

**CENTER FOR ALCOHOLISM, SUBSTANCE ABUSE AND ADDICTIONS  
BUSINESS PROCEDURES**

**UNIVERSITY OF NEW MEXICO**

**Report 2004-20  
June 17, 2005**



The University of New Mexico

---

**Audit Committee Members**

Doug Brown, Chair  
John M. "Mel" Eaves  
Raymond G. Sanchez

---

**Audit Staff**

Debra Yoshimura, Audit Director  
Yvonne Cox, Internal Audit Manager  
Doug Kirkpatrick, Senior Auditor

---

# CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>3</b>
BACKGROUND .....	3
PURPOSE.....	3
SCOPE .....	3
<b>OBSERVATIONS, RECOMMENDATIONS AND RESPONSES .....</b>	<b>4</b>
MONITORING OF FINANCIAL TRANSACTIONS.....	4
BUSINESS OPERATIONS MANUAL .....	4
COMPLIANCE WITH UNIVERSITY POLICIES.....	6
Financial Policies .....	6
Prior Approval of Travel.....	8
IMPROVEMENT OF BUSINESS PRACTICES.....	9
Inventory Control.....	9
Receivables Ledger .....	10
Long-Distance Telephone Logs.....	11
MISCELLANEOUS OBSERVATIONS.....	11
<b>GENERAL COMMENTS FROM THE ACTING DIRECTOR OF CASAA .....</b>	<b>12</b>
<b>CONCLUSION .....</b>	<b>13</b>
<b>APPROVALS .....</b>	<b>13</b>

## ABBREVIATIONS

NIH.....	National Institutes of Health
The University.....	The University of New Mexico
UBP.....	University Business Policies and Procedures Manual
UNM.....	The University of New Mexico
CASAA.....	Center for Alcoholism, Substance Abuse and Addictions

---

## **EXECUTIVE SUMMARY**

The Vice President for Research and Economic Development asked that we perform a review of the University of New Mexico Center for Alcoholism, Substance Abuse and Addictions (CASAA).

CASAA needs to develop a business operations manual. This manual should show job assignments that provide adequate separation of duties to enhance internal controls. CASAA should analyze its business procedures to assure compliance with University policies, government regulations and best practices.

CASAA is in the process of centralizing operations and making administrative improvements. This report can be used to augment this process as it includes recommendations for improved business practices in compliance with University policies and Federal regulations.

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

### **MONITORING OF FINANCIAL TRANSACTIONS**

CASAA financial transactions should be monitored by someone who does not have entry capabilities. The Acting Director of CASAA responded that monitoring will be performed by the central accountant who will review the work of the business managers of the individual awards.

### **BUSINESS OPERATIONS MANUAL**

CASAA should create a business operations manual that can be used by all of its programs and sites. A business operations manual is essential for training employees, for providing on-the-job direction and for providing a standard to which employees can be held accountable. The Acting Director of CASAA responded that work on a business operations manual was begun in October 2004 and should be completed by September 2005.

### **COMPLIANCE WITH UNIVERSITY POLICIES**

CASAA management should develop a monitoring process for business procedures to review for compliance with University policies. CASAA should develop a travel authorization form for prior approval of travel and associated costs. The Acting Director of CASAA responded that most CASAA business procedures have been standardized and brought into compliance with University and Federal policies. And, a travel authorization form has been created.

## **IMPROVEMENT OF BUSINESS PRACTICES**

CASAA should improve its business practices in the areas of inventory control, receivables tracking and logging long-distance telephone calls/expenses. The Acting Director of CASAA responded that inventory duties have been separated, the ledgers for tracking inventory have been modified, and a form is being developed to track long distance phone calls.

## **MISCELLANEOUS OBSERVATIONS**

CASAA should ask for prior approval when consultants are used for grant work that was budgeted for CASAA employees to do the work. CASAA should ensure that documentation is clear and sufficient to facilitate the determination of allowability of costs.

---

## **INTRODUCTION**

### **BACKGROUND**

The Mission of the University of New Mexico Center for Alcoholism, Substance Abuse and Addictions (CASAA) is to generate, convey, and apply knowledge to reduce suffering related to addictions and improve the quality of life. CASAA is a leader in research, innovative thinking and preventive intervention efforts that mitigate and eliminate the negative effects of addictive behaviors. CASAA is known for interdisciplinary and collaborative efforts that result in original research. CASAA generates and disseminates empirically validated information and translates research into real world applications.

The majority of grant funding to CASAA comes from the National Institute on Alcohol Abuse and Alcoholism and the National Institute on Drug Abuse. For the two-year period ended June 30, 2004, CASAA expenditures were over \$16 million.

### **PURPOSE**

The purpose of the review was to determine whether CASAA has implemented good business practices and complies with University policies and government regulations.

### **SCOPE**

Our review procedures included interviewing CASAA employees, reviewing CASAA's business procedures, and examining a statistical sample of 73 CASAA transactions, which occurred during the two fiscal years ended June 30, 2004. The fieldwork was completed on March 22, 2005.

---

## **OBSERVATIONS, RECOMMENDATIONS AND RESPONSES**

### **MONITORING OF FINANCIAL TRANSACTIONS**

Several business managers at CASAA both authorize and enter transactions to the University's general ledger, and also monitor and reconcile the accounts affected by the entries. Because these employees have control of the process from start to finish, it is possible that errors or manipulations could remain undetected.

CASAA has segmented its financial operations, assigning responsibility for certain grants to specific individuals. This has resulted in a lack of separation of duties. The business managers are currently performing the financial monitoring for the CASAA programs assigned to them. The same business managers are approving and entering the transactions. Someone who does not have the ability to enter transactions should reconcile accounts and monitor financial activity. Monitoring is particularly important as a detective control when an organization is small and conflicting duties exist.

#### **Recommendation 1**

We recommend that CASAA management reorganize the CASAA financial operations so that a person who has entry capabilities is not also monitoring financial transactions.

#### **Response from the Acting Director of CASAA**

*I agree with the findings noted in this section and concur with the recommendation.*

*The first steps to correct this problem are already being implemented. Beginning 1 July 2005, financial monitoring will be done by the CASAA accountant and not by the business managers of the individual awards. Monthly reconciliations will be performed by the business managers and verified by the central accountant. The central accountant will also provide monthly reports to each PI that contains current financial status of their awards. In addition, expenditures on an award will have to be approved by the PI. Responsibility for entering the awards will continue to reside with the business manager. The operational accounts for CASAA will operate in a similar fashion. Expenditures will be approved by the director and entered by the unit manager. Reconciliation and monitoring of operational accounts will be the responsibility of the accountant.*

### **BUSINESS OPERATIONS MANUAL**

An organization benefits when procedures are documented in a business operations manual. A manual provides training and direction for employees to successfully perform tasks and holds employees accountable to standards for performing their jobs. A manual also ensures consistency within the organization. CASAA does not have a business operations manual and thus employees do not have written directives and standards for completing tasks.

Our sample identified several areas that should be included in a CASAA business operations manual. For example:

- Assignment of cell phones and cell phone use. CASAA does not have a procedure requiring documentation of the authorization of cell phones or stating the allowable uses of cell phones. We could not find documentation of prior authorization for a cell phone that had charges included in our sample.
- Procedures for disbursing gift cards. Gift cards are purchased in bulk and then transferred to various sites. However, the transfers of gift cards to the various CASAA sites are not documented. Additionally, the forms used for documenting the issuance of gift cards to participants differed among CASAA sites. The sites did not consistently document the disposition of the gift cards; therefore, records were not available to verify that all gift cards were issued appropriately.
- Petty cash disbursements. Petty cash is expended for incentive payments to clients, purchasing gift cards, and incidental expenses. CASAA has not developed petty cash procedures to be used at all CASAA sites. As a result, the procedures and forms in use at the various sites differ.

CASAA has various sites for its programs. CASAA has allowed the various sites to develop location-specific procedures to address operations, which has resulted in inconsistent processes at the different locations. A business operations manual would provide for consistent processes and make it easier to monitor transactions and ensure compliance with approved procedures.

## **Recommendation 2**

We recommend that CASAA develop a business operations manual that can be used by all of its programs and sites. The business operations manual should include processes and procedures that can be followed by all programs and locations.

## **Response from the Acting Director of CASAA**

*I agree with the findings noted in this section.*

*The necessity of developing a business operations manual that complies with UNM's Business Policy Manual was recognized in the strategic plan that was approved by the Vice President for Research and Economic Development in September 2004. One of the strategy implementation groups has been working on this manual since October of last year. These not only include the three examples listed in the report but also numerous others. The completed and approved portions of the manual are available on CASAA's internal webpage. This process will continue*

*during the summer and should be completed by 1 September 2005. A number of the new procedures will go into effect when the reorganization is implemented.*

## **COMPLIANCE WITH UNIVERSITY POLICIES**

The University Business Policies and Procedures Manual (UBP) is a compilation of institution-wide administrative policies and procedures. The UBP "...contains policies and descriptions of appropriate procedures, including forms, to help the user better understand the administrative processes of the University." All of the various organizations of the University must comply with the policies in the UBP.

We reviewed a sample of 73 CASAA transactions for compliance with University policies. Based on our testwork, it appears that CASAA is not in compliance with some sections of the UBP as outlined below.

### **Financial Policies**

- Section 1. "Responsibility and Accountability for University Information and Transactions" Policy 2000, UBP requires that deans, directors and department heads define department approval process and designate individuals to process transactions who are accountable. Our sample included three mileage statements, which were processed for reimbursement, but the traveler and the Program coordinator had not signed them.
- Section 4.1.2. Policy 2000, UBP states that financial managers or designees are responsible for a monthly review of the transactions affecting their funds to ensure allowability and appropriateness of transactions. Our sample included a travel expense that was posted to the wrong account. The correction was made a year later. Another expense was charged to the incorrect subcode. It appears that CASAA financial managers are not routinely monitoring transactions.
- Section 9.2.1. "Travel" Policy 4030, UBP requires employees traveling to conferences to attach conference advertisements. Our sample included payment for a travel voucher that did not have conference materials attached. It is possible that meals were included in the conference fee and also were reimbursed with per-diem.
- Section 1. "Cash Management" Policy 7200, UBP requires deposits to be made within twenty-four (24) hours. Additionally, state statute 6-10-3 NMSA 1978 requires that money be deposited before the close of the next succeeding business day after the receipt of the money. Checks in payment of accounts receivable at CASAA are accumulated over a period of time and processed all at once.

- Section 3.1. Policy 7200, UBP requires limited access to monies. We found that four CASAA employees had access to a safe.
- Section 3.2.2. Policy 7200, UBP requires that two employees jointly open mail that might contain checks. Accounts receivable payments are addressed to an employee who opens the mail without another employee present.
- Section 3.3. Policy 7200, UBP requires that the duties of receiving and recording monies be separated. The employee mentioned immediately above, both opens the mail and records the monies received.
- Section 3.4. Policy 7200, UBP states that “All accounts receivable activity of the University, with the exception of University Health Sciences Center patient receivables and Contract and Grant receivables, should be channeled through the centralized accounts receivable system under the direction of the Bursar's Office.” CASAA sells printed materials to various individuals and businesses. One CASAA employee prepares the invoices, receives payments and prepares deposits for the associated account receivables. The University Controller has not approved an exception to the policy for this system.
- Section 3. “Petty Cash” Policy 7210, UBP requires that “Responsibility for the fund must be specifically included in the employee's job duties and acknowledged by the employee as a job duty.” One of the CASAA petty cash funds has been assigned to an employee other than the person identified as the “responsible party” on accounting records. Neither of the job descriptions for these two employees includes acting as a petty cash custodian in the job duties.
- Section 5.2. “Petty Cash” Policy 7210, UBP requires pre-approval of petty cash purchases and this does not occur at CASAA.
- Sections 2.1 and 2.2. “Cost Accounting Standards” Policy 2400, UBP require compliance with the federal cost accounting standards. There was one case where furniture was charged 100% to a grant for the office of an employee whose efforts were approximately 5% on the grant.

University policies exist to ensure conformity in operations and to reduce the University’s risks. It appears that CASAA management has not placed sufficient emphasis on financial monitoring and compliance with University policy. The majority of financial transactions are conducted with limited oversight by CASAA management.

### **Recommendation 3**

We recommend that CASAA management review business procedures for compliance with University policies.

### **Response from the Acting Director of CASAA**

*I agree that all units must comply with University Policies.*

*When I became Acting Director of CASAA in September 2004, I brought one of my staff members with me. She assumed the role of unit manager. Her primary duties were to reconcile all F&A accounts, review all operating procedures and bring them in line with University policies. To date, there have been over 500 transaction corrections done on various accounts. In addition, most business practices have been standardized and brought into compliance with University policies. In particular, annual and sick leave reporting is now standardized and follows University guidelines. Billing for space is now consistent with University and Federal Policies. All staff received annual evaluations. Appropriate checks and balances have been instituted or will soon be. Petty cash and P-Card transactions are standardized and follow correct procedures. All forms are signed by appropriate personnel and checked by the central administration. In particular, the examples mentioned in this report have been corrected. There are still some practices that need to be corrected. This will be completed shortly after the reorganization is implemented. All of the new procedures are being included in the operations manual.*

### **Prior Approval of Travel**

Section 4 “Travel” Policy 4030, UBP states, “Colleges and departments may establish procedures for requiring prior approval of travel within the United States.” CASAA does not use a pre-travel authorization form.

We reviewed the travel policies at other universities. Most require the completion and approval of a travel authorization form prior to travel. The travel authorization forms used by universities typically include information such as:

- Dates of travel and destination
- Purpose of trip and how it relates to the University
- Any personal travel included in the trip
- Identification of meals included in registration costs (when attending conferences)
- Estimated travel expenses including per diem
- Accounts/Projects where travel costs will be charged
- Non-University (third-party) funds that will pay for travel costs
- Mode of Transportation

- Justification for any exceptions to travel policies
- Authorization signatures

Requiring prior approval forms for travel would provide CASAA the opportunity to document the travel purposes before trips occur and to place employees on notice that third-party payments are to be considered when filing for University travel reimbursements.

#### **Recommendation 4**

We recommend that CASAA develop a pre-travel form that asks for the essential information about proposed trips including the business purpose of trips and whether third parties will pay for part or all of travel expenses. We further recommend that CASAA require prior approval of the pre-travel forms.

#### **Response from the Acting Director of CASAA**

*Although not mandatory, I feel that the implementation of prior approval for travel is warranted at CASAA.*

*A travel authorization form has been created. It will become mandatory on 1 July 2005.*

### **IMPROVEMENT OF BUSINESS PRACTICES**

The University Business Policies and Procedures Manual is comprehensive. It is difficult, however, to include every desirable best practice even in such a large volume. CASAA management should look for ways to improve business procedures even if areas are not covered by the UBP. We noted cases of internal control weaknesses that require management attention. These are discussed below.

#### **Inventory Control**

Good business practice for controlling items for resale include:

- An employee filling out/signing and dating sequentially numbered receiving reports (multi-part form) of received items and securing copies of the receiving reports that are available for review.
- A different employee creating inventory records and controlling all items for resale in a secure environment.
- A different employee(s) signing/dating detailed, sequentially-numbered requisition slips for items received to ship to customers.
- Periodic physical inventory counts by someone not involved in the above duties.

CASAA sells educational materials and one employee orders the materials, stores them and ships them to customers. Receiving reports, detailed inventory records and requisition slips are not used and surprise physical counts are not done. Although this may be convenient, it does not provide adequate safeguarding of the inventory.

### **Recommendation 5**

We recommend that CASAA assign receiving, inventory and shipping duties to different employees and that CASAA use appropriate receiving reports, inventory records and requisition slips. Additionally, we recommend that CASAA assign periodic physical counts of inventory to an employee who is independent of the other processes.

### **Response from the Acting Director of CASAA**

*I agree with all the findings in this section.*

*Shipping, receiving and inventory are assigned to different employees. Shipping reports, inventory records and requisition slips are being developed. The full system should be in place by the end of July. In addition, one of the central CASAA staff members will be conducting a semi-annual inventory of the stock. This will begin some time this summer.*

### **Receivables Ledger**

CASAA maintains a computerized record for the receivables owed by customers resulting from the sales of educational materials. The computerized record lists each invoice generated by CASAA separately, but does not provide a mechanism for recording payments, or the total amount of unpaid invoices. As a result, managers do not have complete information on which to base decisions. It appears that the procedures for the sale of inventory were developed as needed, rather than with an overall business process in mind.

### **Recommendation 6**

We recommend that CASAA modify its computerized tracking of invoices to include invoice amounts, payments and balances.

### **Response from the Acting Director of CASAA**

*The computerized tracking of ledgers has been modified to include invoice amounts, payments and balances.*

### **Long-Distance Telephone Logs**

Section 2 “Long Distance Telephone Calls” Policy 2110, UBP states, “ Departments should maintain long distance telephone logs to ensure the accuracy and appropriateness of University long distance charges and reconcile the logs to the invoices provided by Telecommunications. Charges billed to an account in error should be reported to Telecommunications.” CASAA does not use long-distance telephone logs. CASAA personnel review long-distance telephone invoices for unusual calls or calls that do not follow normal patterns, but those conducting the reviews don’t sign and date to document having done the reviews.

Long distance telephone logs provide primary documentation of the individual’s use of his or her long distance authorization number. Without the logs it is possible for inappropriate long distance charges to remain undetected. It appears that CASAA management has not recognized the risks associated with unauthorized long distance charges.

### **Recommendation 7**

We recommend that CASAA implement procedures for using long distance logs to record all long distance telephone calls made by CASAA personnel.

### **Response from the Acting Director of CASAA**

*A form is being developed to document long distance phone calls. This will be implemented on 1 July or shortly thereafter.*

### **MISCELLANEOUS OBSERVATIONS**

The following observations do not require responses from CASAA. However, actions to improve these areas should be considered to increase compliance with rules and regulations and to strengthen internal controls.

- A. The National Institutes of Health (NIH) Grants Policy Statement includes that transferring performance of substantive programmatic work to a third party requires NIH prior approval. A consultant was hired to perform work that was budgeted for CASAA employees for a NIAAA (NIH) grant and prior approval was not obtained by CASAA. The work by the consultant was significant to the grant but it is uncertain if the work would be deemed substantive.

We recommend that, in cases when prior approval of funding agencies might be required, CASAA obtain written approvals.

- B. Section 3. “Allowable And Unallowable Expenditures” Policy 4000, UBP requires UNM departments to provide documentation for expenditures. We found cases where, although receipts were on file, portions were illegible or they did not contain sufficient information.
- Receipts for gift cards were taped to paper, with the tape covering the gift card numbers. The gift cards are tracked by number. CASAA should be careful when mounting documentation to avoid covering vital information.
  - When money orders are purchased, the receipt is a stub where the purchaser can record who the payee is. This does not provide reliable evidence of who the money order is made payable to. CASAA could purchase money orders that have a carbon copy to document the payee.

## **GENERAL COMMENTS FROM THE ACTING DIRECTOR OF CASAA**

*I asked for a business audit of this center before I became the Acting Director of CASAA because of the number of problems that were being brought to our attention by Contract and Grant Accounting, as well as problems associated with several grants. CASAA is undergoing a major reorganization. Part of this process includes the creation of a centralized administrative staff who will report to a single director. The plan for the reorganization is now complete. Implementation will begin on 1 July 2005, pending Human Resources approval. This will include the hiring of a unit manager and the creation of a central accounting position. These two positions will be assisted in the performance of their duties by an Administrative Assistant II. These positions will be paid by CASAA F&A funds and not by external funding, thus assuring that they have no allegiance to any research projects.*

---

## CONCLUSION

CASAA needs to develop a business operations manual. This manual should show job assignments that provide adequate separation of duties to enhance internal controls. CASAA should analyze its business procedures to assure compliance with University policies, government regulations and best practices.

---

## APPROVALS



---

Debra Yoshimura, CPA, CIA, CGAP  
Director, Internal Audit Department

Approved for Publication



---

Chair, Audit Committee