

**BUSINESS CONTRACTS
AUDIT OF CONTRACT MONITORING**

THE UNIVERSITY OF NEW MEXICO

**Report 2008-03
April 8, 2010**



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ABBREVIATIONS

Canteen..... Canteen of New Mexico

CRB..... Contracts Review Bureau

CRO..... Contract Review Officer

PBR..... Professional Bull Riders

PO..... Purchase Order

UBP..... University Business Policies and Procedures Manual

University..... The University of New Mexico

UNM..... The University of New Mexico

EXECUTIVE SUMMARY

As part of the fiscal year 2008 audit plan, the Internal Audit Department conducted an audit of The University of New Mexico (UNM) contract monitoring process for service business contracts (revenue, income neutral and expense). The audit focused on verifying that UNM is properly monitoring contracts and is therefore receiving contract deliverables as agreed to by the parties. The process required reviewing University contract policy and determining how many service business contracts exist.

Due to the decentralized nature of the contract monitoring system, Internal Audit required more time than expected to review this process. We could not obtain a comprehensive list of all current University contracts and therefore could not determine the University's complete contractual obligation. In addition, it was difficult for Internal Audit to: determine who is responsible for monitoring the contracts selected for further audit; obtain copies of the contracts from one central location; and, obtain documented evidence to support receipt of deliverables and other contractual compliance. The following summary provides management with an overview of areas identified for improvement relating to contract compliance, contract review and processing, and contract clarity (identifying clear and measurable deliverables).

SIGNATURE AUTHORITY AND CONTRACT REVIEW POLICY

University Business Policies and Procedures Manual (UBP) 2010 "Signature Authority and Contract Review" does not: require the University to maintain a database of contractual agreements; require deliverables be specifically defined and measurable; and, specifically state when University Counsel staff should review contracts and amendments. In addition, the Policy does not delineate a process for amending contracts. Management should review and update the policy to include these requirements and any other pertinent contract administrative requirements.

COMPLIANCE WITH SIGNATURE AUTHORITY AND CONTRACT REVIEW POLICY

Contract review officers (CROs) have not been designated or trained, and evidence that the CRO reviewed the contracts selected for testing was not available. For the contracts reviewed, some of the contract deliverables are unclear and not measurable; contract language is sometimes unclear; and, contracts are not always properly amended. University Counsel should designate CROs and conduct regular CRO training.

CONTRACT MONITORING PROCESS

The University does not have a contract monitoring policy that assigns contract monitors responsibility for maintaining and monitoring contracts for proper execution and receipt of contract deliverables. The Executive Vice President for Administration should develop and implement a contract monitoring policy that defines contract monitoring responsibilities.

INTRODUCTION

BACKGROUND

UNM enters into various types of contracts, including: purchasing goods and/or services, special event agreements, and revenue-generating contracts. Departments create a Purchase Order (PO) for any contract that requires payment by the University. The Banner Finance system tracks the POs. The University does not have an automated tracking system or central custodial repository for special event agreements and revenue generating contracts; the Banner Finance system does not track them. We relied on lists compiled by key UNM employees to identify UNM special event agreements and revenue generating contracts. According to the Associate Athletic Director of Finance, there were sixteen special event agreements executed in FY09. The Chief Procurement Officer could recall eight revenue generating contracts.

The University currently operates under a decentralized contract monitoring system that assumes that the University department that entered into the contract is responsible for contract compliance and monitoring receipt of contracted deliverables. University Business Policies and Procedures, Policy 2010, “Contracts Signature Authority and Review” provides guidance on who is authorized to sign a University contract, thereby binding the University to the contracted terms. Section 5.2 “Contract Review Officer” addresses appointment and training. Section 5 states:

5. Contract Review

Each contract must be carefully reviewed by the University employee initiating the contract and a University contract review officer prior to signature. Pre-approved Form Contracts (refer to [Section 6](#), herein) have been thoroughly reviewed for legal form, and therefore do not require review by a contract review officer, unless additional language has been added ([Sections 5.2](#), and [5.3](#), herein do not apply). The University administrator with signature authority may designate additional review requirements for particular types of contracts, such as Controller's review for budget.

5.1. University Employee Initiating the Contract

The person initiating the contract for the University is responsible for reading the contract entirely and determining that:

- the contract language accurately reflects the current state of negotiations;
- the contract meets programmatic and University mission requirements;
- the contract represents a good deal for the University;
- he or she can ensure compliance with the obligations it places on the University;
- risk management concerns have been reasonably addressed; and
- the contract is sufficiently clear and consistent.

After being satisfied with the form and content of the contract, the initiating employee must complete the appropriate sections of the Contract Review Form ([Exhibit C](#)). Pre-approved Form Contracts do not require a Contract Review Form. To the extent the initiating employee does not understand the proposed contract, or is uncomfortable with any of its provisions, he or she should note that information on the Contract Review Form or attach an explanatory memo. He or she shall submit the contract along with any other necessary documents, such as a copy of the purchase requisition where required, to the appropriate contract review officer for processing. Contract review officers for each area of specialty within the University are listed on the Contract Review Form. The initiating department should submit a purchase requisition, if required, into the system for approval; however a purchase order will not be processed until the signed contract and the Contract Review form is received by the Purchasing Department.

5.2. Contract Review Officer

The University Counsel's Office shall designate and train contract review officers. All contract review officers shall be UNM employees. The University Counsel's Office shall set training requirements necessary to maintain contract review officer status. The University Counsel and all Associate and Assistant University Counsel are contract review officers.

The contract review officer will review for the concerns described in [Section 5.1](#) herein. The contract review officer shall also perform the following review functions for each contract, prior to submission to a person with signature authority.

5.2.1. Legal Form

The contract review officer shall review contracts, to the extent appropriate, for:

- consistency with law (obtaining University Counsel review, if necessary);
- consistency with UNM rules and regulations;
- reasonable internal consistency and clarity; and
- consistency with any predecessor documents.

5.2.2. Other Institutional Reviews

The contract review officer shall determine what other institutional reviews are necessary prior to submission of the contract for signature, indicate these reviews on the form, and coordinate obtaining the appropriate reviews. In particular, contract review officers are responsible for making sure that departments which will be obligated or otherwise affected by the performance of a contract have an adequate opportunity to review the contract. The routing for particular types of

contracts will generally be established by the person with signature authority. The contract review officer will coordinate the reviews and then forward the contract to the person with signature authority.

5.3. Contract Review Form

Contracts submitted for signature must be accompanied by a Contract Review Form ([Exhibit C.](#)). Individuals reviewing the proposed contract prior to its signature (execution) shall sign the Contract Review Form indicating that they have reviewed it, and what they reviewed it for. The Contract Review Form will normally have at least two (2) signatures consisting that of the initiating employee (originator), and that of a contract review officer.

5.4. Signature (Execution) of Contract on Behalf of University

The contract review officer will forward the contract to the University administrator who has been delegated signature authority for that contract.

6. Form Contracts

6.1. Pre-approved Form Contract Review

University Counsel's Office may review and approve form contracts. The pre-approved form contracts will not require review by a contract review officer prior to execution, provided that any blanks are filled in as per any instructions on the form and provided the language has not been altered. The University Counsel's Office shall consult with the cognizant vice president prior to approval. The University Secretary shall assign a number to each such pre-approved form contract and shall maintain a record of them.

6.2. Contracts for the Purchase of Goods and Services

The President and the Director of Purchasing may adopt policies and procedures authorizing the execution of pre-approved Purchase Order forms to be used in limited circumstances defined in the policies and procedures in [Section 4000](#) of the *University Business Policies and Procedures Manual* by individuals defined in those policies and procedures. Any such policies and procedures now in existence are hereby confirmed as part of this policy.

PURPOSE

The purpose of the audit was to determine if the University is appropriately monitoring service business contracts to ensure the receipt of deliverables as per the agreements.

SCOPE

Our audit was limited to the review of service and revenue-generating contracts that we were able to confirm as active as of April 1, 2009. It did not include review of federal or research contracts. Internal Audit applied random and judgmental sampling to various lists of University contracts provided by University departments. We selected seven contracts for review of adequate contract monitoring and receipt of contracted deliverables. Subsequent to completing field work on December 4, 2009, we informed each contracting department of specific contract monitoring issues identified.

Although we can not be assured that the list of contracts is all inclusive, we obtained the most comprehensive list possible of contracts in effect as of April, 2009. The Purchasing Department ran a Banner query and provided a list of open POs. The Chief Procurement Officer provided a list of the revenue generating contracts he is aware of. The Associate Athletic Director for Finance provided an Excel spreadsheet of Facility Use Agreements.

We selected a sample of seven contracts to review for compliance with contract deliverables. We sorted the list of POs by amount paid, and divided the list into two categories: POs larger than \$1,000,000, and POs greater than \$100,000 and less than \$1,000,000. We randomly selected two POs from the population of POs greater than \$1,000,000, and one PO from the population greater than \$100,000 and less than \$1,000,000. We judgmentally selected three revenue generating contracts and one Facility Use Agreement. We examined these contracts to determine whether the current decentralized contract monitoring system is adequate and sufficient to verify that the University is receiving deliverables in accordance with the contractual agreement. The table below contains the seven contracts selected with a brief description of the purpose of the contracts and each corresponding contract monitoring department.

Contractor	Purpose
<u>SunGard SCT</u>	SunGard SCT provides professional software consultation services. The Information Technology Department is currently receiving SunGard invoices and is assumed to be charged with contract compliance.
<u>The National Group</u>	The National Group assists the University with lobbying and Federal relation activities. The Office of the Vice President for Research and Economic Development monitors the contract.
<u>Kone</u>	Kone provides elevator maintenance services. The Physical Plant Department monitors the contract.

INTRODUCTION

<u><i>Canteen of New Mexico (Canteen)</i></u>	Canteen provides outsourced vending services. Canteen is charged with stocking, operating and collecting vending revenue from beverage and food machines throughout campus. The University receives a percentage of monthly vending sales. The Student Union monitors the contract.
<u><i>Pepsi</i></u>	Pepsi holds an exclusive distribution contract with UNM, thus giving Pepsi exclusive rights to beverage sales on campus for an eight year period. In exchange, the University receives an annual lump sum payment, and various other in-kind and marketing goods and services. The Student Union monitors the contract.
<u><i>Sodexo</i></u>	Sodexo provides concession services at athletic and special events. The University receives a monthly commission consisting of a percentage of sales. The Athletic Department monitors the contract.
<u><i>Professional Bull Riders Event (PBR)</i></u>	The PBR is one of the special events held at the Pit. The agreement is for facility use and a portion of the novelty sales. The Athletic Department monitors the contract.

Due to time constraints and numerous failed attempts to obtain a breakdown of all amendments from the contract monitor, Internal Audit suspended further review of the SunGard SCT Banner contract. We could not determine the current PO amount, as the original PO was continually amended to include new services added between contract inception in 2002 through the end of audit field work. We were subsequently informed that the original PO was closed; new POs are now issued for each SCT Banner purchase, providing a clearer audit trail of each individual SCT Banner purchase.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

SIGNATURE AUTHORITY AND CONTRACT REVIEW POLICY

UBP 2010 “Signature Authority and Contract Review” does not address the following issues.

- Requiring or assigning responsibility for maintaining a comprehensive database of all University contractual agreements (both revenue and expenditures);
- Requiring that deliverables are specifically defined and measurable;
- Identifying how contract amendments are processed; and
- Identifying when, or under what circumstances, University Counsel staff should review the contract.

Section 13-1-97.1 1978 NMSA provides guidance for monitoring contracts at the State level. The law states that beginning January 1, 2010, the general services department is required to have a contract database available to the public on its online website. Contracts with a term beginning on or after January 1, 2010, and having a value of more than \$20,000, will be searchable by contractor name, subject matter, date, price and contract number. This type of database would provide the University with a readily available catalogue of its contractual obligations at any given point in time. It would also be beneficial to include the contract monitor. Without this type of system, the University’s entire contractual obligation cannot be determined.

Properly reviewed contracts and amendments reduce the risk of litigation, provide transparency, and contribute to the ability to effectively monitor the contract. CRO training will assist the reviewers to ensure that contracts do not contain ambiguous language, deliverables are clearly defined and measurable, and amendments are properly executed.

Based on our research, the following are examples of contract review and monitoring processes used by the State of New Mexico and other universities.

- The New Mexico Department of Finance and Administration has a Contracts Review Bureau (CRB) that provides a central review and approval location for professional services contracts. The CRB uses a variety of tools to ensure uniform and comprehensive execution of contracts that provide for specific quantifiable deliverables. State agencies are required to submit professional service contracts to the CRB for approval, and the CRB maintains a comprehensive list of all state contracts.
- Seton Hall University has a Director of Business Affairs who is charged with working with all vendors who supply the University with services and with processing any commission payments received. The Director and legal counsel review all “non-boiler plate” contracts. The Director’s office maintains a copy of all contracts and an Excel spreadsheet of all pertinent contract information.

- The University of Illinois Business and Financial Policies and Procedures require that all contracts are forwarded to University Payables, Contracts Processing Section, within seven calendar days after execution. Contract information is recorded and the contract is kept on file.

A report of Best Practices in Government regarding Components of an Effective Contract Monitoring System issued by the Georgia State Auditor in 2003 reported that contract monitoring was a topic that other states have also been reviewing. For example, the report stated the following:

- The Texas State Auditor's Office identified contract administration as one of five high-risk areas. To improve contract administration, they recommended establishing a contract management and training and certification program requiring agencies to consult with an advisory team when developing performance measures.
- The Kentucky Legislative Research Commission conducted a program evaluation on contract administration and reported that state agencies expressed a need for contract administration policies and guidelines and general assistance regarding contract monitoring from their central procurement agency.
- The Tennessee Comptroller of the Treasury recommended that agencies develop contract monitoring systems that provide information on whether contractors are complying with contract terms.

Recommendation 1

The Executive Vice President of Administration should work with University Counsel and the Policy Officer to revise UPB 2010 "Contracts Signature Authority and Review." Revision to policy should:

- Require and assign responsibility for maintaining a database of all University revenue and expenditure contractual agreements that includes information regarding the contract number, contract type (revenue, income neutral or expense), contract term, contract amount and responsible contract monitor;
- Clearly state when University Counsel should review a contract;
- Delineate a process for amending contracts; and
- Require contracts be reviewed for clearly defined and measurable deliverables.

Response from Executive Vice President of Administration

Concur. The Executive Vice President for Administration will work with the University Counsel and the Policy Officer to revise UPB 2010. The Executive Vice President will convene a contract monitoring working group comprised of the Vice Presidents of Human Resources, Finance, Institutional Support Services and the Health Sciences Division and University Counsel. That group shall study, review and revise UPB Policy 2010, taking into account the

specific Internal Audit recommendations included in Recommendation 1 of Audit 2008-03. The contract monitoring working group will provide recommended changes to the Policy Officer by December, 2010.

COMPLIANCE WITH SIGNATURE AUTHORITY AND CONTRACT REVIEW POLICY

Contract Review Officers

CROs are not designated and trained as required by policy.

UBP 2010 “Signature Authority and Contract Review,” Section 5 “Contract Review”:

- Designates who is authorized to sign University Contracts, thereby contractually obligating the University.
- Requires that each contract be carefully reviewed by the University employee initiating the contract and the University CRO prior to signature. The CRO is required to review the contract for legal form as well as clarity and consistency.

UBP 2010 “Signature Authority and Contract Review,” Section 5.2 “Contract Review Officer,” states:

The University Counsel’s Office shall designate and train contract review officers. All contract review officers shall be UNM employees. The University Counsel’s Office shall set training requirements necessary to maintain contract review officer status.

The contract review officer will review for the concerns described in Section 5.1 herein. The contract review officer shall also perform the following review functions for each contract, prior to submission to a person with signature authority.

CRO training will assist the reviewers to ensure that contracts do not contain ambiguous language, deliverables are clearly defined and measurable, and amendments are properly executed.

Recommendation 2

University Counsel should designate contract review officers and conduct regular contract review officer training.

Response from University Counsel

University Counsel concurs with this recommendation, in part. University Counsel does not agree that it is the appropriate department to designate Contract Review Officers (CROs). Once

the revisions to UBP 2010 are approved, and a process for CRO designation in business units is finalized, University Counsel will conduct periodic CRO training to ensure that University contracts are clear and unambiguous, contain all the requisite elements, and are properly executed. A training syllabus for CROs will be completed by July, 2011.

Contract Review

Some sections of the contract for two of the seven contracts reviewed do not appear to adhere to UBP 2010 “Signature Authority and Contract Review” and Standard Terms and Conditions in the following areas.

- Contracts are not sufficiently clear and consistent; and
- Contracts are not properly amended.

The following are specific examples illustrating the issues found.

Reasonable Internal Consistency and Clarity - Contract Deliverables Unclear and Not Measurable

The National Group

- The contract language for The National Group is ambiguous, and contract deliverables are not measurable. All but one of the deliverables states that The National Group will “assist” the University in various areas. The contract does not define the type or amount of assistance in measurable terms. As a result, there is no tangible supporting documentation for The National Group’s involvement in assisting the University in identifying and obtaining Federal funding. The contract monitor did provide documentation that indicates annual funding had substantially increased since contracting with The National Group; however, we were unable to validate the information or reconcile it to receipts recorded in Banner.

In an attempt to recommend clearly defined and measurable deliverables, we contacted New Mexico State University and New Mexico Tech University. We also consulted University Counsel. We were not able to obtain copies of any like contracts, and were informed that contract deliverables for these types of contracts are difficult to measure. University Counsel confirmed that The National Group contract deliverables are subjective and not readily measureable; however, they believe that it is often the case in these types of contracts. Although our research did not identify examples of measurable deliverables, in our opinion one such example of a measure would be percentage increase in Federal funding above the prior year.

Consistency with Standard Terms and Conditions - Contract Amendments

The National Group

- The University did not receive a report of the strengths and opportunities for Federal funding as required by the contract. A verbal agreement excused the requirement and replaced it with a series of strategy meetings and conference calls to be held with the Vice President for Research, UNM President and The National Group.

The report of the strengths and opportunities for Federal funding may have provided UNM guidance with respect to which funding priorities to pursue. This report would have provided a baseline for measurement of funding growth - from inception of the contract throughout the contract term. This report also would have provided criteria for contract monitoring and audit.

Canteen of New Mexico Contract

- A memo issued to modify the contract does not appear to clearly state that the \$50,000 in annual revenue guarantee to the University is excluded. According to the Chief Procurement Officer, the memo dated March, 2007 and signed by both parties, amended the contract to exclude the guarantee and reduce the monthly commission rate. However, Internal Audit required further verbal explanation from the Chief Procurement Officer to understand that the memo was meant to exclude the guarantee. Internal Audit consulted with University Counsel who concluded that the memo as written did not clearly amend the contract to exclude the annual guarantee. As a result, it appears that Canteen underpaid the University by a total of \$58,905.22 over a four year period, from FY04 through FY08.

UBP 2010 “Signature Authority and Contract Review” governs contract initiation and review.

UBP 2010 “Signature Authority and Contract Review,” Section 5.2.1. “Legal Form” states:

The contract review officer shall review contracts, to the extent appropriate, for:

- Consistency with law (obtaining University Counsel review, if necessary);
- Consistency with UNM rules and regulations;
- Reasonable internal consistency and clarity; and
- Consistency with any predecessor documents.

The University Standard Terms and Conditions require that changes to contracts by the University be confirmed in writing, and further state that changes by the seller will not be recognized without written approval of the University.

Providing regular CRO training in accordance with policy will serve to assist CROs in determining if contract language and amendments are clearly written and contracts contain clearly defined and measurable deliverables. Properly reviewed contracts and amendments reduce the risk of litigation, provide transparency, and contribute to the ability to effectively monitor the contract.

CONTRACT MONITORING PROCESS

Internal Audit found the following recurring issues through the course of the audit:

- Deliverables are not confirmed or verified; and
- Reconciliation procedures are not performed.

The following describes the issues identified in the sample tested.

Deliverables Not Confirmed or Verified

Kone Contract

- We found no evidence that the annual Onsite Condition Review was performed. The review is to ensure that all services included in the contract are properly performed.
- The contract monitor's contract review process did not include a review of compliance with elevator Response Time for Callback Services and shut down requirements. The contract contains measures and consequences/bonuses designed to ensure efficient, continuous and safe operation of elevator units. Internal Audit's analysis indicates the contractor did not meet required response time for 52 of 418 calls. Four of those calls related to reports of elevator entrapment. Two of the 52 calls not only failed the response time test, but also failed the shut down requirement. Failure to respond timely to entrapment calls increases the risk to individuals and the University.
- Safety test records are not readily auditable; the contract monitor could not provide confirming documentation that the safety tests are completed. If safety tests are not performed, units could be more likely to malfunction, increasing the risk to individuals and the University.
- Equipment rooms do not contain locked storage cabinets, and parts and supplies are left out in the open. The value of the supplies and parts is not readily determinable; however, the risk of loss due to misplacement or theft is possible.

Pepsi Contract

- Evidence of receipt of the following deliverables was not provided:
 - Community Vending Program Commissions
 - In-kind donations per the Annual Athletic Program Support
 - Marketing Programs

The University did not take advantage of the in-kind donation opportunities to save funds afforded by a clause in the contract. Additionally, The University may have realized vending commissions if a working relationship with Pepsi had been developed to pursue the opportunities available through the Community Vending Program.

Given the current economic climate, the University should strive to exercise every option to save money and boost revenue. This contract provided opportunities that were missed.

Sodexo Contract

- Evidence of receipt of the following contract deliverables was not found:
 - Quality Control Plan
 - Sustainability Plan
 - Annual Plan
 - Transition Plan
 - Marketing/Communications Plan
 - Minimum Concession Services Program
 - Sanitation Schedules
 - Provision of Smallwares (to include scheduling of equipment maintenance, development and implementation of a Preventive Maintenance Plan, and an inventory list.)
- Adequate supporting documentation was not provided to verify that \$300,000 in Facility Improvement Funds was used to purchase equipment or make renovations. The Athletic Department provided documentation that indicates it used \$250,000 of the \$300,000 in Facility Improvement Funds to reduce the Athletic Department's FY09 budget deficit. The documentation to support the use of the remaining \$50,000 does not provide adequate information to support that equipment was purchased or renovations were made. We did tour the east football stadium kitchen with the Sodexo General Manager. The General Manager noted several new items of equipment that he stated were purchases made under the terms of the contract. However, we can not verify that information, because although Sodexo provided a list of equipment purchased on behalf of UNM and in accordance with the contract, the list does not have detail item descriptions. Also, there were no invoices available to match up with the items inspected. Therefore, we could not determine that the equipment was purchased by the funds provided for in the Sodexo contract. We did note that the equipment does not have UNM inventory tags on them.

The contract states that the contractor shall provide the Athletics Department with no less than \$1,000,000 in initial and annual Facility Improvements Funds over the life of the contract. The purpose of the funds is to purchase equipment and make renovations to the concession areas. Internal Audit consulted University Counsel on this issue. University Counsel indicated that the contract language requires that the funds received in accordance with the Capital Investment Financial Return Plan clause should be used to purchase equipment and make renovations, not to reduce deficit.

The contract states: “Contractor shall amortize the Investment on a straight-line basis over eight (8) years, commencing with the date the Investment is provided. University shall own the Investment.” Equipment should be tagged in accordance with University Policy.

Canteen of New Mexico (Canteen) Contract

- Evidence of receipt of deliverables was not readily available for audit.

Although the contract monitor subsequently provided support for receipt of the contract deliverables, the contract monitor is reliant on the vendor/contractor to provide documentation. Prior to issuing the report, the contract monitor worked with Canteen to obtain evidence that payments had been made to the University. Canteen management provided check numbers, check dates and check amounts for: the \$64,400 vending machine payment; the \$11,128.01 for the existing product and change in the machines at inception of the contract; and, the one time \$25,000 payment for the conversion of some machines to a debit card reading system.

Contract Revenue Reconciliation

Canteen of New Mexico Contract

- Commission reports are not verified for mathematical accuracy or reviewed for reasonableness. The amount of commission received is completely dependent on vendor-provided sales information. Verification of the commission rate received with the contract commission rate is not performed. We reviewed the monthly commission reports made available to us from FY03 through the first month of FY10. It appears that the commission is understated by \$3,042.28 for FY09 and \$1,117.58 for FY03. Without account reconciliations, account irregularities will not be detected and corrected in a timely manner. As a result of our inquiry, the contract monitor began working with the Canteen to review commission reports and amount remitted for accuracy.
- Commission deposits are not made within twenty four hours of receipt as required by UBP 7200 “Cash Management.”

Professional Bull Riders (PBR) Agreement

- A review and reconciliation of novelty sales revenue for the PBR event did not take place. Our attempt at verifying that the amount received complied with the contract resulted in the appearance of an \$11,563.95 shortfall. In addition, the PBR contract did not state that a separate merchandiser is responsible for remitting novelty sales revenue.

According to Athletics Business Office staff, the difference may have been caused by the use of a separate merchandiser agreement. The merchandiser is responsible for remitting PBR novelty sales revenue to UNM. The contract only mentions the percentage of novelty sales due the University but does not clearly state who remits the revenue to UNM. A second attempt by the Athletics Business Office staff to verify the accuracy of amounts remitted for novelty sales was unsuccessful.

- Without verbal explanation, it is difficult to determine how the settlement payment to PBR is calculated. The Athletics Department does not have documented procedures to calculate settlement amounts in accordance with the agreement.

Sodexo Contract

- Commission receipts are not reconciled. Our attempt to reconcile commission receipts to commission reports indicates that the University may have received \$1,059.20 more than what is supported by Sodexo commission reports.

These issues could have been mitigated if the University had contract monitoring policy. Well-defined policies and procedures can be used to provide orientation and training for new employees and to refresh the skills of current employees. 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. In addition, they can reduce the risk of confusion, the potential for litigation, and provide documentation for auditors and program reviewers.

Recommendation 3

The Executive Vice President for Administration should develop and implement a contract monitoring policy that includes:

- Verification and confirmation of receipt of deliverables in accordance with contract terms;
- Reconciliation and validation of amounts remitted;
- Review of required reports submitted by the contractor demonstrating compliance; and

- Implementation of internal department procedures specifically standardizing ongoing monitoring.

Response from Executive Vice President of Administration

Concur. Once the revisions to UPB 2010 are approved, the Executive Vice President for Administration, taking into account available fiscal resources, will develop a contract monitoring procedure that includes verification and confirmation of receipt of deliverables; reconciliation and validation of amounts remitted; review of required reports submitted by the contractor demonstrating compliance; and continued implementation of internal department procedures standardizing ongoing monitoring. These procedures will be in place by July 1, 2011.

Recommendation 4

The Executive Vice President for Administration should require that the contract monitors for the contracts audited resolve the issues identified in this audit report. Additionally, the Executive Vice President for Administration should inform all departments of the contract monitors' obligations regarding contract monitoring.

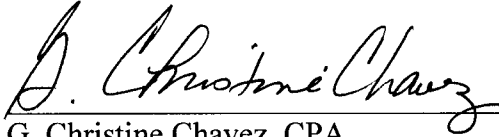
Response from Executive Vice President of Administration

Concur. The Executive Vice President for Administration will advise all contract monitors of all obligations under the revised policy UPB 2010. This recommendation will be implemented by July, 2011.

CONCLUSION

The University does not have a comprehensive contractual structure that includes maintaining a comprehensive list of all contracts and a contract monitoring policy. The University operates under a decentralized contract monitoring system by which contract monitoring responsibility appears to be assigned to the department that enters into the contract. The overlying result is that this audit could not determine the University's entire contractual obligations. Contract review officers are not trained; as a result, contract language is often ambiguous and deliverables are not measurable. Internal Audit's review of seven selected contracts relating to the University's lack of a contract monitoring structure revealed that documented evidence of receipt of contract deliverables is not always on file or often does not comply with contract terms.

APPROVALS



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Approved for Publication



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