

**THE UNIVERSITY OF NEW MEXICO PRESS
AUDIT OF BUSINESS PRACTICES AND PROCESSES**

THE UNIVERSITY OF NEW MEXICO

**Report 2009-18
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CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION.....	2
BACKGROUND	2
Historical.....	2
Process to Publish a Book.....	2
PURPOSE.....	3
SCOPE	3
OBSERVATIONS, RECOMMENDATIONS AND RESPONSES.....	4
POLICIES AND PROCEDURES	4
Update Current Written Policies and Procedures	4
Develop New Written Policies and Procedures	5
RECONCILIATION OF DATABASES	6
FISCAL CONCERNS	7
Budgets	7
Financial Support.....	7
INFORMATION TECHNOLOGY CONCERNS.....	8
CONCLUSION	10
APPROVALS	10

ABBREVIATIONS

FY	Fiscal Year
FYE.....	Fiscal Year Ending
University.....	The University of New Mexico
UBP.....	University Business Policy and Procedures Manual
UNM	The University of New Mexico
UNM Press.....	The University of New Mexico Press
UPC.....	University Press Committee

EXECUTIVE SUMMARY

During the month of April 2009, five employees came to the Internal Audit Department regarding concerns about the operations of the University of New Mexico Press (UNM Press). We investigated the specific allegations and related issues. The purpose of our audit was to determine if the concerns brought to our office are valid and to provide recommendations for improvements. Fieldwork included reviewing UNM Press and The University of New Mexico (University) records and interviewing University employees.

In summary, we could not determine if the concerns brought to the Internal Audit Department were valid, because the UNM Press did not document in written policies and procedures what processes should be followed. We recommend that management update and/or develop written policies and procedures to address the concerns that we have identified in this report. In addition, we recommend that UNM Press management work with the Provost's office to address their budgetary and information technology issues.

POLICIES AND PROCEDURES

UNM Press management should develop and/or update policies and procedures for accepting manuscripts, publishing books, and financial accounting for the book publishing process. The Director of the UNM Press agreed with this recommendation.

RECONCILIATION OF DATABASES

UNM Press management should ensure that the database used to track the manuscript from inception to publication is reconciled annually to the database used to track inventory, sales, and royalties. The Director of the UNM Press agreed to reconcile the two systems biannually.

FISCAL CONCERNS

The UNM Press should consider creating a financial advisory committee to help with the UNM Press annual budgeting and monitoring of the expenses. The Office of the Provost should review best practices to determine how to improve UNM Press' financial position. The Vice Provost for Academic Affairs appointed a financial advisory committee, and the Provost will research alternative business models.

INFORMATION TECHNOLOGY CONCERNS

The UNM Press should work with the Provost's Office and/or the Chief Information Officer's Office to ask for information technology support to improve website functionality and allow a consumer to complete an on-line transaction to purchase a book. The Director of the UNM Press agreed to work with UNM Press staff and the Provost's office to meet this goal.

INTRODUCTION

BACKGROUND

Historical

Founded in 1929, the UNM Press is the largest publisher in New Mexico. The mission of the UNM Press is to publish works of scholarship in the arts, humanities, and social sciences that reflect the strengths of UNM in those areas. The UNM Press is world-renowned as the publisher of such authors as Tony Hillerman, Ana Castillo, Rudolfo Anaya, and Pat Mora.

The UNM Press receives no direct funding from UNM. It is self-supporting through book sales. The UNM Press also has endowments including: Poetry Series, Worlds of Wonder: Science for Young Readers, General, and the Friends of the Press fund. Since moving to the new facility, off-campus, the Press has paid all occupancy costs except maintenance.

Since FY2000, the UNM Press's list of publications grew from 52 to 85 per year, but has been reduced to approximately 65 this year (FY2009) because of the current recession. The industry as a whole, commercial and university presses, has seen a dramatic reduction in book sales over the past year and a half. The UNM Press experienced a budget deficit for the prior two years and has a deficit in the current year.

Process to Publish a Book

Once UNM Press has received a manuscript from an author, a preliminary cost review is performed. If the initial analysis is positive, the manuscript is sent for peer review. If a positive recommendation is received, the project is presented to the University Press Committee (the faculty editorial board or UPC). One of three actions can be taken:

- Accepts the manuscript for publication;
- Accepts the manuscript (or sometimes proposal and partial manuscript) conditionally, pending further review of the revised or completed manuscript, and presentation for final approval (or rejection) by the UPC;
- Rejects it outright.

Once a manuscript is accepted for publication by the UPC, the UNM Press negotiates a contract and royalty advances, if applicable, with the author. The UNM Press only advances money where it expects to recoup the advance from royalties and other funds due the author within the first year of sales. After the UNM Press has a signed contract, the book is assigned tentatively to a publication season.

After the final manuscript is complete, the materials are transmitted to the managing editor, who assigns it to a freelance copyeditor and schedules a "launch" meeting to inform all interested parties at the UNM Press. Once copyedited, the author reviews the manuscript. The designer prepares the design and typesetting of the book, produces page proofs (which are also read by the

author and an independent proofreader), seeks bids from appropriate printers, prepares specifications, and sends electronic files to the printer.

After the formal “launch” of the book within the UNM Press, marketing and sales prepare their plans for the book. The book arrives in the warehouse and the UNM Press markets and sells the book (including receiving orders, packing and shipping, and collecting the money from sales).

Frequently, the UNM Press will realize a substantial loss if they publish certain books without a subsidy. In these cases, UNM Press seeks subsidies from public and private foundations, and occasionally individuals, to cover the projected losses prior to making the decision to publish the book.

PURPOSE

The purpose of our audit is to determine if the concerns brought to Internal Audit were valid and to provide recommendations for improvements.

SCOPE

Our audit procedures were limited to reviewing the specific allegations and concerns. We reviewed UNM Press and University financial records from fiscal year ending (FYE) June 2006 through the current year-to-date, and interviewed University employees. The fieldwork was completed on May 7, 2009.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

POLICIES AND PROCEDURES

An organization uses policy documents to record their rules and regulations and to identify how they would like their operations managed. Policies are often structured to comply with Federal and State laws. The University has three primary sets of policies: The University of New Mexico Board of Regents' Policy Manual, the University Business Policy and Procedures Manual (UBP), and the University of New Mexico Office of the Secretary Faculty Handbook.

Within the University, there are over 300 separate organizational areas. Each of these areas is responsible for their own operations. Therefore, these areas must develop and maintain the policies necessary to define the rules and regulations specific to their area.

Procedures identify how the policies are to be implemented to ensure compliance with University policies, departmental policies, and Federal and State laws. Written procedures are used to establish what should be done as well as how, when and by whom. The procedures normally identify the step-by-step processes of how to implement and carry out the policy including identifying the specific tasks, and clarifying roles and responsibilities. They should be used to provide consistency in the processes, which can increase overall efficiency. Procedures can also be used to improve communications, establish strong internal controls for regulatory compliance, and standardize bookkeeping to help reduce waste, fraud and abuse.

Well-defined policies and procedures can be used to provide orientation and training for new employees and to refresh the skills of current employees. In addition, they can reduce the risk of confusion, the potential for litigation, and provide documentation for auditors and program reviewers.

Policies and procedures should be widely accessible. This will provide employees with the information needed to effectively make decisions at the most appropriate level, streamline administrative processes, and provide the basis for individual and departmental accountability.

Update Current Written Policies and Procedures

The UNM Press does not have an updated and comprehensive policy manual. They have some policies and procedures in the *Editorial Handbook - Acquisitions* and in the *Editorial Checklist*. There are errors in the Handbook, such as the instructions on how to use a shared long distance telephone authorization code. (Current University Policy requires that each employee has an individual telephone authorization code.) A manual demonstrates how processes are to work, helps employees understand how to accomplish their jobs, and assures the information is located in one place for easy reference.

Develop New Written Policies and Procedures

UNM Press employees who came to the Internal Audit Department were concerned with a lack of consistency in UNM Press operations. The following paragraphs include areas of concern that came to our attention during the audit. The UNM Press does not have written policies and/or procedures in these areas:

- **Book Advances:** Without guidelines, it is difficult to determine if book advances are necessary or appropriate. Clear policies will layout guidelines that should ensure that advances are given in an appropriate and consistent manner with the necessary approvals prior to the author receiving an advance. The procedures would identify the steps necessary to follow the guidelines set forth in the policy.
- **Book Subsidies:** UNM Press records the money as intended by the donor (i.e., if the money was given to help defray the marketing expenses, it is applied against the marketing expenses; however, if there is no purpose given, it is applied as increased revenues for the book). UNM Press should check with other presses for best practices, and with the University's Financial Services Department to determine whether the donations should go through the Foundation. The policies and procedures should then be written to reflect how book subsidies are handled.
- **External Reviewer/Peer Review:** The policies should define the requirements for choosing the reviewer and the procedures should describe how to document that the requirements are met. These policies and procedures should prevent concerns regarding whether a reviewer is qualified to review a book.
- **Accounting "Cats Pajamas" Database (UNM Press uses Cat's Pajama's, an accounting software specific to university presses):** UNM Press needs to develop written policies and procedures for entering data into the Cat's Pajama's to ensure that the information is accurate.
- **UPC Committee Approvals:** Procedures help assure management that proper approvals are obtained and that documentation supports the approvals made by the UPC.
- **Book Returns:** The policy should state the requirements and the procedures should include clear instructions on how to ensure a clean year-end cutoff so that all books received by June 30th are recorded as returned in the year they are received. The policies and procedures should include a process for recording returns on a timely basis. Last year, books were returned to the UNM Press warehouse prior to the fiscal year end; however, the returns were not processed until the following fiscal year. Therefore, the financial statements were misstated.

- **Accounts Receivable:** The policy should include the requirements, and the written procedures should include the processes, for: recording, collecting, processing, and writing off outstanding accounts receivable. These policies and procedures should be in accordance with generally accepted accounting principles and University best practices.
- **Book Write Downs:** The written policy should state when inventory is to be written down and the procedures should include a process for making the write downs. The UNM Press does have written exceptions to inventory write downs.
- **Inventory Disposal:** So that the UNM Press does not accumulate excessive inventories of books, the old book inventory should be disposed of on a regular basis pursuant to written policies and procedures.

Recommendation 1

UNM Press management should update and revise the current policies and procedures for UNM Press operations. This manual should include all of the above concerns, comply with University policies, and be made available and easily accessible, perhaps electronically, to all staff.

Response from the Director of UNM Press

Management concurs with this recommendation, and will update and revise its policies and procedures for all press operations by October 1, 2009.

RECONCILIATION OF DATABASES

Internal Audit received concerns that the UNM Press has discrepancies between two databases because they do not reconcile them to ensure the information is the same in both systems. The first database, Ornithopter, is used to track a manuscript's progress from its arrival as a manuscript through its receipt to the warehouse as a finished book. The second database, The Cat's Pajamas, keeps track of book sales (daily, monthly, annual, lifetime) and tracks author royalty information. The two systems are not reconciled to ensure that the data is the same.

Since UNM Press does not have policies and procedures for entering data into the Cat's Pajama's, and has not reconciled the two systems, the two systems may have errors that occurred prior to the current year reconciliation.

Recommendation 2

UNM Press management should ensure that a reconciliation of the two systems is completed annually. The initial reconciliation may entail correcting data from prior periods.

Response from the Director of UNM Press

Management concurs with this recommendation. Press management will oversee reconciliation of the two systems twice each year, in January and July to coincide with the two seasonal lists of new titles produced each year. The first complete reconciliation will take place in January, 2010.

FISCAL CONCERNS

We reviewed the financial information from FYE 2006 through May 12, 2009. The UNM Press has had a budget deficit for the prior two years and the current year-to-date period.

Budgets

Internal Audit received concerns that the Director was spending excess monies for business lunches and travel. We reviewed the past expenses and found that the Director spent almost \$4,200 in both 2006 and 2007, spent over \$5,500 in 2008, and has spent almost \$3,000 year-to-date for 2009 for these expenses. The Director stated that these were reasonable amounts for marketing and fundraising.

Recommendation 3

The UNM Press should consider creating a financial advisory committee to help with the UNM Press annual budgeting and monitoring of the expenses.

Response from the Vice Provost for Academic Affairs

Management concurs with this recommendation. On 27 May 2009, the Vice Provost appointed a financial advisory committee that includes budget officers from the Office of the Provost and the Office of Institutional Support Services, to provide budget and financial assistance and oversight to the Press. Their first meeting is scheduled for early June.

Financial Support

The UNM Press does not receive financial support from UNM, unlike some other presses of similar size. The Annual University Press Statistics, 2005 through 2008, prepared for the Association of American University Presses and released in March of 2009, had the following information:

- 66 presses participated in the study, including the UNM Press,
- 19 of the 66 were in the same category of the UNM Press (sales of between 3 and 6 million dollars),

- Of these 19, examples of types of parent institution support for 2008, that UNM Press does not receive are:
 - Nine received annual operating expenses
 - Eleven received free office space
 - Nine received accounting services
 - Eight received some employee benefits
 - Eight received some staff salaries
 - Four received free warehouse space
 - Two received free telephone service

To avoid further deficits and eliminate prior deficits, a review of the current business model and best practices at other universities will identify possible changes to improve the financial position of UNM Press. It is possible that the University may need to subsidize UNM Press to maintain a positive financial position; subsidizing may also provide an opportunity for further expansion in publishing areas that highlight the academic strength of the University.

Recommendation 4

The Office of the Provost should research business models in place at other research university presses to determine the standard or best practices regarding university financial support of scholarly publishing.

Response from the Provost

Management concurs with this recommendation. We will research business models in place at other research university presses, to have this information at hand for the FY 11 budget planning cycle that begins in January 2010.

INFORMATION TECHNOLOGY CONCERNS

The UNM Press website does not allow direct consumer purchases. The “shopping cart” feature on the UNM Press website has been broken since November of 2008. Although the UNM Press books are offered through other websites, such as Amazon.com, there is potential revenue lost due to the inability to sell the books directly through the UNM Press website. The UNM Press has only one information technology person who is working on repairing the website so that customers can place orders. That individual is also responsible for providing desktop support for over 40 UNM Press employees, and maintaining two databases and approximately 70 software programs.

Recommendation 5

The UNM Press should work with the Provost's Office and the Chief Information Officer to ask for additional information technology support to repair and upgrade website functionality as soon as possible.

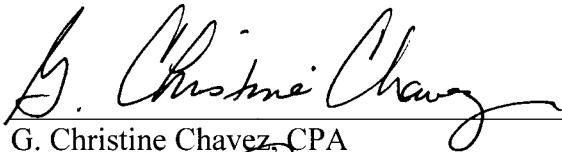
Response from the Director of the UNM Press

Management concurs with this recommendation. The Director and Associate Director for Business Operations will work with the Press IT manager, the marketing employee who maintains the website and other interested staff, and the Provost's office to identify and prioritize the IT support needed to make the website a fully functioning sales and marketing tool of the Press. The functionality of the shopping cart will be the immediate priority, and we commit to having it fully functional and user-friendly by no later than August 31, 2009.

CONCLUSION

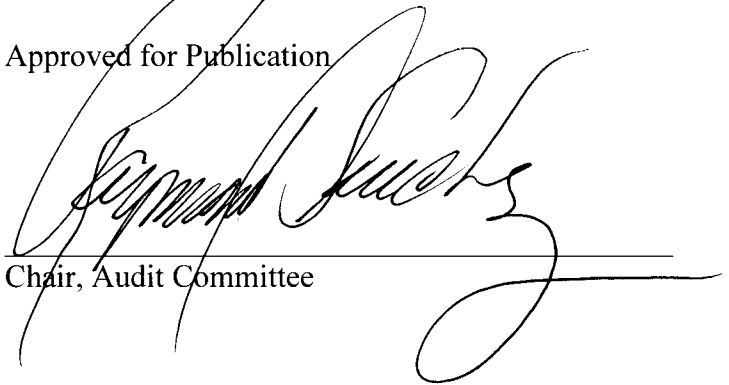
We could not determine if the concerns brought to the Internal Audit Department were valid, because the UNM Press does not have written policies and procedures. We recommend that management update current policies and procedures and develop written policies and procedures to address the concerns that we have identified in this report. In addition, we recommend that UNM Press management work with the Provost's office to address their budgetary and information technology issues. Management agreed with all of the recommendations.

APPROVALS



G. Christine Chavez, CPA
Director, Internal Audit Department

Approved for Publication



Chair, Audit Committee