

**CONTROLLER'S OFFICE
BANKING, TAX, AND INVESTMENTS DIVISION
AUDIT OF THE TREASURY FUNCTION**

UNIVERSITY OF NEW MEXICO

**Report 2005-08
June 16, 2005**

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ABBREVIATIONS

BOA	Bank of America
EVP-ADM	Executive Vice President for Administration
General Accounting	a division of the Controller’s Office
Treasury	Banking, Tax, and Investments, a division of the Controller’s Office
UBP.....	University Business Policies and Procedures Manual
University.....	The University of New Mexico

EXECUTIVE SUMMARY

As part of the audit plan for the fiscal year ending June 30, 2005, the treasury function of the Controller's Office was selected for audit. The treasury function is managed by Banking, Tax, and Investments (Treasury). The focus of our audit was to determine whether procedures are in place for the treasury function and, if they exist, whether Treasury is compliant with these procedures.

Treasury does not have a procedures manual. Without a procedures manual, Treasury does not have standards to document the adequacy of the internal controls over the function. Once a manual has been completed, we will follow up to review the documented procedures. We have noted several items that we believe merit management's review and should be addressed promptly.

The purpose of this section is to provide management with an overview of conditions requiring its attention.

INVESTMENT POLICY-INSTITUTIONAL FUNDS

While the University has an informal policy concerning the short-term investments of institutional funds, the University should have a written policy for short-term investments documented and approved by the Board of Regents. The Executive Vice President for Administration (EVP-ADM) responded that the Investment Committee has written a short-term investment policy that is in draft form. It is anticipated that the policy will be finalized and submitted to the Regents for approval within the next 90 days.

PROCEDURES MANUAL FOR THE TREASURY FUNCTION

A procedures manual for the treasury function should be developed. The EVP-ADM responded that the Associate Controller for Accounting in Operations has been assigned the responsibility of coordination and codification of procedure in all the accounting areas.

WELLS FARGO DEPOSITORY ACCOUNT

The old main bank depository at Wells Fargo should be closed as quickly as possible. The EVP-ADM responded that some activity will continue to occur and the bank account will be maintained to accommodate the activity, but not longer than one year.

BANK RECONCILIATIONS

The bank reconciliations for the remote depository, main depository, and expense bank accounts should be reconciled and related corrections need to be made in a timely fashion. The EVP-ADM responded that the bank reconciliations are now current, clearing of reconciling items is

being addressed, and office procedures for each area will assist in providing back up for critical operations.

UNIVERSITY BUSINESS POLICIES AND PROCEDURES MANUAL

Policy 7200, “Cash Management,” and Policy 1000, “UNM History, Mission, and Organization” should be reviewed and updated. The EVP-AADM responded that the policies will be revised.

INTRODUCTION

BACKGROUND

Banking, Tax, and Investment (Treasury) is part of the Controller's Office. It is responsible for cash management, banking relationships, and short-term investments of funds generated by University operations. Additionally, the department is responsible for tax services including tax research, foreign national payment analysis, and Federal and State tax filing compliance. As of the end of February 2005, the short-term investment account totaled approximately \$95 million.

Treasury is being impacted by changes in the internal and external business environment. The University is converting to the Banner Administrative System which is changing the way the University does its business. The University has consolidated its major bank accounts under one bank, and more payments are being received and sent by the University via wire transfer instead of paper checks.

PURPOSE

The purpose of our audit is to determine whether policies and procedures are in place for the Treasury function within the Controller's Office and, if they exist, whether Treasury is compliant with these policies and procedures.

SCOPE

This audit included, but was not limited to, compliance with University policies and procedures concerning the Treasury function. The audit review period was for the fiscal year ending June 30, 2005. Fieldwork was completed on May 11, 2005.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

INVESTMENT POLICY-INSTITUTIONAL FUNDS

There is no formal policy for the treasury function; Treasury follows an informal investment policy. The Regents' Policy Manual contains reference to a long-term investment policy concerning the UNM Foundation but is silent as to short-term investments for institutional funds of the University. Our understanding is that Treasury and the Controller's Office are developing a policy to be presented for Regents' approval. This short-term investment policy should give guidance as to the types of approved investment instruments. The investment policy also should maximize returns within acceptable risk levels while complying with State statutes.

Lack of a cohesive and salient policy could affect the return on short-term investments to the University.

Recommendation 1

We recommend that the Executive Vice President for Administration, along with the Policy Office, complete the proposed short-term investment policy and submit it for Regents' approval.

Response from the Executive Vice President for Administration

We concur with the finding and recommendation.

We have created an investment committee. The Investment Committee has written a short-term investment policy, which is in draft form. We anticipate finalizing the policy within the next 90 days with submission to the Regents for approval.

PROCEDURES MANUAL FOR THE TREASURY FUNCTION

Without a procedures manual, Treasury does not have standards to document the adequacy of the internal controls over the function. If key personnel are absent, substitute employees will not know how to perform the function effectively and efficiently. In addition, the training of new personnel could be impacted, as the training might not be organized.

The Treasury function has some desk procedures but they are not codified and organized formally. Formal procedures were not developed because only two people were involved with the process and they had developed informal procedures. They did not feel the need to create a manual. In addition, the Banner conversion and consolidation of bank accounts may have delayed the development of a manual.

Recommendation 2

We recommend that Treasury and the Controller's Office complete a procedures manual for Treasury operations.

Response from the Executive Vice President for Administration

We concur with the recommendation.

Due to the Banner implementation, all procedure manuals in the Controller's organization became obsolete. The Associate Controller for Accounting in Operations has been assigned the responsibility of coordination and codification of procedure in all the accounting areas. We anticipate completing the project within the next six months.

WELLS FARGO DEPOSITORY ACCOUNT

During the review, it was noted that the old depository account at Wells Fargo Bank was still active and receiving funds from the remote depository accounts and from payments for work performed on various grants and contracts. Implemented in spring 2004, the new banking relationship with Bank of America (BOA) designated the new main depository bank account at BOA. The Manager of Treasury stated that the University was in the process of closing the account but had not completed the task. From an operating perspective, the account needs to be closed as soon as possible to ensure an effective and efficient banking operation.

Recommendation 3

We recommend that the Controller's Office close the Wells Fargo depository account so that all transactions go through the new main depository account at BOA.

Response from the Executive Vice President for Administration

We concur with the recommendation.

We are getting close to eliminating all the activity still remaining in this account. A few items are rather difficult to eliminate in that they involve collections from the Cancer Center's drop box and donations to KNME and KUNM which are automatic transfers from the donor's bank account. As long as this activity continues, we will maintain the bank account but not longer than one year from date. It is in everyone's best interest to close this account as soon as possible.

BANK RECONCILIATIONS

The University has five remote depository banks for its branch campuses' operations. Primarily, the funds deposited are tuition and fees. Periodically, Treasury sweeps the bank accounts leaving approximately \$1,500 in each respective account and transfers the rest of the funds to the main depository account.

Additionally, all funds received by the University are recorded in the main depository account. For expenses, the University has payroll, general disbursement, and bursar bank accounts. The main depository account and the expense accounts are at BOA, the result of a consolidation.

General Accounting, a division of the Controller's Office (General Accounting), is responsible for reconciling all the bank accounts. Bank reconciliations are internal controls used to identify errors and assure completeness of bank transactions. To be effective, bank reconciliations are to be completed in a timely manner, reviewed, approved, and corrections posted. When reconciliations are delayed, unauthorized transactions and errors are not identified promptly and corrected. This could lead to losses to the University.

Completeness

Part of the reconciliation process includes review of the reconciliation by a supervisor. The supervisor signs the reconciliation to document the review. In March 2005, we reviewed the most current reconciliations for the bank accounts. We found the main depository bank account for the January 2005 reconciliation and disbursement bank account for the February 2005 reconciliation do not have an approving signature to document the supervisors' review process. We were informed that bank reconciliations were delayed because the employee who reconciled the accounts left the University.

Recommendation 4

We recommend that General Accounting complete the bank reconciliation, with proper review and approval, in a more timely fashion.

Response from the Executive Vice President for Administration

We concur with the recommendation.

Due to the Banner implementation and loss of a key employee, bank reconciliations did fall behind. It is not a normal situation in that bank reconciliations are normally accomplished within the month following the bank statement. All bank reconciliations are now current.

Timeliness

As of March 2005, we found that the bank reconciliations for the five remote depository banks have not been reconciled in a timely fashion. We found that the accounts were reconciled from 90 days to 217 days after the bank statement date.

The bank reconciliations listed reconciling items pertaining to the fiscal year ending June 30, 2004 that had not been posted as of March 2005. For the main depository account, the January 2005 reconciliation listed reconciling items from April 2004. The February 2005 payroll account's reconciliation contains a reconciling item from June 2004. Finally, the February 2005 general disbursement account reconciliation contains a reconciling item from December 2003.

The delay in posting the corrections for last fiscal year was due to the consolidation of bank accounts, the Banner conversion and employee turnover in General Accounting.

Recommendation 5

We recommend the Controller review the process of booking adjustments for reconciling items to determine the cause for the delay in posting corrections as well as for timely completion of the bank reconciliations.

Response from the Executive Vice President for Administration

We concur with the recommendation.

As a standard rule, reconciling items are cleared from the bank reconciliation within sixty days. Due to the Banner implementation and loss of a key employee, this process fell behind. Currently, most of the outstanding items have been cleared and we expect to be fully current by the end of this fiscal year.

Cross-Training

We asked the Manager in General Accounting, who reports to the Associate Controller for Accounting Operations, if there was cross-training in the department in the area of bank reconciliations. He stated that there is cross training in this area in an informal manner. Because the bank reconciliations were not timely and completely reconciled, the process appears to have been ineffective.

Recommendation 6

We recommend that the Manager in General Accounting, along with the Associate Controller and Controller, review the procedures for cross-training for possible changes to insure that cross-training is accomplish for those mission-critical functions such as bank reconciliations.

Response from the Executive Vice President for Administration

We concur with the recommendation.

Cross training of employees is always a sound and desirable practice. Additionally, office procedures for each area will greatly assist in providing back up for critical operations.

UNIVERSITY BUSINESS POLICIES AND PROCEDURES MANUAL

During our review, we noted the following two policies in the University Business Policies and Procedures Manual (UBP) were outdated and need review for possible changes.

“Cash Management” Policy 7200, UBP

“Cash Management,” Policy 7200, contains outdated procedures such as requiring checks over \$100,000 to be deposited through the Controller’s Office. The procedure is not used because of the conversion to the Banner Administrative System, the new banking agreement, and the increased use of wire transfers in lieu of paper checks. In the light of the Banner conversion and the banking agreement with Bank of America, the whole policy requires review and revision as necessary.

Recommendation 7

We recommend that the Executive Vice President for Administration, the Controller’s Office and the Policy Office, review Policy 7200 for possible changes to the Policy reflecting the changes in operating procedures.

Response from the Executive Vice President for Administration

We concur with the recommendation.

The policy truly needs to be revised. Considering the backlog of policies being revised due to the Banner implementation, this will probably require about six months to get the revision through the system.

“UNM History, Mission and Organization” Policy 1000, UBP

“UNM History, Mission and Organization” Policy 1000, last updated April 1, 1994, is outdated and contains information that is not accurate. For example, the policy contains specific statistics that are subject to change every year. Information from “FACTS ABOUT the University of New Mexico, 1991” was used in Section 5, General Information. The policy states the number of Alumni is more than 90,000; the latest information contained in the UNM FACT Book 2004-05, is 114,767. When this type of outdated information is disseminated to the public and internally, it could cause a loss of prestige and embarrassment. This could translate into losses in donations and enrollment.

Recommendation 8

We recommend the Executive Vice President for Administration, along with the Policy Office, review Policy 1000 for possible changes.

Response from the Executive Vice President for Administration


We concur with the recommendation.

Policy 1000 will be placed on the review list and although there is a considerable backlog of policy adjustments, we anticipate the revision to be complete before the end of the calendar year.

CONCLUSION

Treasury does not have a procedures manual. Without a procedures manual, Treasury does not have standards to document the adequacy of the internal controls over the function. Once a manual has been completed, we will follow up to review the documented procedures. We have noted several items that we believe merit management's review and should be addressed promptly.

APPROVALS


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Approved for Publication


Chair, Audit Committee