. Management should document procedures for receiving and recording deposits and should tighten security over the Cashier's Office. The Executive Director of UNM – Gallup partially concurs with measure to tighten security of cashier function. The Executive Director of UNM – Gallup concurs and will establish an imprest petty cash fund, reduce overall balance of petty cash, and document deposit procedures.

PROPERTY CONTROL

UNM - Gallup should review the process and strengthen internal control for transferring computers through the Information Technology (IT) Department. The Executive Director of UNM – Gallup concurs and will develop a process for controlling transfers of computer equipment.

ADMINISTRATIVE POLICIES AND PROCEDURES

Management should clarify the proper application of the tuition remission policy toward temporary part-time faculty. The Executive Director of UNM – Gallup concurs and address the issue with the Provost and EVP of Administration.

ORGANIZATIONAL STRUCTURE

UNM - Gallup should clarify the relationship and reporting lines between UNM - Gallup Police and the main campus Police department. The Executive Director of UNM – Gallup concurs and is working with the UNM Chief of Police to clarify proper lines of reporting.

INTRODUCTION

BACKGROUND

UNM - Gallup is located in Gallup, New Mexico, which has a population of close to 21,000. Established in 1968, UNM – Gallup has approximately 1,800 full-time equivalent students and 200 full-time equivalent employees. Per the UNM – Gallup Business Office, in fiscal year ended June 30, 2006, UNM - Gallup had unrestricted revenue of \$14,492,358.

Due to the proximity of the Navajo, Zuni and Hopi Reservations, UNM - Gallup has the largest Native American student body of any public university in the world, and awards close to \$3,000,000 annually in tribal, federal and state grants as well as private, civic, and corporate grants and scholarships.

Over the years, UNM - Gallup has been widely supported and sustained by the citizens of Gallup-McKinley County through general obligation bonds, property taxes, mill levy elections, and generous donations from private individuals and families.

PURPOSE

The purpose of our audit was to review the business processes at UNM - Gallup to determine whether adequate policies and procedures are in place, and to assess whether UNM - Gallup complies with these policies and procedures.

SCOPE

Our audit centered on the Bookstore operations, the Cashier's Office, and various other business processes. The fieldwork was completed on April 27, 2007. Our audit procedures included analyzing the business procedures currently in use and assessing the adequacy of documentation of those procedures.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

BOOKSTORE OPERATIONS

The UNM - Gallup Bookstore predominantly sells textbooks, along with other merchandise such as UNM apparel, gifts and school supplies. The Bookstore employs 2.5 full-time staff consisting of the Bookstore manager and 1.5 customer service associates.

For fiscal year ended June 30, 2006, the Bookstore had annual revenue of \$985,872, and expenses of \$1,058,903. Per the UNM – Gallup Business Office the net loss for fiscal years ended June 30, 2005 and 2006 combined was \$11,215, and the annual results for the previous five years is as follows:

FYE 6/30/2006	(\$ 91,108)
FYE 6/30/2005	79,893
FYE 6/30/2004	(97,323)
FYE 6/30/2003	(81,814)
FYE 6/30/2002	<u>(51,833)</u>
5-Year Cumulative Loss	<u>(\$242,185)</u>

During the course of our fieldwork, we noted several areas where the Bookstore needed improvement.

Bookstore Software

The Bookstore has operated at a loss for four of the previous five fiscal years. Management at UNM - Gallup is exploring alternatives to managing the bookstore. One alternative is to have the UNM Bookstore on main campus take over operations at UNM – Gallup. The UNM – Gallup Bookstore uses outdated software and the main campus Bookstore was consulted over the purchase of new software. The main campus software package is not suitable for the smaller operations, however, the main campus Bookstore may be able to incorporate the UNM - Gallup Bookstore as a branch operation. The purchase of bookstore software will be contingent upon management’s decision regarding the business model for bookstore operations.

Recommendation 1

UNM - Gallup should look at options for improving their Bookstore operations. Any option should include the cost of upgrading their software and proactive measures to make the Bookstore at least breakeven. One option is to partner with the main campus Bookstore to operate the Bookstore.

Response from the Executive Director of UNM – Gallup

We concur.

- 1. We intend to convert to new software program by 12/31/07.*
- 2. Main campus has agreed to provide their SOP's so we can borrow and adapt/ adopt as appropriate.*

Bookstore Theft

In February 2007, the Bookstore experienced a theft when a cashier allegedly did not deposit approximately \$1,300 in receipts. The cashier did not reconcile the cash drawer and did not deposit cash receipts for ten days, which violates established policy requiring deposits by the next business day. The employee then missed several days of work and the undeposited funds remained in the Bookstore safe for two weeks. After two weeks, the Bookstore manager notified the Business Office of the employee's absence from work and the undeposited funds. The cashier's drawer in the safe was opened and counted: a \$1,300 discrepancy in the deposit was discovered. Management filed a police report. The employee terminated employment with UNM – Gallup in March 2007.

Section 2. "Cash Management" Policy 7200, UBP states "Monies received should be deposited at the University Cashiers Department intact the next working day following receipt." We found several other instances where daily cash receipts were not deposited the next business day, as prescribed by policy.

Recommendation 2

Management should ensure compliance with University policy by requiring daily cash receipts be reconciled and deposited at the Cashier's Office no later than the following business day.

Response from the Executive Director of UNM - Gallup

We concur.

- 1. Human Resources-Gallup and Fiscal Services Supervisor will work with EOD to bring "Cash Management" training to Gallup Campus in support of Policy 7200 by 9/30/07. All cash handlers will be required to attend.*

Management Training

The Bookstore manager exhibited poor judgment in waiting two weeks before bringing the cashier's misappropriation of funds to management's attention in the Business Office. The Bookstore manager did not immediately follow up on the cashier's failure to reconcile and deposit funds. This may indicate a lack of management training. In addition, we also noted sensitive student information openly posted in the cashier area of the Bookstore, including Social Security numbers which must be protected per the Federal Educational Rights and Privacy Act (FERPA.)

Recommendation 3

Management should consider sending the Bookstore manager to management training courses. Management should ensure that all employees are complying with University policies, including FERPA.

Response from the Executive Director of UNM - Gallup

We concur.

1. Director of Business Operations has begun progressive discipline process for Bookstore Manager. As part of that process, both internal and external training will be made available. Training to be completed by 6/30/08.

Bookstore Operations Manual

Out of a judgmentally selected sample of five invoices we found one invoice where the Bookstore Manager did not correct the list price of textbook inventory when the actual invoice arrived. The inventory system showed the cost of the book at \$14 while the actual invoice was for \$17, resulting in an understatement in inventory of \$3 per textbook for this purchase order. While this amount is not significant, it points to a lack of a process to assure that inventory costs are changed when the estimated cost does not agree with vendor invoices.

The Bookstore does have an operations manual, however, the procedures documented are not complete and the manual as a whole has not been updated in seven years. A comprehensive operations manual is essential to efficient management of the Bookstore. An incomplete and out-of-date manual negatively affects the training and effectiveness of Bookstore staff.

Recommendation 4

Management should develop a current operations manual that outlines the processes and procedures in place at the Bookstore providing useful information to employees serving the Bookstore. Management should establish procedures to verify that the actual invoice price of textbook purchases is correctly entered in inventory records.

Response from the Executive Director of UNM - Gallup

We concur.

1. Bookstore Manager will adapt and train UNM Gallup Bookstore employees on UNM-Main Campus procedures by 11/30/07.

Segregation of Duties

The Bookstore has a small staff consisting of a manager and two cashiers. The combination of purchasing and receiving functions in a single employee demonstrates a lack of segregation of duties and constitutes an internal control weakness. The manager is responsible for the purchasing function, including determination of purchase requirements, generation of purchase orders, and data entry into the purchasing system. In addition, the manager also performs the receiving function including physical receipt of inventory, verification of purchases, and data entry of purchases into inventory records. Compensating controls should be implemented where shortage in staff prevents proper segregation of duties. An example of a compensating control would be independent review of the manager's work by a supervisor outside of the Bookstore operation.

Recommendation 5

Given the small size of Bookstore staff, management should develop compensating internal controls to overcome the lack of segregation of duties.

Response from the Executive Director of UNM - Gallup

We concur.

1. Purchases will be managed through the Business Operations group. Receipts will continue to be managed by the bookstore. Effective 9/30/07.

Bookstore Staffing

The Bookstore manager indicated that during peak times the Bookstore is not adequately staffed. Demand at the Bookstore increases dramatically at the beginning of each semester, and additional cashiers are necessary during the peak seasons. In the past, the Bookstore used temporary employees during the busy season but, as a cost saving measure, the Business Office manager had the Bookstore use Business Office staff. During these peak times the Business Office staff is busy with their own responsibilities and this approach has not benefited the Bookstore or the Business Office.

Recommendation 6

Management should evaluate the Bookstore staffing needs and determine whether the cost of temporary employees is more appropriate than using Business Office employees to assist in the Bookstore.

Response from the Executive Director of UNM – Gallup

We concur.

1. We will increase temporary Customer Service Representatives and Police presence during rush periods beginning with Fall 2007 rush.

Separate Cash Drawers

On occasion, the Bookstore manager will step in and operate a cash register. The manager does not have a separate cash drawer and for sake of convenience the manager will use another employee's cash drawer. This drawer is not counted out when the manager steps in so there is commingling of responsibility for the cash drawer between the manager and employee. Section 3.1. "Cash Management" Policy 7200, UBP states: "Access to monies must be restricted to the employee responsible for the monies. Separate cash drawers should be used to accommodate employee breaks."

Recommendation 7

The Bookstore manager should have a separate cash drawer in the event the Bookstore is short staffed and he steps in as a cashier.

Response from the Executive Director of UNM – Gallup

We concur.

1. Effective 8/1/07, Bookstore manager will have his own drawer when providing cash register coverage.

Third Party Accounts

Most third-party payments for the Bookstore are administered by a staff accountant in the Business Office. Some of the third-party receivables for the Bookstore are administered by Bookstore staff, which constitutes an internal control weakness since there is no segregation of duties between sales, billing and collection processes.

Recommendation 8

All third party receivables from the Bookstore should be billed by the UNM - Gallup Business Office.

Response from the Executive Director of UNM - Gallup

We concur.

1. Effective 8/1/07 all 3rd party billing will be managed by Business Operations.

CASH MANAGEMENT

Security and Maintenance of Cashier Office

The Cashier's cage is not locked during the business day. The ease of access by other staff and students leaves the Cashier's Office more exposed than if the doors to the cashier cage were locked during business hours.

The Cashier's Office has video surveillance but does not routinely review the videotape. Although there are video cameras that record all activity by the cashiers, there is no process for random reviews of the videotape.

The cashier vault contained numerous extraneous items and files not relevant to the cashiering function. The safe should be organized and kept clear of unnecessary items. The safe and locked file cabinets should not be used to store old, out of date files or permits, and there should be a process or procedure in place for filing, storing, archiving and destroying old files. Files should be either destroyed, stored in filing cabinets, or moved offsite if they are no longer in use. Any destruction of files should comply with UNM record retention policies.

Recommendation 9

Management should implement procedures to tighten security and effectiveness of operations in the cashier function by restricting access to Cashier's Office, periodically reviewing security videotapes, and clearing the safe of extraneous items and clutter.

Response from the Executive Director of UNM - Gallup

We do NOT fully concur.

1. Restricting access to the cashier area by locking the rear door will not improve security. The customer service "window" is a 12' x 8' opening. Anyone who wants to get in can get in. We will reinforce with Cashiers that unauthorized personnel are not to be allowed into cashier area, and we will post a sign on their door to that effect.

2. Cash drawers are counted by different cashiers and periodically audited by their supervisor. Reviewing security tapes when there is no cash missing does not add value.

3. We will remove extraneous materials from safe by 8/1/07.

Written Deposit Procedures

Procedures for collecting and recording deposits are not documented. Written procedures are essential to efficient management and operation of the cashiers' function. The Cashier's Office should document the procedures employed in counting, reconciling and recording cash deposits, for receiving and reconciling cash from the Bookstore, and procedures for securing cash at the end of the shift. A well-documented operations manual for recording, depositing and securing funds will provide increased efficiency and security in the cashier function.

Recommendation 10

Management should document in the business operations manual comprehensive procedures for collecting and recording deposited funds.

Response from the Executive Director of UNM – Gallup

We concur.

1. The Fiscal Services Supervisor will write and adopt procedures by 10/31/2007.

Offsite GED Testing

The GED testing site at Zuni Pueblo is not equipped to handle receipt of cash, make change, and provide receipts to the students as required by policy.

UNM - Gallup administers offsite GED testing at Zuni Pueblo for prospective students. Most of the testing fees are paid for in advance, however, some of the payments are received at the time of testing. Section 3.2.1. "Cash Management" Policy 7200 UBP states:

When money is received in the presence of the person making payment, the recording of the transaction must take place immediately by:

- using a cash register or other locked mechanical device with each payment recorded separately or
- issuing pre-numbered printed receipts with each employee who accepts monies responsible for an assigned block of receipts.

Recommendation 11

UNM - Gallup should provide cash management training to offsite staff, and establish a change fund and use a receipt book to administer offsite cash receipts.

Response from the Executive Director of UNM - Gallup

We concur.

- 1. Human Resources-Gallup and Fiscal Services Supervisor will work with EOD to bring “Cash Management” training to Gallup Campus in support of Policy 7200 by 9/30/07. All cash handlers will be required to attend.*
- 2. The Fiscal Services Supervisor will purchase receipt books for offsite personnel by 9/30/07.*

Surprise Cash Counts

Management has not instituted strong internal controls around cash handling at UNM - Gallup. Internal control weaknesses exist as evidenced by recent theft losses and failure to make timely deposits. Performing surprise cash counts is a good preventive internal control that over time can dissuade potential theft loss.

Recommendation 12

Management should institute a policy of periodically conducting surprise cash counts at the Cashier’s Office and the Bookstore.

Response from the Executive Director of UNM – Gallup

We concur.

The Fiscal Services Supervisor will establish a process of random cash count audits by 10/31/07.

Petty Cash Fund

UNM – Gallup appears to have more funds in the petty cash account than is actually necessary. UNM - Gallup has a \$10,000 petty cash fund: \$4,000 in cash for the Bookstore and cashiering operations, and the balance of \$6,000 in a bank account. The bank account is used for UNM - Gallup’s business operations, and is replenished monthly upon submission of receipts to main campus. The expenses from the checking account averages \$1,300 a month, an amount well below the \$6,000 balance of the account. The use of P-Cards has reduced UNM - Gallup’s reliance upon the checking account for business expenditures.

To finance student activities expenses UNM - Gallup makes \$300 cash advances to an employee. The employee manages the funds until fully expended, and turns over receipts to the financial supervisor. This practice amounts to an informal imprest petty cash fund.

Recommendation 13

Management should analyze the Petty Cash fund to determine if the fund can be decreased. Any unneeded funds should be returned to the Controller's Office on main campus.

Response from the Executive Director of UNM - Gallup

We concur.

UNM-Gallup will return \$2,000 of Petty Cash to the Controller's Office on main campus by 8/31/07.

Recommendation 14

UNM - Gallup should establish an imprest petty cash fund assigned to the employee to handle routine or recurring expenses.

Response from the Executive Director of UNM - Gallup

We concur. The Fiscal Service Supervisor will establish an imprest petty cash fund assigned to Fiscal Services Technician to handle routine expenses by 8/31/07.

PROPERTY CONTROL

Transfers of Computer Equipment

UNM - Gallup does not have written procedures for logging and tracking computer equipment inventory. Although in the past 12 months UNM - Gallup has taken physical inventory of fixed assets, there is no procedure in place to periodically verify the existence and location of computer equipment. University policy requires record keeping and control over computer equipment. Section 4. "Property Management" Policy 7710, UBP states:

The Property Accounting Department is responsible for overseeing the control of property assigned to University departments with a cost over \$5,000 or certain computer equipment such as laptops, desktop workstations, and tablets. The Property Accounting Department maintains inventory records, mails property tags to departments, and provides reports and information from equipment inventory records. They also maintain financial records on property. Departments must ensure property tags are on *all* inventoried property. Departments are responsible for maintaining control and internal records on all equipment items that are not overseen by the Property Accounting Department.

The current system does not adequately document transfers of equipment or establish an audit trail for the movement of computer inventory, and does not require a physical inventory as a follow up on location of new equipment or transfers of old equipment within UNM - Gallup. All newly acquired computer equipment, and most transfers of computer equipment are physically placed in service through the UNM - Gallup IT Department. Although the department does keep a record of transfers and deliveries of equipment leaving the department, in some instances the Request for Adjustment of Inventory form was not properly signed by the receiving department. In addition, we found that the department does not log equipment coming into the department for repair.

Recommendation 15

The Business Office should work with the IT Department to develop a process for tracking and monitoring computer equipment placed in departments or transferred between departments, as required by policy.

Response from the Executive Director of UNM – Gallup

We concur. IT and Business Operations will develop a system for controlling computer equipment by 6/30/08.

Purchase Card

A UNM – Gallup P-Card holder did not adequately secure the P-Card information, and did not adequately secure merchandise upon delivery to the department. In December 2006, the P-Card holder's card number was stolen and used to make fraudulent online purchases. Purchases of \$963.34 were improperly charged to the P-Card account by unknown persons; however, \$639.49 of the charges were reversed by the credit card issuer upon discovery of the theft. The balance of the charges, \$323.85 was for a men's gold ring, which was sent to the departmental address of the P-Card holder. The P-Card holder left the ring unsecured at her UNM – Gallup office over winter break when it was stolen by persons unknown. A police report was filed for the unauthorized charges and the stolen ring. The Purchasing Department maintains P-Card policies for the proper use and custodianship of P-Cards on the Purchasing Department website as follows:

It is vital that the Cardholder keeps their P-Card and P-Card number secure. As a Cardholder, security is your responsibility. The following are some things you can do to help keep your P-Card number secure and prevent fraud.

- **Never** email your P-Card number to anyone
- **Never** release information about your P-Card to anyone over the phone
- **Never** release your CID (last three digits on the back of your P-Card) to anyone over the phone

- Beware of anyone contacting you requesting information about your P-Card!
- **Always** keep your P-Card in a secure location

Recommendation 16

Management should emphasize the proper use and custodianship of P-Cards. UNM - Gallup should work with the purchase card manager from main campus to obtain proper training on use and security of purchase cards.

Response from the Executive Director of UNM - Gallup

We concur. UNMG Business Operations will coordinate PCard training review for all cardholders by 12/31/07.

ADMINISTRATIVE POLICIES AND PROCEDURES

Tuition Remission Benefits for Temporary Part-Time Faculty

UNM Gallup allowed temporary part-time faculty to use employee tuition remission even though per policy they do not qualify for this benefit. UNM - Gallup uses University Business Policies and Procedures Manual (UBP) as their policy manual with few exceptions. One exception we became aware of was the practice offering tuition remission to temporary part-time faculty, a decision made by management to help recruit and retain part-time faculty. Gallup is a small community with limited potential for recruiting part-time faculty and management believes that offering the tuition remission benefit would greatly assist in attracting part-time faculty to the campus.

UNM Policy is clear that these part-time faculty do not qualify for tuition remission. Section 2. "Tuition Remission Program" Policy 3700, UBP states:

Regular full-time employees, regular part-time employees (working at least half-time), and University retirees are eligible to use the Tuition Remission Program, subject to the restrictions stated in this policy.

Section 4.14. "Allowable and Unallowable Expenditures" Policy 4000, UBP reads as follows:

University funds may *not* be used to pay for tuition for university credit courses, books, school supplies, or other university fees, unless authorized by UNM Personnel Policies (tuition remission program) or other University published policy (for example, teaching, research, and graduate assistantships).

Faculty Contracts and Services on main campus clarified their stance that temporary part-time faculty are not allowed the tuition remission benefit under current policy.

Recommendation 17

UNM – Gallup should either discontinue the practice of providing tuition remission for part-time faculty and seek restitution, or work with the Provost and Executive Vice President for Administration to determine if an exemption from policy would be beneficial to UNM – Gallup’s recruitment efforts.

Response from the Executive Director of UNM - Gallup

We concur with obtaining exemption from policy.

UNMG Executive Director will work with Provost and EVP of Administration to get an exemption to policy by 1/1/08.

Reporting and Jurisdiction of UNM - Gallup Police

The role of the main campus police department at UNM - Gallup was never clearly established. UNM - Gallup is the only UNM branch that has its own police department. In 2006, the Chief of Police in a written request asked University Counsel to clarify and give a legal opinion on the reporting and jurisdiction issues with UNM - Gallup Police. The Police Chief indicated that University Counsel has not yet issued their legal opinion on reporting and jurisdiction issues with UNM – Gallup Police.

The UNM - Gallup Police department has a Police Lieutenant with several officers under his command. The Police Lieutenant at UNM - Gallup Police currently reports to the Executive Director, UNM - Gallup, who reports to the Provost at main campus. The UNM - Gallup Police usually have the City of Gallup Police handle criminal matters. The Chief of Police on main campus signs the paperwork for swearing in UNM - Gallup Police officers, but does not provide any oversight or exercise operational control over UNM - Gallup Police.

Regents Policy 8.2: Law Enforcement on Campus states:

State criminal and traffic laws apply on University property. The President may employ and assign duties of campus police officers, who are authorized to enforce all applicable laws and University regulations, and have the powers of peace officers within the exterior boundaries of lands under control of the Board of Regents, including public streets and highways within such boundaries.

Recommendation 18

The Executive Director should work with the President's Office, the Executive Vice President for Administration, the Provost, University Counsel, and the UNM Police Chief to determine the proper lines of reporting and jurisdiction between the UNM Police Department and the UNM - Gallup Police Department.

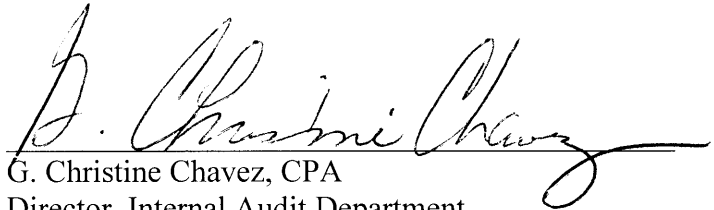
Response from the Executive Director of UNM – Gallup

We concur. UNMG Executive Director is currently working with Kathy Guimond, UNM Chief of Police and will work with other aforementioned positions to clarify proper lines of reporting and jurisdiction for UNMG Police by 6/30/08.

CONCLUSION

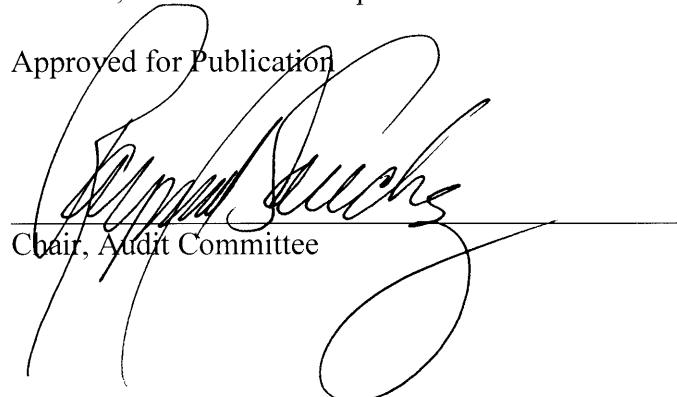
UNM - Gallup should strengthen and implement internal controls in the Bookstore and Cashier's Office. UNM - Gallup should document policies and procedures for Bookstore operations and document the Cashier's Office procedures for receiving and recording deposits. UNM - Gallup should also document and strengthen controls over transfers of computer equipment through the IT department. UNM - Gallup should evaluate alternative operating options for the Bookstore and should clarify the UNM - Gallup police reporting lines, as well as the tuition remission policy for part-time faculty.

APPROVALS



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Approved for Publication



Chair, Audit Committee