

# **AUDIT OF MAIN CAMPUS RESEARCH BUSINESS PRACTICES AND PROCESSES**

**THE UNIVERSITY OF NEW MEXICO**

**Report 2008-08  
May 27, 2008**



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## ABBREVIATIONS

Board of Regents.....	The University of New Mexico Board of Regents
CASAA.....	Center on Alcoholism, Substance Abuse, and Addictions
Centers .....	Category III Research Centers
CHTM.....	Center for High Tech Materials
CMEM .....	Center for Micro-Engineered Materials
COI.....	Conflict of Interest
F & A .....	Facilities and Administrative overhead return on awards
FY .....	Fiscal Year
HPC.....	High Performance Computing and Educational Research Center
HSC.....	University of New Mexico Health Sciences Center
I & G .....	Instructional and General
ISTEC .....	Ibero American Science and Technology
IT.....	Information Technology
OMB .....	Office of Management and Budget
OVPRD.....	Office of the Vice President for Research and Economic Development
RIATT.....	Research Institute for Assistive Training Technology
STC .....	Science Technology Corporation
Units .....	Schools, Colleges, and Departments
University.....	The University of New Mexico
UNM .....	The University of New Mexico

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## **EXECUTIVE SUMMARY**

The University Board of Regents requested an audit to analyze the Office of the Vice President for Research and Economic Development's (OVPRED) finances due to the alleged budget deficiency. The purpose of our audit was to review the OVPRED financial operations, business practices and processes, including business and budget models; to compare them with our peer institutions and the Health Sciences Center (HSC) research function; and to provide recommendations for improvements. The summary of the revenues and expenses for the fiscal year ending June of 2007 is on Attachment A.

In summary, in the past two years, the OVPRED spent about \$2.2 million more than they collected in revenues. In addition to the budgetary and accounting concerns that we itemize below, OVPRED paid expenses that should be evaluated by management to determine if they should continue to be paid from Facilities and Administrative overhead return on awards (F & A) monies in the future.

### **BUDGETARY CONCERNS**

Management should:

- Evaluate using a top slice budget model for the main campus research function,
- Work together with the Provost's Associate Vice President for Budget, Planning, and Analysis on internal budgeting,
- Evaluate the budgetary needs of OVPRED to determine if they should seek additional funding from either within the University or from the State of New Mexico, and
- Determine what percentages of F & A should be allocated.

The Interim Vice President for Research and Economic Development agreed with the above recommendations.

### **ACCOUNTING CONCERNS**

University management should evaluate the expenses identified to ensure that F & A funds are spent for the optimum benefit of the University research function. In addition, University management should evaluate the identified areas reporting to the OVPRED to determine where they should report and if they should continue to be funded by F & A. The President, Interim Provost/Executive Vice President for Academic Affairs, and the Interim Vice President for Research and Economic Development agreed to further evaluate the expenses and the areas reporting to the OVPRED.

### **ORGANIZATIONAL STRUCTURE**

The Interim Vice President for Research and Economic Development should evaluate consolidating both main campus pre award functions in one location. Management at the HSC and main campus research offices should have their respective IT support services work together to integrate the InfoEd pre award software with the Banner financial system.

The Interim Vice President for Research and Economic Development agreed to evaluate consolidating both main campus pre award functions in one location. Additionally, the Vice President for HSC/UNM Finance and the Interim Vice President for Research and Economic Development agreed that the HSC and main campus research functions would form a committee to evaluate proposal development software and integration with Banner.

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## **INTRODUCTION**

### **BACKGROUND**

The Office of the Vice President for Research and Economic Development (OVPRED) is responsible for the main campus research efforts, which include funded research, funded instruction, and funded public service. Under this office are the divisions of Economic Development, Research Initiatives (responsible for training, proposal writing, and proposed initiatives), and Sponsored Projects Services (pre award). The OVPRED's mission is to enable and advance a research environment of excellence at The University of New Mexico (University).

The National Council of University Research Administrators (NCURA) reviewed the main campus research function, and issued its report on May 30, 2007. It was NCURA's first peer review. The University of New Mexico Research Study Group, a group internal to the University, also reviewed the main campus research function and issued its report on August 19, 2007. The Health Sciences Center (HSC) research function was not evaluated by either study group.

The University Board of Regents (Board of Regents) requested an audit to analyze the OVPRED finances and to make recommendations to rectify the situation of alleged over expenditures.

The OVPRED is funded by facilities and administration money (F & A). This is money that is paid to the University by the sponsor of an award, normally a contract or grant, to cover the facilities and administrative expenses the University incurs to perform the scope of work. The University tracks which research awards earn the F & A and OVPRED uses this information to determine how to allocate a portion of the F & A back to the schools, colleges, and departments (units) and research centers. A former Interim Associate Provost for Research made agreements with the research centers and units as to what percentages of F & A would be returned for their use. This resulted in the following allocation based on earned F & A: 64% to the Category III University research centers, 44% to the College of Arts & Sciences and School of Engineering, and 40% to all other units.

There are four Category III research centers (centers) that report to the OVPRED. They include: the High Performance Computing and Educational Research Center (HPC), Center for High Tech Materials (CHTM), the Center on Alcoholism, Substance Abuse, and Addictions (CASAA) and the Center for Micro-Engineered Materials (CMEM). The HPC and Science Technology Corporation (STC) are supported by both the main campus and HSC research offices. As stated on their website, "STC is a nonprofit corporation formed by and owned entirely by the University of New Mexico (UNM) (formed in 1995 by the Regents of UNM) to protect and transfer its faculty inventions to the commercial marketplace. STC licenses innovative technology developed at UNM, including optics, microfluidics, and high performance materials as well as therapeutics, diagnostics, medical devices, and drug discovery tools."

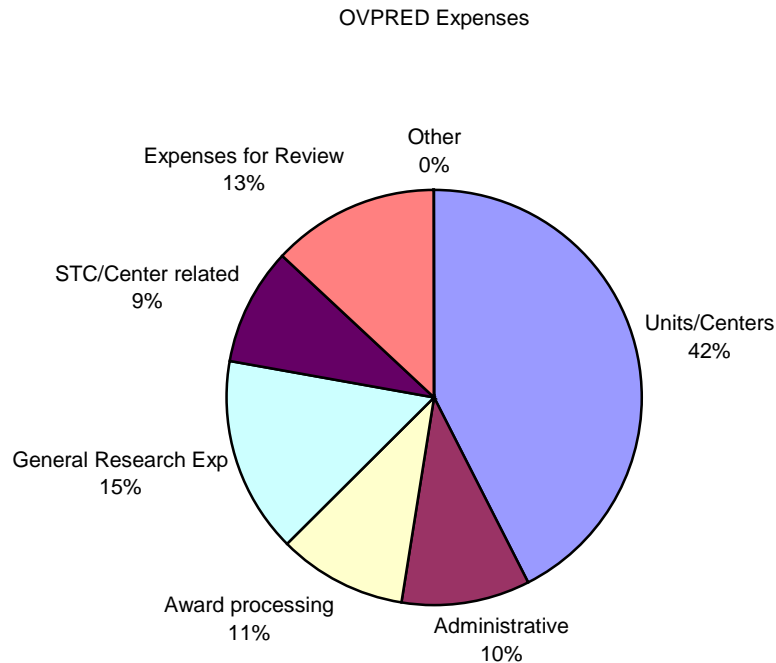
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INTRODUCTION

The following are the OVPRED expenses for FY 2007:

Units/Centers F & A return	\$8,096,581	42%
Administration expenses	\$1,845,605	10%
Award processing costs	\$2,028,366	11%
General research expenses	\$2,913,914	15%
STC/Center related expenses	\$1,827,564	9%
Expenses for review	\$2,521,679	13%
Other, miscellaneous	<u>\$ 59,214</u>	
Total	<u>\$19,292,923</u>	100%

Attachment A provides the details for the expenses in the chart below, for the fiscal year ending June 30, 2007.



The expenses for review were identified as expenses that management should review to determine if they should continue to be paid from F & A funds.

## **PURPOSE**

The purpose of our audit was to review the OVPRED financial operations, business practices and processes, including business and budget models; to compare our business and budget models to our peer institutions and to HSC research function; and, to provide recommendations for improvements.

Internal Audit developed the following objectives, which were later approved by the President:

- Identifying best practices and areas for improvement by reviewing and comparing the business processes and the budget model of the OVPRED to the research offices at HSC and other peer universities.
- Determining what budget model is most appropriate for adequate and sound fiscal management of research administration and operations, which includes the allocation, distribution and use of F & A by the OVPRED.
- Determining how F & A is tracked, used and monitored at the unit level and if F & A is covering research expenses.
- Determining what created the deficit in the OVPRED, including the elimination of the reserve, by analyzing financial transactions and compliance with laws, regulations, rules, and policies and procedures.
- Determining if recommendations made by research study groups are feasible and cost effective.

## **SCOPE**

The findings in this report cover the first four objectives. The analysis of the recommendations made by the research study groups will be completed at a later date.

To meet the audit objectives, we performed a limited review of the OVPRED financial activities for the fiscal year ending June 30, 2007 and their business model. We reviewed the business model that consists of the budget information, allocation and distribution of F & A, and the reporting structure. In addition, we gathered pertinent information from the OVPRED, peer institutions, HSC, and the Banner financial accounting system. We also interviewed various University employees. The fieldwork was completed on December 7, 2007.



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## **OBSERVATIONS, RECOMMENDATIONS AND RESPONSES**

### **BUDGETARY CONCERNS**

#### **Budgeting/Overspending**

The OVPRED has overspent, or over allocated, the F & A earned by about \$2.2 million per year for the past two fiscal years. The overspending and subsequent deficit may have been caused by paying the expenses that we recommend management evaluate, distributing F & A prior to paying the general research expenses, lack of sound financial information and internal controls, errors in budgeting, and the lack of outside budgetary advice and oversight.

We interviewed employees from selected centers and units, and analyzed the expenses and transfers for the fiscal year ending June 30, 2007. We found that the centers did not receive enough F & A to cover their expenses. However, the two units reviewed had enough F & A to cover additional Instructional and General (I & G) expenses in their areas. The School of Engineering has a million dollars in F & A that they plan to use to help fund a new building.

OVPRED retains 36% to 60% of the F & A earned. In our review of peer institutions, we noted eight of the fourteen universities retain 50% to 75% of the F & A earned for general research expenses before allocating F & A to the departments and research centers.

The model for funding the research function at HSC might be used for main campus. The HSC research function uses a “top slice” model where a research F & A committee (top slice committee) determines what general research expenses should be paid prior to allocating F & A. The top slice committee is appointed by the Executive Vice President for HSC and consists of the Director of Financial Systems and Restricted Accounting, the HSC Executive Financial Planning Officer/Associate Vice President for Finance, Chief Budget and Finance Officer, and the Vice President for Research/Senior Associate Dean for Research, the Associate Deans for Research from the Colleges of Pharmacy and Nursing.

This model provides academic and financial input into the decision making process and assures that the research office expenses are paid before other monies are allocated to the units and centers.

#### **Recommendation 1**

The OVPRED should consider advisory assistance from a budget expert, such as the Provost’s Associate Vice President for Budget, Planning, and Analysis, to help with the OVPRED annual budgeting and monitoring of the expenses throughout the year.

### **Response from the Interim Vice President for Research and Economic Development**

*We agree with this recommendation. The Provost's Associate Vice President for Budget, Planning and Analysis is already working with the Office of the Vice President for Research and Economic Development. With his assistance, a new budget and business model for funding the research enterprise have been developed. Also, he has already begun to work with the office to monitor expenses. The Associate VP will continue in this role and will assume full monitoring at the beginning of the next fiscal year (1 July 2008).*

### **Recommendation 2**

The Interim Vice President for Research and Economic Development should evaluate using the top slice model for the research function and consider jointly appointing the members of a top slice committee for main campus. They may want to consider a committee composition similar to HSC, which might include the Interim Provost; the Interim Vice President for Research; the Director of Financial Systems and Restricted Accounting; the Provost's Associate Vice President for Budget, Planning, and Analysis; another high-level accounting administrator; three high level deans; and a director representing the centers. This top slice committee could also serve as an advisory team to the OVPRED.

### **Response from the Interim Vice President for Research and Economic Development**

*We concur with this recommendation. A top-slice methodology has been adopted to distribute F & A for FY09. A top-slice committee has already been created, consisting of the Provost/Executive Vice President for Academic Affairs, the Vice President for Research, the Deans of Arts & Sciences, Education and Engineering, the Associate Vice President of Budget, Planning and Analysis for Academic Affairs, the chairman of the Executive Research Advisory Committee (ERAC), a Category III Research Center Director and the Associate Vice President for Planning, Budget and Analysis (University Budget Director). This group is currently meeting and has been instrumental in resolving current problems and creating a new business model. It will continue to serve as a resource allocation and research advisory group, along with ERAC.*

### **Internal Budgeting**

For FY 2007, the OVPRED distributed F & A funds in excess of what was available. The OVPRED paid \$8,096,581 to departments and centers in accordance with a memo dated April 1988 from the former Interim Associate Provost for Research. This memo identifies the distribution methodology of F & A to research centers and units, but does not address specifics on how the remainder of the F & A is to be spent.

The OVPRED management approves additional funding for special requests and cost share requests throughout the year without a formal process and without internal budget approval to verify that F & A funds are available. To ensure that F & A funds are not overspent and to provide documentation to support approval for using F & A monies, best practices for the OVPRED would be to develop a process for requesting, allocating and approving additional F & A funds.

In addition, the OVPRED spent \$577,631 in F & A for start-up costs. Departments normally incur start-up costs to be competitive when hiring new research faculty. The expenses could include costs for equipment and remodeling to set-up science/engineering labs, course release time, research assistants, computers, and travel and conference expenses. The OVPRED has an agreement with the College of Arts and Sciences and the School of Engineering to pay 35% of all start-up costs. Because the agreement is based on a percentage of an unknown total cost, the OVPRED is unable to budget the future costs and liability. In addition, there have been limited F & A dollars available to other units to defray start-up costs. OVPRED should be able to budget expenses so that it does not spend more monies than available and get into a deficit position. In addition, there should be a competitive process so that other units could apply for start-up funds.

### **Recommendation 3**

The OVPRED should evaluate budgeting a fixed amount to be spent for University-wide start-up costs. In addition, they should develop and implement a process for units to request funds for special requests and cost share requests. The process should include a written request for funds, intended use of the funds, confirmation by the OVPRED accountant that funds are available, and a requirement for the Interim Vice President for Research and Economic Development's signature approving the use of the funds.

### **Response from the Interim Vice President for Research and Economic Development**

*I concur with this recommendation. There are fixed amounts in the FY09 budget for start-up, cost-share and special-projects costs. The budget has sufficient funds to pay for continuing commitments as well as for some new ones. We are developing the processes by which cost-share and special-projects will be assigned and tracked. The Provost has notified the Deans of Arts and Sciences and Engineering that there will be limited funds for start-up costs in the FY09 budget. The process for allocating and tracking cost-share and special-project funds will be completed by 1 July 2008.*

### **Payout of F & A Allocation**

The OVPRED allocates F & A to the units and centers based on the prior calendar year's earnings. If the F & A decreases (and OVPRED does not put money into a reserve to cover this in the future), OVPRED does not have adequate funding to pay the F & A. At HSC, the top slice committee determines what expenses are to be paid from the F & A, then the remaining monies are split 50/50 between the colleges and the Executive Vice President for HSC. Using this information, the HSC Financial Services allocates the F & A earned on a monthly basis. This method allocates the F & A during the period in which it is earned which is a more appropriate accounting method.

### **Recommendation 4**

The OVPRED should consider changing its F & A distribution method. This change might incorporate the methodology used at HSC where the research function determines the percentage of F & A earned and to whom it should be allocated. Post award could use this information to make the allocations on a monthly basis.

### **Response from the Interim Vice President for Research and Economic Development**

*University management concurs with the suggestion that the F&A distribution method should be changed. The Interim Vice President for Research and Economic Development and the Interim Provost/Executive Vice President for Academic Affairs, along with several advisory committees have developed a new business model for research. Utilizing a top-slice model, eliminating the old distribution method and allocating F & A based on current year receipts, creating a fixed budget for "start-up" funds and reevaluating F & A distributions to Category III centers are all in the new business model. Beginning 1 July 2008, F&A distributions will be made on a quarterly basis.*

*The new business model first budgets those costs that are necessary to run the research enterprise of the university. After the necessary and mandated costs are budgeted, the remaining estimated monies are distributed to the academic units and the centers. For the next three years, an additional expense is the payback of the \$2.5 M that was borrowed from the academic units, the administration and the strategic research centers. This expense is also budgeted before the return to the units is calculated.*

### **Funding Opportunities**

OVPRED is the only University research function that we reviewed that is funded with only F & A monies. In the review of our peer institutions, we found one university's research function is funded entirely with state funds. Ten of the eleven other universities fund their research offices from other sources in addition to F & A. The OVPRED receives some money from the Science Technology Corporation (STC); however, the expenses exceed the revenues generated. Evaluating the expenses paid by, and the areas reporting to, OVPRED should result in an assessment of whether F & A is sufficient to meet the University's goals, such as continuing to be a Carnegie Research University, rated Very High.

### **Recommendation 5**

University management should evaluate the budgetary needs of OVPRED and available F & A funding. If there is a need for additional funding, then University management should seek potential opportunities to provide funding from either within the University or from the State of New Mexico.

### **Response from the President and the Interim Vice President for Research and Economic Development**

*The University Management concurs with the finding of the audit to evaluate the budgetary needs of OVPRED and F&A funding. Management has developed a new business model for the unit that will provide the support needed to operate the research office effectively and to strengthen the research support for faculty. If additional funding is needed, management will explore possibilities from within the university budget, plus seek support from the state for research activities. State support for research will be more difficult currently due to the lack of formula funding for research efforts; however, administration at research institutions of higher education are working on an effort to change this practice.*

## ACCOUNTING CONCERNS

### Expenses and Reporting

In 2007, the OVPRED expenses were:

Units/Centers F & A return	\$8,096,581	42%
Administration expenses	\$1,845,605	10%
Award processing costs	\$2,028,366	11%
General research expenses	\$2,913,914	15%
STC/Center related expenses	\$1,827,564	9%
Expenses for review	\$2,521,679	13%
Other, miscellaneous	<u>\$ 59,214</u>	
Total	<u>\$19,292,923</u>	100%

In 2007, the OVPRED distributed \$2,208,810 more than it collected. We identified \$2,521,679 of expenses that have been paid from F & A monies that management should review to determine if they should continue to be paid from F & A funds in the future.

The following are the areas and expenses that should be evaluated by University management, not only to determine if they should continue to receive financial support from the OVPRED but also, in some cases, to determine if they should continue to report to the OVPRED.

1. Annually \$650,000 of F & A revenue is allocated to I & G and is part of the base for I & G faculty salaries. The money transferred each year is based on an agreement that dates back to the mid 1980's when a former University President wanted to provide a faculty raise and did not have the funds. The agreement was to transfer \$750,000 of F & A funds to I & G for only one year. The amount transferred was reduced to \$650,000 per year and continues to date.
2. Center for High Technology Material (CHTM) salaries – the OVPRED has been paying for \$326,577 of salaries for CHTM which should be paid through departmental budgets. This includes the \$226,577 paid in 2007, and \$100,000 that was paid by the Provost Office. The former Provost paid \$100,000 for the salaries instead of allocating the \$100,000 for the grants writing center, which had been approved by the Board of Regents. The former Provost reduced the amount that the OVPRED was spending on the salaries instead of allocating the monies. A 1988 agreement states that the research office would support the CHTM salaries until 1990, when the salaries would be added to departmental budgets. There is documentation from prior Vice Presidents and Provosts that funds will be provided to CHTM from the University through I & G funds to cover the salary expenses.
3. Center for High Tech Materials – in 2007, the OVPRED paid \$200,000 for maintenance and operations expenses from F & A monies. Pursuant to a memo approved by a former Vice President for Business and Finance, F & A funds were not to be used for this purpose beyond June 30, 2000.

4. Economic Development – currently reports to the OVPRED and cost \$162,729 in allocated F & A in 2007. In peer institutions, only 38% of the other universities have economic development offices or functions within the vice president for research offices.
5. Institute for Applied Research Services/Business Bureau of Economic Research – currently reports to the OVPRED and cost \$346,450 in allocated F & A in 2007.
6. Southwest Hispanic Research Institute - currently reports to the OVPRED and cost \$207,043 in allocated F & A in 2007.
7. Ibero American Science and Technology (ISTEC) – currently reports to the OVPRED and the OVPRED pays 10% of the salary for a professional consultant for Latin America and Iberia.
8. Science Fair - currently reports to the OVPRED and the net amount of F & A spent in 2007 was \$147,716.
9. Science Technology Corporation (STC) – In the Memorandum of Understanding (MOU) between the Board of Regents and the STC, the Executive Vice President for Administration is listed as the official contact person. The funding is approved annually by the Board of Regents and is currently split between HSC and the OVPRED. From 2003 through 2005, the funding was split equally among Business and Finance, HSC, and the OVPRED. In 2004, Business and Finance decided they should no longer support the funding for STC. The STC goals and commitments are in the areas of research, economic development, and faculty and student support.
10. Institute for Public Law – currently reports through the School of Law and receives \$110,000 in F & A.
11. Industrial Security – cost \$207,973 of F & A in 2007. It is now the responsibility of the University Police.
12. Lodestar – cost \$263,191 of F & A in 2007. It is now the responsibility of the New Mexico Museum of Natural History and Science.

Expenses that the OVPRED is not paying, but could be, include \$317,925 in Contract and Grant Accounting expenses and additional monies for the percentage of support services provided to the research function:

1. The function of Contract and Grant Accounting, sometimes referred to as post award, fully supports the research mission and should be funded entirely by research dollars. In 2007, OVPRED paid 65%, or \$585,000, of the total \$902,925 of operating expenses.
2. A percentage of the costs for the support organizations where the University provides services (based on a percentage of actual usage) to the OVPRED. This would include departments such as human resources, payroll, accounts payable, purchasing, etc.

The above identified areas and expenses should be evaluated to determine if they should continue to be funded and, in some cases, report to the OVPRED. UBP policy might be used as a guideline when making these decisions. Section 2. "Recovery of Facilities & Administration Costs" Policy 2425, UBP states:

## **2. Allocation of Facility and Administrative Cost Recovery Funds**

Revenue resulting from the recovery of facilities and administration costs allowed on sponsored research and public service projects is recognized by the University as "unrestricted" income. It is the objective of the University to maximize the use of this source of revenue for the benefit of the University's research and public service programs. Revenue may be allocated to:

- seed new faculty research projects;
- award cost sharing or matching funds on individual projects,
- support UNM's technology commercialization program,
- develop new research facilities; and
- build the University's sponsored research and public service program.

It is recognized that a portion of the facility and administrative cost recovery revenue must be committed to support the administration of sponsored programs in terms of allocations to specific administrative support functions and allocations to colleges and departments.

The Vice President for Research & Economic Development is responsible for the overall allocation plan for facility and administrative cost recovery revenue. The Executive Vice President for Health Sciences will be responsible for managing the allocation of facility and administrative cost recovery revenue earned through Health Sciences Center sponsored research and public service programs, in consultation with the Vice President for Research & Economic Development.

## **Recommendation 6**

University management should evaluate the expenses to determine the best uses for the F & A monies collected. In addition, University management should evaluate the additional areas reporting to the OVPRED and determine if they should continue to report to the OVPRED.



**Response from the President, the Interim Provost/Executive Vice President for Academic Affairs, the Interim Vice President for Research and Economic Development, and the Executive Vice President for Administration and Finance**

*University management concurs with the finding of the audit to evaluate expenses to determine the uses for F&A monies collected. The Office of the Provost & Executive Vice President for Academic Affairs and the Office of the Executive Vice President for Administration and Finance have developed a new business model for the use of the F&A funds to support the research mission of the institution. This will require transferring some units now reporting to the OVPRED not affiliated with research to other structures within the university. This will also require evaluation of the areas reporting to the OVPRED to determine if these units are needed any longer as effective functioning entities within the university. An evaluation of the areas reporting to the OVPRED has been completed, and units that need to be removed from the OVPRED budget have been identified.*

*The new business model includes:*

- 1. Elimination of the deficit over a 3 year period*
- 2. An F&A distribution that is developed by the top-slice committee in consultation with ERAC*
- 3. Quarterly F&A distribution based on research expenditures during the fiscal year*
- 4. Removal, over 3 years, of units that are not essential to the research mission*
- 5. Removal of Economic Development from the OVPRED: A process has been initiated to develop a new model for Economic Development at UNM. This process is expected to be completed by 1 July 2009.*

*Additional expenses:*

*OVPRED has budgeted the additional monies necessary to pay for Contract and Grant Accounting noted above, effective FY'09.*

**Accounting Information**

In the course of our audit, we reviewed financial information provided by OVPRED. We noted several accounting issues that needed to be addressed. There were Banner indices where the titles do not reflect the activities in the indices and some where the revenues and expenses were not posted to the correct indices. Management needs correct accounting information to make management decisions.

**Recommendation 7**

The OVPRED should set up the necessary Banner indices. The accountant should put only relevant revenues and expenses into the appropriate indices.

### **Response from the Interim Vice President for Research and Economic Development**

*I concur with this recommendation. The accountant is currently reducing the number of Banner indices and relabeling ones that will be kept. Starting with the new fiscal year, relevant revenues and expenses will only exist in appropriate indices.*

### **OVPRED Research Activity**

The OVPRED has restricted research awards in its reporting structure and the corresponding unrestricted F & A is recorded in their administrative accounts. Some of the awards appear to be directly related to the research oversight function. Other awards could be moved into a more relevant University unit.

### **Recommendation 8**

The Interim Vice President for Research and Economic Development should evaluate the research activity under the OVPRED reporting structure and determine if any of the awards should report to other areas within the University.

### **Response from the Interim Vice President for Research and Economic Development**

*I concur with this recommendation. We are currently evaluating all projects that reside in OVPRED. Those that are better suited in a different home will be moved. We expect to complete this process by 1 December 2008.*

### **Branch Campuses**

In 2007, the F & A collected for the Gallup, Taos, Valencia, and Los Alamos branch campuses research activity was \$162,351. The branch campuses keep 100% of F & A collected. The branch campuses pay an administrative overhead for main campus services that is equal to 2.81% of branch expenses; however, this is not related to F & A collected.

The OVPRED incurs additional expenses to process and support the awards; however, the branch campuses keep 100 % of the F & A that would cover some of these expenses. Historically the amount of F & A collected by branch campuses has been considered minimal and not worth the effort to collect the portion that should be returned to main campus.

### **Recommendation 9**

The OVPRED should determine what portion of the F & A should be returned to the branch campuses based on their contributed efforts.

## **Response from the Interim Provost/Executive Vice President for Academic Affairs and the Interim Vice President for Research and Economic Development**

*The OVPRED administration and the Office of the Provost & Executive Vice President for Academic Affairs concurs with the audit to review the portion of the F&A returned to Branch campuses based on their contributed efforts. Currently, the Branch campuses pay an overhead “franchise” fee that includes Contract and Grants services for the Branch campus activities. We will need to review carefully if this would mean taxing them twice for the same services. Another important factor to consider with this recommendation is the type of grants received at the Branch campuses. All of the grants are service and instructional related and are not research grants. These grants provide support to communities with the funds received from federal and state agencies to enhance children and families in the local area.*

*The Operating Agreements that we currently have with the Branches will also need to be revisited. The Operating Agreements prohibit the branches from paying more than the agreed upon amounts paid for indirect administrative services. An example of the agreement with Valencia Campus states the following: “No funds of the Albuquerque Campus or any other UNM branch shall be allocated for the support of the Valencia Campus, although indirect administrative costs may be borne by UNM. No funds of the Valencia Campus may be re-allocated to the Albuquerque campus, or to any other UNM branch except for the payment of the budgeted indirect administrative service fee or payment of other services as agreed upon.”*

*These reviews will be completed by July 1, 2008.*

## **ORGANIZATIONAL STRUCTURE**

### **Pre Award Services**

There are concerns that Research Initiatives and Sponsored Project Services are not in the same location. In addition, the Sponsored Project Services is located at the University Business Center which is not convenient to faculty. Research Initiatives is located in the Proposal Support Center on main campus near the OVPRED office and most faculty.

Pre award is the function that takes the award, normally a contract or grant, from the submission by a researcher (*e.g.* faculty member) to a negotiated award with the University. In our review of peer universities we found that it was sometimes referred to as: proposal services, contract processing, research initiatives, proposal development, sponsored project services, sponsored programs, and contract negotiations. The employees in pre award would normally include proposal analysts and/or grant specialists. The goal of the pre award function is to assist faculty members in submitting proposals for awards and, if the award is funded, to negotiate the details of an award.

In our review of the peer institutions, 100% of the other universities had the pre award function reporting to the vice presidents for research offices.

On main campus, part of the pre award function (Research Initiatives) reports directly to the Interim Vice President for Research and Economic Development. The other part (Sponsored Project Services) reports to the Interim Associate Vice President for Research Administration, who in turn reports to the Interim Vice President for Research and Economic Development and the Executive Vice President for Finance and Administration.

When we reviewed the proposal tracking and reporting software used, we found that both main campus and HSC pre award functions use InfoEd. OVPRED has two IT specialists who support InfoEd and the OVPRED's general IT needs. The IT specialists are located in the Proposal Support Center with the Research Initiatives.

We understand that both main campus and HSC are working on developing software to link the InfoEd pre award system and the Banner post award accounting system. A future project could involve both main campus and HSC pre award and post award functions and their respective IT services to work together to develop the software.

### **Recommendation 10**

The Interim Vice President for Research and Economic Development should evaluate consolidating both main campus pre award functions in one location that is more accessible to faculty.

### **Response from the Interim Vice President for Research and Economic Development**

*Management agrees that OVPRED needs to evaluate consolidating both pre-award main campus functions in one location to support faculty. We agree that interfacing both functions is a critical change for the future operations of the office.*

*The accessibility to the office by the faculty can be achieved in diverse ways. Therefore, the office will work differently to accommodate the faculty on campus by meeting with faculty on campus to address their needs with grants they are preparing for submission. An example of this is to have pre-award personnel meet with faculty in their offices as needed. This will increase the access to Sponsored Project Personnel. A committee is currently evaluating proposal development software which will help faculty to prepare proposals in a more consistent form, thus reducing the need for faculty and pre-award staff to meet as often as is currently required.*

*To address this recommendation, management has already consolidated pre-award and post-award functions in one location to facilitate the contracts and grant support more efficiently to the faculty. Pre-award (sponsored projects) and post-award activities now report to the Comptroller for management purposes pertaining to grants and contracts for the main campus.*

*An Advisory Committee has been established for main campus to work directly with the Campus Comptroller to advise and provide information that will improve the management of both functions. We believe this change will facilitate a more seamless approach to handling the workload and ability to utilize personnel expertise from HSC and the main campus. When the new Vice President for Research is hired, this action can be revisited and modified if necessary.*

### **Recommendation 11**

The Vice President for HSC/UNM Finance, Interim Vice President for Research and Economic Development, and the Director of Financial Systems and Restricted Accounting should work together with their respective IT services to integrate the InfoEd and Banner systems.

### **Response from the Vice President HSC/UNM Finance and the Interim Vice President for Research and Economic Development**

*A committee, consisting of faculty and staff from HSC and Main Campus has been formed to evaluate proposal development software and integration with Banner. This committee will make recommendations to the HSC VP for Translational Research and the Interim Vice President for Research and Economic Development, who will work with their respective IT services to implement the recommended solution.*

### **Compliance Function**

Main campus and HSC research both have compliance offices and/or compliance functions. In addition, the HSC Chief Budget and Finance Officer indicated there are other compliance offices at HSC and the University Hospital. Concerns were expressed that fragmenting compliance functions into main campus and HSC groups reduces the interaction between the two and leads to inconsistent results and added cost. There might be cost savings (or increased services) and more consistent decisions made if some of the compliance functions were combined. Because (non-financial) compliance covers a broad range of issues, for example, the Institutional Review Board, Conflict of Interest, Institutional Animal Care and Use Committee, ethics, export control, training, research misconduct, biosafety, chemical safety, radiation safety, and Health Insurance Portability and Accountability Act/medical, there will be a need to fully understand where each of these issues is best managed for the good of the entire institution.

HSC has concerns regarding consolidating the compliance functions specifically due to the fact that HSC is accredited by agencies that hold it to a higher standard than the federal guidelines. HSC has unique patient-based compliance requirements which are not found on the main campus. Therefore, a large number of compliance issues are managed at the HSC which are different than those found on the main campus. Any consolidation of compliance functions should take the unique nature of HSC compliance issues into consideration.

From the *University Governance, Report 2005-15*, the Office of the President is aware of the duplication and overlap of the various compliance efforts at the University. We understand that the President, along with the Regent's input, will work toward creating a committee to study the matter of assigning a University office the task of implementing a global compliance strategy.

## **POLICIES**

Exhibit A. "Recovery of Facilities & Administration Costs" Policy 2425, UBP has outdated overhead rates. In addition, the policy refers to the Office of Research Services, which is now called Sponsored Projects Services. University policies should be kept current and the information correct.

### **Recommendation 12**

The OVPRED should send the updated information to the University Policy Manager so that the policy can be updated.

### **Response from the Interim Vice President for Research and Economic Development**

*I concur with this recommendation. The updated information will be sent to the University Policy Manager by 1 March 2008. This action has been completed.*

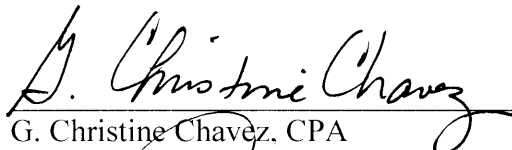
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## CONCLUSION

The allegation regarding the OVPRED having a budget deficit is correct. The deficit could be attributable to many factors including paying various expenses that need management evaluation, and lacking clear budgeting guidelines and oversight, processes, and approvals. In reviewing HSC and peer universities, we also recommend that the Interim Vice President for Research and Economic Development consider adopting the top slice budget model.

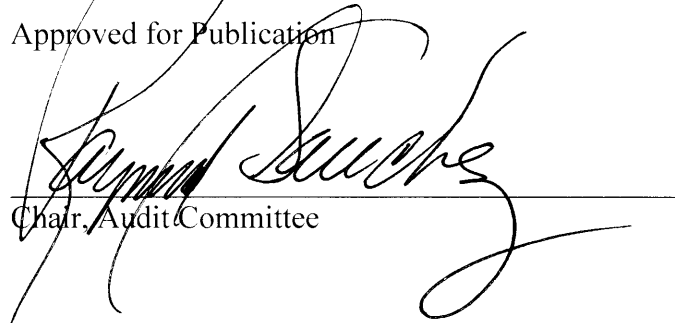
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## APPROVALS



G. Christine Chavez, CPA  
Director, Internal Audit Department

Approved for Publication



Chair, Audit Committee

## FY07 Revenues and Expenses

<b>REVENUE</b>		<b>Percent of Total Expenses</b>	<b>Category Total</b>	<b>Category Title</b>
F&A Allocation	16,821,659			
Awards/non-admin - Net Income	137,625			
STC, Royalties, & Interest	124,829			
<b>Total Revenue</b>	<b>17,084,113</b>			
<b>EXPENSES</b>				
Allocations - F&A Distributions	8,096,581	42%	8,096,581	Allocations -Depts/Centers
OVPRED operation/ Scholes Hall	1,504,089			
Compliance Expense	341,516	10%	1,845,605	Administrative
Proposal Development/IT support	1,032,098			
Research Pre-Award	411,188			
Contract & Grants Department Expenses	585,080	11%	2,028,366	IT/Award processing
Research Cost Share	748,669			
Research Start Up costs	577,631			
Research Legal Counsel	334,681			
Special Requests (include remodels)	285,369			
Research Allocation Committee Awards	196,600			
Research NASA Penalty	175,000			
Banner Tax on Sponsored Projects	231,763			
All Research Annual leave reserve	161,960			
Lobbyist expense	100,024			
Contract & Grants Bad Debt Exp	83,000			
All Research Catastrophic leave	19,218	15%	2,913,915	General Research Exp
High PerformCtr (net \$650k shared/prior adj from HSC)	477,510			
Science TechnologyCorp. (include patent costs)	796,776			
Rent expense for various centers	263,994			
Ctr High Tech Materials/Debt	289,284	9%	1,827,564	STC/Center related
Business & Finance – University Faculty Salaries	650,000			
Ctr High Tech Mat.- Salaries (net \$100k Provost)	226,577			
Ctr High Tech Mat - Maintenance & Operations	200,000			
Business Bureau Economic Research (BBER)	346,450			
Economic Development–University expenses	162,729			
Lodestar - 2007 final year	263,191			
Industrial Security- will rept to UNM Police	207,973			
Southwest Hispanic Research Institute	207,043			Financial support
Science Fair (net of \$113,719 revenues)	147,716			needs to be evaluated -
Institute for Public Law expenses	110,000	13%	2,521,679	Undefined areas
Other/Misc/plus unlocated \$12,897	59,214	0%	59,214	Other
<b>Total Expenses</b>	<b>19,292,923</b>	<b>100%</b>	<b>19,292,923</b>	
<b>NET INCOME (LOSS)</b>	<b>(2,208,810)</b>			
Balance Forward	(62,046)			
<b>OVPRED NET INCOME (LOSS)</b>	<b>(2,270,856)</b>			