

**UNM-VALENCIA  
AUDIT OF FINANCIAL AND OPERATIONAL EFFICIENCY**

**THE UNIVERSITY OF NEW MEXICO**

**Report 2009-02  
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## ABBREVIATIONS

ABE.....	Adult Basic Education Program
Accounts Payable Department.....	Accounts Payable
UBP.....	University Business Policies and Procedures Manual
University.....	The University of New Mexico
UNM.....	The University of New Mexico
UNM–Valencia.....	The University of New Mexico – Valencia

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## **EXECUTIVE SUMMARY**

As part of the fiscal year 2009 audit plan, the Internal Audit Department conducted an audit of The University of New Mexico – Valencia (UNM–Valencia). The audit focused on selected business processes, and included interviews with the UNM–Valencia personnel, review of processes and procedures, and analysis of various transactions. Based on the procedures performed, it appears UNM-Valencia has adequate internal controls. The following summary provides management with an overview of our recommendations to further strengthen internal control.

### **ACCOUNTING SYSTEMS OUTSIDE OF BANNER**

Management should work with the Vice President for Finance and University Controller to assess whether Banner applications meet the needs of Community Education. UNM-Valencia is working with the Vice President for Finance and University Controller to determine if Banner meets its needs.

### **BUSINESS PROCESS**

Management should develop a comprehensive internal business procedure manual. Management should strengthen internal controls by segregating duties and providing employees with ongoing, up to date cash management training. UNM-Valencia is developing a business procedure manual; has implemented a system to identify, notify and track employees requiring cash management training; and has segregated cash handling and recording duties.

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## **INTRODUCTION**

### **BACKGROUND**

Established in 1981, UNM–Valencia is funded from direct State appropriations, tax levies, special grants, and student tuition and fees. The University of New Mexico has administrative and academic oversight, and the Executive Director of UNM–Valencia reports directly to the President of UNM. UNM–Valencia is located in Los Lunas, New Mexico.

For the 2009 spring semester, UNM–Valencia enrolled 2,198 students in credit courses. In the 2009 fiscal year, UNM–Valencia employed 37 full-time and 87 adjunct faculty, as well as 85 full-time and 16 part-time staff. Per the UNM–Valencia Business Office, for fiscal year ended June 30, 2009, UNM–Valencia had a total unrestricted Instruction and General budget of \$10,498,185.

UNM–Valencia offers a variety of associate degrees, certificate and credential programs that provide basic skills, technical career training and non-credit community education. The curriculum includes certificates, and Associate of Arts or Associate of Science degrees in: Business Administration, Criminology, Early Childhood Multicultural Education, Education, General Science, Liberal Arts, and Studio Art. In addition, UNM–Valencia offers technical education programs in Business Administration, Computer Aided Drafting, Information Technology, Office and Business Technology, and Digital Media Arts.

The business processes at UNM–Valencia include purchasing, cashiering, human resources, and bookstore and cafeteria operations. UNM–Valencia administers programs in Adult Basic Education (ABE), Small Business Development, and Community Education.

UNM–Valencia administers seventeen grants, including four related to Adult Basic Education (ABE), three Title V, two TRIO, and one Department of Labor grant. UNM–Valencia staff spends considerable effort tracking and reconciling grant activity on electronic spreadsheets. Grant financial accounting is performed in Banner; however, the spreadsheets provide detail and management information not available in Banner. The Vice President for Finance and University Controller is in the process of issuing standard procedures for the use of such systems, and we will not report on these systems if they are reconciled to Banner and have adequate internal controls.

### **PURPOSE**

The purpose of our audit is to review the business processes at UNM–Valencia to determine if adequate policies and procedures are in place, and to assess whether UNM–Valencia is in compliance with these policies and procedures.

## **SCOPE**

Our audit focused on the business operations at UNM–Valencia, including internal controls, information technology services, and select grant activities. We completed fieldwork on August 24, 2009. Our audit procedures included analyzing the business procedures currently in use, and assessing the adequacy of documentation of those procedures.

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## **OBSERVATIONS, RECOMMENDATIONS AND RESPONSES**

### **ACCOUNTING SYSTEMS OUTSIDE OF BANNER**

#### **Community Education Program Accounting System**

Community Education uses an alternative accounting system outside of Banner to invoice customers and record accounts receivable. The revenue is reconciled and posted in Banner; however, the accounts receivable are tracked only in the alternative system. Banner is the University's official accounting system for recording University transactions.

UNM-Valencia Community Education develops customized workshops, seminars, and other programs in response to special community needs. UNM-Valencia uses this alternative accounting system to account for Community Education programs that offer a variety of non-credit courses to organizations and individuals in the community.

#### **Recommendation 1**

Management should consult with the Vice President for Finance and University Controller to assess whether the Non-Student Accounts Receivable module of Banner meets the accounting needs of the Community Education program.

#### **Response from the Executive Director of UNM-Valencia**

*UNM-Valencia concurs and is now using Banner to record and track all receivables. UNM-Valencia has consulted with the Office of the UNM Controller-Bursar to assess whether Banner meets all of the accounting and reporting needs of the Community Education program. Preliminary discussions indicate that Banner should be able to track all or most of the necessary information. UNM-Valencia personnel will visit Main campus Bursar's to learn how their office is using Banner by November 15, 2009, and will apply that as much as possible to the Valencia system by April 15, 2010. Some training and process reengineering may be involved. If there are any processes that must also be tracked outside of Banner, that system will be reconciled to Banner monthly.*

### **BUSINESS PROCESSES**

#### **Business Procedures Manual**

The Business Office does not have a comprehensive business procedure manual that covers all of the business processes in place at UNM-Valencia. Management has identified and documented some processes, including UNM-Valencia bookstore operations and cashiering operations. Other procedures not documented include, but are not limited to: processing of credit memos; purchasing procedures and purchase card usage; grant purchasing approval processes; campus

overtime; and, campus work hour policies. In addition, the bookstore and cashier procedure manuals will need updating to include changes in processes required by the upgrade to Banner 8.

Well-documented policies and procedures provide employees with guidance on performance of their duties and provide structure and organization to the office. Inconsistent application of policies and procedures generally occurs when there is inadequate documentation. Absent documented policies and procedures, there is a substantial risk of business interruption should there be excessive turnover of key personnel. Documented policies and procedures assist in training and discipline as they set precedent, and serve as the authority for how to conduct business.

## **Recommendation 2**

Management should determine key business processes and develop a comprehensive business procedure manual for these processes.

## **Response from the Executive Director of UNM–Valencia**

*UNM–Valencia concurs. UNM–Valencia follows the UNM University Business Policies and Procedures Manual. UNM–Valencia has already begun to develop a comprehensive business procedure manual for key business processes on Valencia campus which will include all of the procedures mentioned in this recommendation and more. Bookstore and Cashier procedures will be updated to include changes required by the upgrade to Banner 8. These manuals will be complete by December 15, 2009 and will be updated regularly, including updating future Banner upgrades.*

## **Segregation of Duties**

The accountant for the Community Education program prepares money lists for deposits to the cashier's office, has access to the safe where deposit monies are held, and is effectively in receipt of cash deposits. The combination of the accounting and cash handling functions in a single employee demonstrates a lack of segregation of duties and constitutes an internal control weakness.

University policy addresses segregation of duties. Section 3.3. "Cash Management" Policy 7200 University Business Policies and Procedures (UBP) reads as follows:

Duties for receiving and recording monies must be segregated. No single employee should be in a position that allows the employee to both receive money and record the payment into the financial system. This segregation of duties preserves responsibility and accountability and is necessary to ensure that a person who has access to monies cannot conceal a fraud or error. When the size

of a department does not allow for proper segregation of duties, the Vice President for Finance and University Controller will provide assistance in designing systems, which ensure adequate internal control.

### **Recommendation 3**

Management should implement proper segregation of duties for accounting and cash handling functions, including access to the safe. In lieu of segregation of duties, given the small size of Community Education staff, management should develop compensating controls to overcome the internal control weaknesses.

### **Response from the Executive Director of UNM–Valencia**

*UNM–Valencia concurs. Effective immediately, duties will be segregated as follows: the Fiscal Services Technician making the deposits will not have access to the safe and will not take receipts; two people will verify receipts before they are deposited in the safe; the Community Education Coordinator will control the key to the safe; the Senior Program Manager will verify deposits to receipts.*

### **Bookstore Credit Memos**

UNM–Valencia does not send credit memos to Main Campus Accounts Payable Department (Accounts Payable) for processing and application against open vendor invoices. University policy on invoice processing is contained in Section 3 “Receiving and Paying for Off Campus Purchases” Policy 4370 University Business Policies and Procedures (UBP) as follows:

The department is responsible for following the procedures in this policy to ensure timely payment to the vendor. Payment shall be rendered in accordance with Section 13-1-158 of the New Mexico Statutes Annotated, 1978, to ensure that the goods or services have been received and accepted. The vendor should send the original invoices for all purchases directly to the Accounts Payable Department; if the invoice is sent to the department, send it immediately to the Accounts Payable Department. Invoices for partial shipments must be processed promptly to ensure timely payment to the vendor and to prevent vendor delays in shipping the balance of the department order. Failure to promptly authorize and process partial payments for partial shipments will result in credit problems with vendors.

This policy does not clearly require that credit memos be forwarded to Accounts Payable, even though credit memos are a form of invoice. UNM–Valencia holds its credit memos and internally applies them against subsequent vendor invoices. Unapplied credit memos properly



remitted to Accounts Payable can be more efficiently utilized against open vendor invoices, and if properly identified, will be credited back to the appropriate UNM–Valencia account index.

#### **Recommendation 4**

The Vice President for Finance and University Controller should update current purchasing policy to include guidance for processing credit memos.

#### **Response from the Vice President for Finance and University Controller**

*We agree with the recommendation. Financial Services will recommend policy changes to the UNM Policy Office that will define the proper handling of credit memos. Only the UNM Policy Office can change UNM Policy, however. Consequently, Financial Services cannot commit to a timeframe when UNM Policy will formally include these changes. Financial Services will instead commit to submitting our recommended changes to the UNM Policy Office no later than November 15, 2009.*

#### **Recommendation 5**

Management should comply with University policy, once it is updated, to require remitting credit memos to Main Campus Accounts Payable. Management should work with Accounts Payable to establish proper protocol for processing credit memos.

#### **Response from the Executive Director of UNM–Valencia**

*UNM–Valencia concurs and will work with Accounts Payable to be in full compliance with University policy. Currently, there are no credit memos held at Valencia. In the future, effective immediately, all credit memos will be sent to Accounts Payable without delay.*

#### **Cash Management Training**

Most of the UNM–Valencia cashiers had not received cash management training. The omission of the training is attributed to high employee turnover and lack of awareness toward online availability of the cash management training. Policy requires that all cash handlers receive cash management training. Section 1.1. “Cash Management” Policy 7200, UBP states:

“Individuals responsible for handling cash and their direct supervisor must take the cash management training course offered by the University Employee and Organizational Development Department.”

## **Recommendation 6**

All cashiers completed cash management training during the course of the audit. Management should implement a tracking process and orientation program to train new cashiers in the event of employee turnover.

## **Response from the Executive Director of UNM–Valencia**

*UNM–Valencia concurs and is now in full compliance. A system has been implemented to identify new employees needing this training, notify them of the timeframe to obtain the training, and provide assistance and follow-up to ensure that the training is taken and documented within the days allowed. Having the training available on-line will allow UNM–Valencia to easily stay in full compliance.*

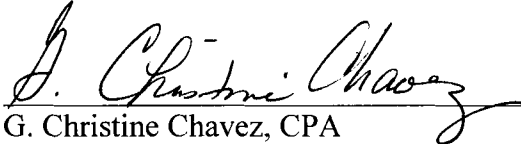
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## **CONCLUSION**

UNM–Valencia effectively manages its business operations and in general has satisfactory internal controls. We commend management’s initiative and willingness toward improving the efficiency and effectiveness of their operations. To further strengthen the controls and enhance operations, management should document policies and procedures for key business operations. UNM–Valencia should also work with the Vice President for Finance and University Controller to address the accounting system for Community Education and bookstore credit memos.

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## APPROVALS

  
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Approved for Publication

  
Chair, Audit Committee