

**UNM – TAOS
AUDIT OF FINANCIAL AND OPERATIONAL EFFICIENCY**

THE UNIVERSITY OF NEW MEXICO

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ABBREVIATIONS

Foundation.....	University of New Mexico Foundation
HR.....	Department of Human Resources
Internal Audit.....	Internal Audit Department
IPD.....	University of New Mexico – Taos Institutional Planning and Development
IT.....	Information Technology
ITS.....	Information Technology Services
UNM – Taos.....	University of New Mexico – Taos
UBP.....	University Business Policies and Procedures Manual
University.....	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 – Taos (UNM – Taos) business operations. Our audit centered on the UNM – Taos Business Office, UNM – Taos Bookstore, information technology (IT) systems and various other business processes. The following summary provides management with an overview of conditions that require attention.

BUSINESS PROCESSES

Management should develop written procedures for business operations, strengthen internal controls and work with other departments to develop and implement applicable business processes. The Executive Director of UNM - Taos concurs and will update and integrate departmental policies and procedures into a comprehensive business procedures manual.

INFORMATION TECHNOLOGY

Management should strengthen current information technology systems and processes, and consult with Information Technology Services (ITS) at main campus in connection with the planned relocation of the branch offices. The Executive Director of UNM - Taos concurs and will work with ITS to develop and implement an information technology plan for the branch campus.

CASH MANAGEMENT

Management should improve internal controls over cash handling and decrease the petty cash fund to a more appropriate level. The Executive Director of UNM - Taos concurs and will strengthened controls over the cash process.

INTRODUCTION

BACKGROUND

The University of New Mexico – Taos (UNM – Taos) is located in Taos, New Mexico. Originating as the Taos Education Center in 1982, UNM-Taos became an official Branch Campus of The University of New Mexico on July 1, 2003.

UNM – Taos is funded from state appropriations and tax levies, from grants, and from tuition and student fees. The University of New Mexico (University) has administrative and academic oversight of UNM – Taos, and the Executive Director reports to the Provost/Executive Vice President for Academic Affairs. For 2006-07, the Branch enrolled the full-time equivalent of 1,240 students in credit courses. In the 2007 fiscal year, UNM – Taos employed 45 full-time equivalent faculty and 38 full-time equivalent staff. Per the UNM – Taos Business Office, for fiscal year ended June 30, 2007, UNM – Taos had a total unrestricted budget of \$4,838,610.

UNM-Taos offers a diverse selection of for-credit and non-credit Community Education courses. The programs provide residents of Taos and the surrounding area with lifelong learning opportunities for personal and professional growth. The curriculum includes Associate degrees and vocational certificate programs, adult basic education (ABE and GED), workforce training, and courses for personal enrichment. UNM-Taos programs are fully accredited by the North Central Association of Colleges and Secondary Schools.

The UNM – Taos campus operates out of four main locations. Beginning in Fall 1997, UNM – Taos began relocating operations to the Klauer Campus south of Taos. The Klauer campus is a multi-use facility that encompasses instructional and vocational facilities and general classrooms. Future plans for UNM – Taos involve relocation of the Administration, Business Office, the Instruction department and classrooms to the Klauer Campus beginning in 2008.

PURPOSE

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

SCOPE

Our audit focused on the business operations, including the cashier function, the UNM - Taos Bookstore, information technology services, and student government. The fieldwork was completed on March 17, 2008. Our audit procedures included analyzing the business procedures currently in use and assessing the adequacy of documentation of those procedures.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

BUSINESS PROCESSES

Business Procedures Manual

The Business Office does not have a comprehensive business procedure manual that covers the operation of key processes. Management has identified and documented some processes including UNM - Taos Bookstore operations and cashiering, however, they are not integrated into a comprehensive procedures manual. Other procedures not documented include, but are not limited to, functions such as accounts payable (including credit memos), purchasing card usage, and computer usage.

Well-documented policies and procedures provide employees with guidance on performance of their duties and provide structure and organization to the office. Inconsistent application of policies and procedures generally occurs when there is inadequate documentation. Absent documented policies and procedures, there is a substantial risk of business interruption should there be excessive turnover of key personnel. Documented policies and procedures assist in training and discipline as they set precedent and serve as the authority for how to conduct business.

Recommendation 1

Management should identify key business processes and develop a comprehensive business procedures manual for these processes.

Response from the Executive Director of UNM – Taos

Management concurs with this recommendation. The business operations staff will integrate and update departmental policies and procedures into a comprehensive business procedures manual for these processes to properly identify and document the operational systems for training of new and current personnel. Completion date for this process is 12-31-08.

Segregation of Duties

During our audit, we found that the business manager acts as a cashier and purchasing cardholder, and performs day-to-day tasks more properly delegated to the business manager's staff. In addition, the manager has access to the accounting system for initiating and approving accounting transactions. The combination of the accounting and cashiering functions in a single employee demonstrates a lack of segregation of duties and constitutes an internal control weakness.

University policy addresses segregation of duties. Section 3.3. "Cash Management" Policy 7200 University Business Policies and Procedures (UBP) reads as follows:

Duties for receiving and recording monies must be segregated. No single employee should be in a position that allows the employee to both receive money and record the payment into the financial system. This segregation of duties preserves responsibility and accountability and is necessary to ensure that a person who has access to monies cannot conceal a fraud or error. When the size of a department does not allow for proper segregation of duties, the Controller's Office will provide assistance in designing systems, which ensure adequate internal control.

The business manager supervises the cashier function, the UNM - Taos Bookstore operation, purchasing for the Business Office, and is responsible for overseeing the day-to-day financial and business operations on campus. After being promoted to the management level, the business manager has continued to perform day-to-day business functions and may benefit from training courses in delegation and management.

Recommendation 2

Given the small size of the Business Office and UNM - Taos Bookstore staff, management should develop compensating controls to overcome the lack of segregation of duties. Management should also provide management training to promote the professional development of the business manager.

Response from the Executive Director of UNM – Taos

Management Concurs with this recommendation. Business operations has relocated key personnel and reassigned personnel duties to oversee these processes to address the daily operations and segregation of duties and responsibilities. This recommendation has been complied with. The business manager is on a professional development plan to promote and develop best practices management skills. This recommendation is evolutionary and will be adhered to on a yearly basis.

Bookstore Credit Memos

The UNM – Taos Bookstore does not reconcile vendor credit memos to the bookstore records once they are applied to vendor invoices by the main campus Accounts Payable Department. The UNM – Taos Bookstore estimates the number of text books required each semester and returns unsold books to the publisher for credit. The credit memos are sent to the Accounts Payable department at main campus where they are applied against the vendor accounts. Once they are applied the UNM – Taos Bookstore has been unable to determine when and how they are applied, and has difficulty reconciling the credit memos to the bookstore records. The UNM – Gallup branch has developed methodologies for reconciling credit memos which could be

adopted by UNM – Taos Bookstore. In addition, using purchasing cards to buy textbooks can eliminate the credit memo process entirely by having returns charged directly back to the card.

Recommendation 3

The UNM – Taos Bookstore should work with the UNM – Gallup branch to develop a method for reconciling bookstore credit memos. Alternatively, the UNM - Taos Bookstore should consider using purchasing cards to buy text books and should work with the Purchasing Department at main campus to establish the proper purchasing card process.

Response from the Executive Director of UNM – Taos

Business operations has requested and received an additional credit limit on the bookstore P-Card to purchase text books and resale inventory for the bookstore. Bookstore staff will reconcile credit memos and institute a process with the assistance of the other branch bookstore staff. This process will be completed by 12-31-08.

Student Government Funds

The Student Government fund has accumulated a significant balance because the Student Government failed to reach the required quorum that is necessary to make disbursements from the fund. In addition, the Student Government is overly cautious in disbursing the funds because in the past Student Senators who misused the fund were required to repay the University.

The Student Government fund is controlled by the six-member Student Senate and currently has a fund balance in excess of \$155,000. The source of the Student Government fund is primarily the \$3 per credit hour student fee allocated to the Student Government each semester. Student Government uses the fund for student activities and for student oriented services.

Recommendation 4

Management at UNM – Taos should reduce the student fees charged and allocated to the Student Government account, or analyze the current financial needs of student government and make recommendation to the Student Senate to come up with an appropriate plan to expend the funds.

Response from the Executive Director of UNM – Taos

Management concurs with this recommendation. Management will be working with Student Government advisors and officers to appropriate a portion of the student fees and fund balance to projects, such as; transportation, child care facilities, and equipment for new campus facilities. This process will be completed by 6-30-09.

Institutional Development

UNM – Taos Institutional Planning and Development (IPD) department has been unable to timely track donations remitted to the University of New Mexico Foundation (Foundation), and the Foundation has not provided the IDP with receipts for donations that have been remitted.

The IPD has made recent strides in expanding its donation campaign resulting in increased funds to the Foundation. The IPD documents donations as they are received, and when remitted to the Foundation; however, the Foundation does not provide the UNM – Taos branch with documented receipt of the funds. In addition, the IPD department has been unable verify donations to UNM – Taos in the Foundation’s tracking system until several weeks after the donation. The Foundation administration has indicated that they are willing to develop a mechanism to provide adequate documentation of receipt of funds to UNM – Taos, and that donations are entered into the tracking system within 10 business days of receipt.

Recommendation 5

Management should work with the Foundation to ensure that donations to UNM – Taos are timely recorded in the Foundation’s donor tracking system. Management should work with the Foundation to obtain receipts for monies donated to UNM – Taos and remitted to the Foundation.

Response from the Executive Director of UNM – Taos

Management concurs with this recommendation. Business operation staff will work with the Foundation to implement processes to address and correct this finding. This process will be completed by 12-31-08.

INFORMATION TECHNOLOGY

Information Technology Issues

During our audit we interviewed the IT staff and identified several IT issues that require management’s attention. Information technology issues identified include the following findings:

- Log on passwords do not expire and are not encrypted.
- IT function does not have documented security policies and procedures.
- IT users are not required to sign a use agreement for UNM – Taos campus computers.
- IT department has not provided offsite back-up for the main file servers.
- IT department has not provided offsite back-up of Point-of-Sale cash register machines.
- Branch does not have a disaster recovery plan.

- Branch is not documenting and tracking software licenses.

Recommendation 6

Management should strengthen IT security by documenting IT security policies and procedures and should implement procedures to provide adequate password security, offsite back-up of systems, and disaster recovery plans. The branch should also implement user agreements, and document and track licenses for software installed on the UNM – Taos computers.

Response from the Executive Director of UNM – Taos

Management concurs with the recommendation. UNM-Taos will have staff changes due to retirement and reorganization and will have these issues addressed and implemented by 6-30-09.

IT Consulting - Planned Campus Relocation

UNM – Taos Administration does not have a plan for IT systems requirements and upgrades in connection with the relocation of operations to the Klauer Campus. The Klauer campus is located on 88 acres of land donated to the UNM by the Klauer family. Construction of new facilities has been under way since 1997. Phase I and II are complete and provided UNM – Taos with classroom and laboratory space. Scheduled to begin in 2008-09, Phase III and IV entails the relocation of UNM – Taos Administration and Business Office, the UNM - Taos Bookstore, instruction department and classrooms, as well as other ancillary operations, to the Klauer Campus.

In preparation for the relocation management should ensure that proper consideration is given to planning for information technology needs, including providing adequate infrastructure and network capabilities. Section 1 “Computer Security Controls and Guidelines,” Policy 2520 University Business Policy and Procedures Manual (UBP) provides,

. . . all departments operating University owned computers, including those operated by faculty, staff, and students, must develop departmental security practices which comply with the security practices listed below. In addition, departments must have environment-specific management practices for business functions such as maintenance, capacity planning, software licensing and copyright protection, training, documentation, power, and records management for computing systems under their control. This may be done by either hiring a qualified employee or sharing resources with other departments, i.e. a LAN administrator. The Computer and Information Resources and Technology (CIRT) [*sic*] organization is available to assist and advise departments in planning how they can carry out compliance with this and other computer technology-related

policies. Departments must document and periodically review established practices.

Recommendation 7

The Executive Director should consult with UNM – Information Technology Services to assess the current and future IT needs, and to plan for emerging information technology issues connected with the relocation of the branch offices to the Klauer campus.

Response from the Executive Director of UNM – Taos

Management concurs with this recommendation. UNM-Taos and UNM-ITS are in the process of identifying a best approach solution to coincide with the relocation to its new facilities at the Klauer Campus. This will be an evolutionary process and implementation should be fully operational by 6-30-09.

CASH MANAGEMENT

Cash Receipts Not Deposited Daily

During our cash count, we noted that the cash receipts are not deposited the following business day as required by policy. When we discussed this with the Business Office staff, they informed us that they only make deposits every two to three days. The library withheld funds from the copy machines and did not deposit them for a month.

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. When less than \$50 is involved, monies may be accumulate up to a week.”

Recommendation 8

Management should change the cash deposit process to comply with University policy that requires daily cash receipts be deposited no later than the following business day.

Response from the Executive Director of UNM – Taos

Management concurs with this recommendation. This issue has already been addressed and deposits are being made in compliance with this recommendation.

Separate Cash Drawers

The cashier's do not have separate assigned cash drawers 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 9

Each cashier should have a separate cash drawer which should be changed out or counted when the cashier takes a break or ends a shift.

Response from the Executive Director of UNM – Taos

Management concurs with this recommendation. Cashier operations has initiated this process which should be completely implemented by 12-31-08.

Reduction in Petty Cash Account

UNM – Taos appears to have more funds in the petty cash account than is actually necessary. The use of purchasing cards has reduced UNM – Taos's reliance upon the checking account for business expenses. UNM – Taos has a \$7,500 petty cash fund comprised of \$510 in change funds, and \$6,990 in the petty cash bank account. The bank account is used for UNM – Taos' business operations, and is replenished monthly upon submission of receipts to main campus. The expenses from the checking account averages less than \$1,000 a month, an amount well below the \$6,990 balance in the bank account.

Recommendation 10

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.

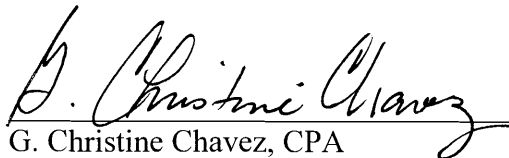
Response from the Executive Director of UNM – Taos

Management concurs with this recommendation. Business operations will work with the Controller's Office to comply with this recommendation by 6-30-08.

CONCLUSION

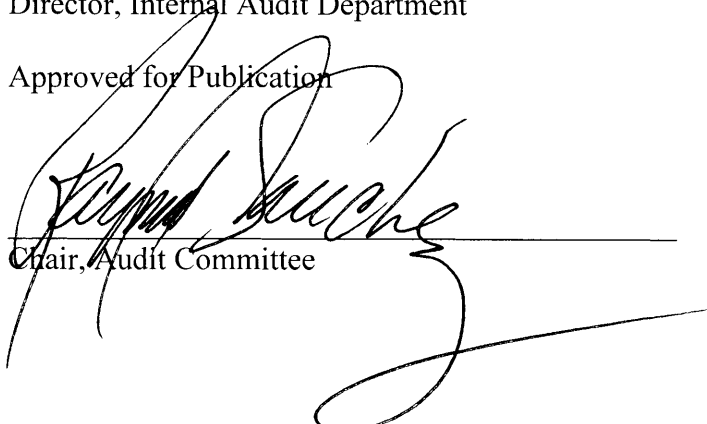
UNM – Taos should address its information technology needs in anticipation of relocating the Administration, Business Office and Instruction Department to the Klauer Campus. The Branch should strengthen its business operations by tightening internal controls and documenting policies and procedures for key business operations. Management should work with other departments or branch campuses to strengthen operations in the UNM - Taos Bookstore, student government and institutional development.

APPROVALS



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Approved for Publication



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