

**REVIEW OF FY09 FUND BALANCE
FOR MAIN CAMPUS**

THE UNIVERSITY OF NEW MEXICO

**Report 2010-11
April 12, 2010**



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CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION.....	2
BACKGROUND	2
PURPOSE.....	6
SCOPE	6
OBSERVATIONS.....	7
Committed Fund Balance Sources and Uses	7
UBP 7000. "Budgets and Fund Balances"	9
Analysis of Categorization of Fund Balances.....	11
Negative Fund Balances	11
Additional Observations	11
CONCLUSION	13
APPROVALS.....	14
Attachment 1.....	15

ABBREVIATIONS

Balance Forwards.....	Balance Forwards as of July 1, 2009
F & A	Facility & Administrative Overhead
I & G	Instruction and General
OVPRED.....	Office of the Vice President for Research and Economic Development
Regents.....	The University of New Mexico Board of Regents
UBP	University Business Policies and Procedures Manual
Units.....	Administrative and Academic Units
University.....	University of New Mexico
UNM	University of New Mexico

EXECUTIVE SUMMARY

The University of New Mexico (University) Board of Regents (Regents) requested that Internal Audit review the portion of Administrative and Academic Units' (Units) July 1, 2009, fund balances categorized as committed. Our limited review of the committed fund balances indicates Units' use of fund balances complies with University Policies and Procedures Manual (UBP) 7000, "Budgets and Fund Balances." The Units were able to provide documentation to support use or planned use of the committed fund balances. However, due to time constraints and the limited scope of this review, we did not review the expenses to determine if they are consistent with the definition of the fund from which they were paid. We also did not review fund balances for Units that report to the Executive Vice President for Health Sciences Center or for Branch campuses. Through the limited review, we found that:

- The July 1, 2009 fund balance for the Administrative and Academic units is \$37.4 million; (See Attachment 1.)
- In November 2008, the Board of Regents approved the *University Funding Plan for FY 2008/09 State Rescission*, which totaled \$5.3 million for these Units;
- Fund balances result from items such as unfilled positions, un-awarded scholarships and endowed professorships, and departments are saving for future purchase of necessary items (such as equipment and faculty start-up costs). Units also proactively set aside fund balance to cover expected costs for their share of the *University Funding Plan for FY 2009/10 State Rescission*; and
- Fund balances are used to pay faculty salaries, summer salaries, faculty retention agreements, start-up costs, travel, and purchase equipment.

INTRODUCTION

BACKGROUND

The Regents requested that Internal Audit review the committed fund balances as of July 1, 2009. The University Controller, Associate Vice President for Planning Budget and Analysis and Associate Vice President for Planning, Budget & Analysis for Academic Affairs sent a memo to each Unit dated December 3, 2009, that included the detail of their fund balance. The memo instructed the Units to categorize the fund balance as committed, dedicated or discretionary, and requested that they retain the supporting documentation for any of those amounts classified as committed for future review by Internal Audit. The memo provided the following guidance for properly categorizing the fund balance:

Committed. Include funds in this category if a formal, written commitment has been made for the funds. Examples include signed offer letters for start-up funds, documented cost share requirements, direct state appropriations for a special project, etc.

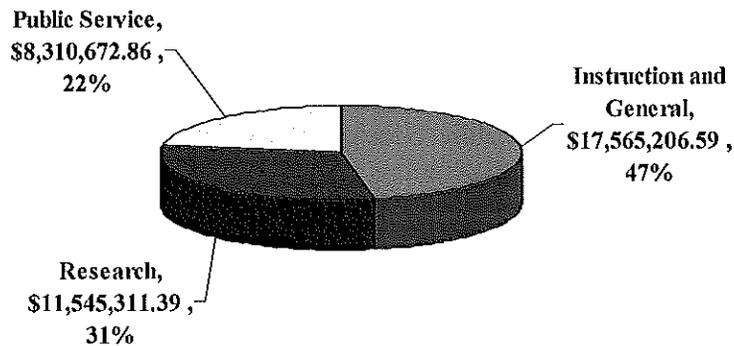
Dedicated. Include funds in this category that have a clear, focused purpose with a documented description and identify the entity/individual making the dedication. Examples include an F&A balance that has been dedicated by the dean to fund a lab renovation, a non-endowed gift amount that has been dedicated by the chair for faculty travel, student paid course fees that are being accumulated and dedicated by the dean to fund the purchase of equipment, etc.

Discretionary. The remaining fund balance after accounting for all committed and dedicated funds.

We used the *Summary of Categorization of Fund Balance for the Year Ended June 30, 2009* provided by the Office of Planning Budget and Analysis, and the information received from the Units as the basis for the review. A fund is a specific monetary category designated for the purpose of conducting specific activities or achieving certain objectives in accordance with special regulations or restrictions. Below are definitions of the fund groups.

- **Public Service Funds** includes all activities established primarily to provide non-instructional services for individuals and groups external to the University. Organizations accounted for in these funds are KNME-TV, Institute of Public Law, UNM Press, Poison Control Center, and others.
- **Research** includes all funds expended for those activities intended to produce one or more research outcomes including the creation of knowledge, the reorganization of knowledge, and the application of knowledge.
- **Instruction & General (I&G)** are appropriations, tuition and other monies used for the University's instructional programs. Faculty, instructional support staff, and other costs are included in the cost of instruction.

**Carry Forward Balances by Fund
As of Year End June 30, 2009**



In July 2006, the University adopted UBP 7000. "Budgets and Fund Balances" as part of a budget reform effort. This policy applies to budget management and use of fund balances for Current Unrestricted funds with special emphasis on Instruction & General funds. UBP 7000. "Budgets and Fund Balances" states:

1. General

This policy applies to budget management and use of fund balances for Current Unrestricted funds with special emphasis on Instruction & General funds. Budgeting involves all segments of the University and is a continuous process designed to ensure the best use of available funding. Budget management requires short-term and long-range planning, and involves setting up program priorities, requesting funding, allocating available funds to various programs and projects, preparing and maintaining the budget, and reporting on the use of funds and intended use of any unexpended funds.

2. Reporting and Review of Current Unrestricted Fund Balances

Board of Regents' **Policy 7.20** requires that each department responsible for Current Unrestricted funds submit a budget use report to their dean or director at the end of each fiscal year. The budget review and fund balance report can be completed using Banner or Hyperion and should include beginning balances, new revenue, expenditures, transfers, and ending balances for the fiscal year just ended. The report for Instruction & General funds will also include the ending fund balances as a percentage of the budget for each department. Departments

should attach a written analysis comparing actual expenditures to budget and plans for using any unexpended funds. These reports will be submitted to the cognizant dean or director by September 1st. Deans and directors will review the reports and submit them to the cognizant vice president by September 15th. Vice presidents will review the reports and submit them to the Office of Planning, Budget, and Analysis by October 1st. The Office of Planning, Budget and Analysis will submit a comprehensive report on annual savings and fund balances to the Board of Regents at their November meeting. This information will be reported University-wide for Instruction & General, Student Social and Cultural Development, Research, Public Service, Financial Aid, Auxiliary Enterprises, Athletics, and Independent Operations.

3. Partial Allocation of I & G Annual Savings

It is critical to the fiscal integrity of the University that adequate central reserves be available to address unexpected and/or critical needs of the University. The State of New Mexico considers central reserves ranging from 3% to 5% of the University's Instruction & General budget to be a prudent amount for the University to maintain. In order to ensure adequate central reserves are available for unexpected and/or critical needs, the Board of Regents will review unexpended funds at the end of each fiscal year to determine if some portion of annual savings in Instruction & General fund balances should be transferred to the central fund. Annual savings are defined as the difference between revenues and expenditures for the year just ended and do not include prior year carry forwards. The portion transferred will not normally exceed 25% of annual savings for the previous fiscal year and will be done only when necessary for the fiscal health of the University, which in turn benefits all aspects of the University. Departments should reserve 25% of annual savings until after the allocation decision is made by the Board of Regents at its November meeting.

The University understands the need for both short-term and long-range planning and therefore will only look to annual savings and will not deduct from fund balances departments have built in previous years to address long-range programmatic needs. This process provides an incentive for budgetary units to build balances for future use, while also recognizing that cost savings throughout the University need to be available to address institutional priorities. An exception to this allocation may be granted if a department submits a plan for use of its annual savings such as faculty start-up or capital expenditures to the cognizant vice president for approval. If approved by the cognizant vice president, the plan must then be submitted to the Board of Regents for final approval.

In years when the Regents decide it is necessary to allocate some portion of annual savings to the University's central fund, the required amount will be calculated at the vice president level. Vice presidents will have the opportunity to work with deans and directors to review departmental requests for exemption from the allocation and present a proposal to the Executive Vice President for Administration as to which accounts should be used to generate the necessary allocation. The Executive Vice President for Administration will make the final decision on the sources of allocation.

4. Deficit Balances

4.1. Deficit Balances Existing On or Before June 30, 2005

Every department with a negative fund balance that existed on or before June 30, 2005, was required to submit a deficit reduction proposal for phased reduction of the deficit by March 31, 2006, for review and approval by the cognizant vice president. After approval, the vice president sent the proposal to the Office of Planning, Budget and Analysis for monitoring. Until the deficit is eliminated, each department must submit follow-up annual reports to their dean or director by September 1st showing the progress being made to reduce the deficit and discussing any variances from the original deficit reduction proposal. Deans and directors will review the reports and submit them to their vice president by September 15th. Vice presidents will review the reports and submit them to the Office of Planning, Budget and Analysis by October 1st. If a department is unable to meet its original deficit reduction proposal, it must submit a revised proposal for review and approval by the cognizant vice president with a copy to the Office of Planning, Budget and Analysis.

4.2 Year-End Deficits

If a department anticipates a year-end deficit, the department head must notify his or her dean or director of the estimated deficit as soon as he or she is aware of the projected deficit. The dean or director must identify funds to cover the deficit or the department's next fiscal year budget will be reduced by an amount sufficient to cover the prior year's deficit. The department head must also submit a plan for resolving the causes of the deficit. Exemption from this process requires written approval from the cognizant vice president with a copy to the Office of Planning, Budget and Analysis.

5. Responsible Fiscal Management

The University has limited funds and departments (*sic*) heads are responsible for ensuring the most effective, efficient use of those funds. Budgets are valuable tools for measuring performance because they reflect planned activities. Department heads should review their budgets regularly to identify positive and negative variances between expected expenditures and actual costs. These variances will help the department head determine if goals and objectives are being met and/or if unanticipated events are negatively impacting the department's ability to meet its goals and objectives.

The UNM Policy Office is circulating proposed changes to UBP 7000, "Budgets and Fund Balances" for full campus 30-day review and comment. The proposed changes required by the Regents pertain to the assignment of fund balance amounts to committed, dedicated, and discretionary categories.

PURPOSE

The purpose of our analysis is to:

- Determine if the Units' committed fund balances are reliable amounts; and
- Determine if there is reasonable support for use of committed fund balances.

SCOPE

We reviewed fund balances categorized as committed by the Administrative and Academic Units; we did not include Health Sciences Center and Branch Campus balances in our review. We also did not review the fund balances to determine if monies are available for reallocation.

Due to time constraints, we performed the following limited procedures, using the information provided by the Units to categorize the fund balances:

- Selected a judgmental sample of items categorized as committed, making sure the sample included review of at least 50% of the committed fund balances;
- Reviewed documentation that supports the categorization of the sampled items;
- Reviewed Hyperion Operating Ledger reports to determine if fund balance was budgeted and if commitments were spent; and
- Obtained further explanation when necessary.

We completed the fieldwork on April 8, 2010.

OBSERVATIONS

Committed Fund Balance Sources and Uses

Our review of committed fund balances indicates that Units are complying with UBP 7000. “Budgets and Fund Balances” Section 3. “Partial Allocation of I & G Annual Savings” that states:

The University understands the need for both short-term and long-range planning and therefore will only look to annual savings and will not deduct from fund balances departments have built in previous years to address long-range programmatic needs. This process provides an incentive for budgetary units to build balances for future use, while also recognizing that cost savings throughout the University need to be available to address institutional priorities. An exception to this allocation may be granted if a department submits a plan for use of its annual savings such as faculty start-up or capital expenditures to the cognizant vice president for approval. If approved by the cognizant vice president, the plan must then be submitted to the Board of Regents for final approval.

In November 2008, the Regents approved the *Rescission Model - All Campuses*. The rescission amount related to Main Campus is \$5.3 million, of which \$1.5 is FY07/08 Harvesting and FY09 Pullback, and \$1.5 is estimated vacancies. Units have set aside a portion of their fund balance in anticipation of execution of the Rescission Model.

Units have fund balances for some or all of the following reasons:

- A professor or staff member leaves the University; the position is not filled immediately, resulting in a vacancy savings;
- A principal investigator may accumulate a portion of the F&A for purchase of equipment, or for other purchases where the cost exceeds the annual F&A allocation;
- A Unit does not award scholarships and endowed professorships, resulting in accumulated balances of endowed earnings and non-endowed funds. This occurs because some units had staff turnover in key positions and some requirements for awarding scholarships are very specific;
- Units receive endowment earnings at fiscal year-end for the following fiscal year; and
- A department may save the money for a larger purchase.

The Units provided reasonable documentation for the selected sample items. Examples of the documentation provided are:

- Faculty offer of employment letters, which include agreements to provide start-up monies, and summer employment for up to three years;
- Endowment agreements to establish the corpus;
- Banner reports supporting distribution of F&A to principal investigators;
- Donor letters and agreements identifying source and use of monies;

OBSERVATIONS

- House Bill 2 and other laws supporting legislative appropriations for a specific program or purpose; and
- Lists awarding scholarships and endowed professorships.

Units use fund balances to:

- Pay faculty summer salaries;
- Pay faculty and/or graduate assistant salaries;
- Balance the budget;
- Purchase equipment;
- Reserve monies for contingencies;
- Cover start-up costs, which includes equipping labs;
- Updating classrooms;
- Cover fund balance deficits;
- Award scholarships; and
- Pay additional instructors for unplanned increases in enrollment;
- Pay for travel expenses.

It was difficult to determine if the fund balances are used to cover the committed expenses, because Units are inconsistent in the treatment of the fund balances. Some Units budget the entire fund balance, some Units only budget the portion used to cover commitments, and some Units do not budget the fund balance at all, giving the appearance that commitments are paid with the current operating budget.

In addition, we attempted to review the encumbrances because they are used as commitments against the fund balance. Our limited review indicates that departments are not closing purchase orders in a timely manner. Encumbrances include open purchase orders; therefore, encumbrances may be overstated.

As stated in the Review of Selected Business Process Redesign Report 2008-05,

The adjunct accounting systems are used to track real-time expenses to avoid over spending. In theory, real-time encumbrances would accomplish this task using Banner. (An encumbrance is a commitment of funds to be expensed at a later date.) Some departments expressed a problem working with the general encumbrance system. Automating the liquidation of a general encumbrance would require modification to the BFM, and would have to be prioritized in conjunction with all other projects and initiatives. This issue needs further discussion among the parties to try to address and solve it - through possible system modifications, additional training, improved job aids, or workflow.

OBSERVATIONS

The recommendation in the Business Process Redesign Report 2008-05, to develop standard accounting (business) models for departments and colleges, resulted in the following response:

The HSC/UNM Finance/Controller's Division currently provides standard operating procedures, training and standard reports which the University community can adopt voluntarily. The adoption of these voluntary measures has been sporadic among Main Campus units and more consistent among units on the HSC and Branch campuses. The HSC/UNM Finance/Controller's Division has identified the following five areas needing standardization:

1. Adequate number and type of Accounts for each department (level 5 organization) and college/school (level 3 organization).
2. Processing transactions quickly.
3. Categorizing transactions correctly.
4. Reconciling transactions monthly.
5. Starting all reports with a column that ties to UNM's official accounting system, then adding a second column to clearly explain any adjustments that are outside the official accounting system.

The Vice President for Finance and University Controller will provide a Standard Accounting and Reporting Manual (SARM) covering the five areas above... The SARM will be part of the Finance Academy Certification program.

The Vice President for Finance and University Controller informed Internal Audit that this recommendation will be implemented in December, 2010, due to current demands on limited resources.

Including proper encumbrance management in the development of these two standard processes will assist Internal Audit in validating commitments against fund balances. Staff from the Office of Planning, Budget and Analysis and the Controller's Office is currently working on a standardized process for the categorization of fund balance to satisfy the needs of the Board of Regents and Management in making timely budget decisions. To conduct future annual reviews more efficiently, and to provide timely information for use in the budget process, the Associate Director in the Office of Planning, Budget and Analysis is also working with Internal Audit to standardize the fund balance categorization review process.

UBP 7000. "Budgets and Fund Balances"

UBP 7000 contains specific monitoring requirements; however, it does not contain sufficient detail for use and accounting of the fund balance, and does not assign responsibility for enforcement.

Examples noted are:

- Does not require that the fund balance be budgeted if it is to be spent.
- Does not prohibit use of fund balance for recurring expenses. This may create a deficit when fund balances are no longer available;
- Does not assign responsibility for enforcing the consequences for not submitting or following the deficit reduction plan; and
- Does not hold lower-level units accountable for exceeding their budget, because the deficits can be covered by the next higher level unit.

Given the current economic situation, as well as for future financial stability, it may be prudent to revise UPB 7000 Section 3 to allow reversion of a specific percentage of fund balance for the purpose of funding University reserves and contingencies. However, consideration should be given to providing sufficient incentives to encourage departments to save funds, and to reward them for being economical and efficient. UPB 7000. "Budgets and Fund Balances" Section 3 "Partial Allocation of I&G Annual Savings" states:

...The portion transferred will not normally exceed 25% of annual savings for the previous fiscal year and will be done only when necessary for the fiscal health of the University, which in turn benefits all aspects of the University. Departments should reserve 25% of annual savings until after the allocation decision is made by the Board of Regents at its November meeting.

In addition, UPB 7000, Section 4. "Deficit Balances" should be updated to address deficit reduction plans regardless of date the deficit occurred. Section 4 "Deficit Balances" states:

4.1. Deficit Balances Existing On or Before June 30, 2005

Every department with a negative fund balance that existed on or before June 30, 2005, was required to submit a deficit reduction proposal for phased reduction of the deficit by March 31, 2006, for review and approval by the cognizant vice president. After approval, the vice president sent the proposal to the Office of Planning, Budget and Analysis for monitoring. Until the deficit is eliminated, each department must submit follow-up annual reports to their dean or director by September 1st showing the progress being made to reduce the deficit and discussing any variances from the original deficit reduction proposal. Deans and directors will review the reports and submit them to their vice president by September 15th. Vice presidents will review the reports and submit them to the Office of Planning, Budget and Analysis by October 1st. If a department is unable to meet its original deficit reduction proposal, it must submit a revised proposal for review and approval by the cognizant vice president with a copy to the Office of Planning, Budget and Analysis.

4.2 Year-End Deficits

If a department anticipates a year-end deficit, the department head must notify his or her dean or director of the estimated deficit as soon as he or she is aware of the projected deficit. The dean or director must identify funds to cover the deficit or the department's next fiscal year budget will be reduced by an amount sufficient to cover the prior year's deficit. The department head must also submit a plan for resolving the causes of the deficit. Exemption from this process requires written approval from the cognizant vice president with a copy to the Office of Planning, Budget and Analysis.

Analysis of Categorization of Fund Balances

Two Administrative and two Academic Units did not categorize the fund balances appropriately. Units did not have a valid obligation as of June 30, 2009. One Academic Unit did not have documentation to support purpose and use of the fund balance. We were told the funds were to be used for scholarships. Therefore these items, totaling \$126,161, were re-categorized as dedicated rather than committed.

Negative Fund Balances

Some unrestricted current funds and a number of indices within the Units have negative balances. These Units submitted deficit reduction plans in accordance with UBP 7000. "Budgets and Fund Balances." The Office of Planning, Budget and Analysis started monitoring all deficit reduction plans in FY09. The Office of Planning, Budget and Analysis provided copies of notifications sent to the Financial Officers in the cognizant departments that are not abiding by the proposed plan or did not submit a plan. However, it is unclear if some departments should have had their budgets reduced in FY06, because the policy affected departments with negative balances on or before June 30, 2005.

According to the staff in the departments, in some cases deficits can occur because expenses are made before revenue is received, and, in other cases, deficits are in old indices that need to be closed. Other Units have not adjusted their business models to balance their annual budgets.

Additional Observations

Unspent Special Appropriations. The Office of Equity and Inclusion received \$195,000 as a special Legislative appropriation for a conference on diversity in 2006. The funds were appropriated in 2006, received in 2007, and have not been spent.

Program Review. The University may want to appoint a committee charged with evaluating programs to determine whether they are enhancing the University mission. The University has limited resources to accomplish its goals. Some programs that may have supported the University's

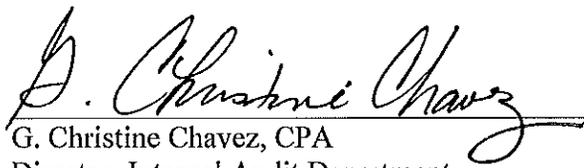
OBSERVATIONS

mission in the past may no longer be viable programs in the current environment. Rather than depending on fund balances, which are non-recurring except for endowment earnings, in an effort to balance the budget, the University should analyze all its programs to determine whether they continue to support the mission of the University. If the program review identifies programs that no longer meet the mission of the University, then the resources previously dedicated to those programs can be reallocated. The University President is moving in this direction by conducting performance accountability reviews.

CONCLUSION

The Units were able to provide documentation to support use or planned use of fund balances. However, due to time constraints and the limited scope of this review, we did not audit the expenses to determine if they are consistent with the definition of the fund from which they were paid.

APPROVALS


G. Christine Chavez, CPA
Director, Internal Audit Department

Approved for Publication


Chair, Audit Committee

**Review of FY09 Fund Balance for Main Campus
Summary of Categorization of Fund Balances**

ADMINISTRATION	7/1/09 Fund Balance (FY10 Beginning Bal.)	Use of Fund Balance			
		Banner Encumbrance	Committed	Dedicated	Discretionary
EVP for Administration	(\$3,643,936)	\$863,669	\$4,003,285	\$562,870	(\$9,073,761)
Advancement	\$298,302	\$208,038	\$0	\$90,265	\$0
Budget Office Monitoring	\$4,505,445	\$0	\$0	\$4,505,445	\$0
President	\$1,439,315	\$636,838	\$134,981	\$659,982	\$7,513
Provost Administrative Units	\$1,401,401	\$344,585	\$1,803,117	\$1,741,802	(\$2,488,103)
Student Affairs	\$1,255,568	\$55,610	\$0	\$980,000	\$219,957
Subtotals	\$5,256,094	\$2,108,740	\$5,941,382	\$8,540,364	(\$11,334,393)
ACADEMIC					
Anderson Schools of Mgmt	\$743,352	\$205,025	\$75,646	\$330,000	\$132,681
College of Arts Sciences	\$9,717,210	\$457,670	\$2,821,915	\$7,479,386	(\$1,041,761)
College of Education	\$3,295,874	\$167,343	\$201,544	\$2,832,991	\$93,996
College of Fine Arts	\$2,949,914	\$366,022	\$304,391	\$2,226,811	\$52,691
Continuing Education	(\$639,634)	\$544,370	\$0	\$28,385	(\$1,212,389)
Extended University	\$1,660,786	\$395,860	\$0	\$1,388,529	(\$123,603)
School of Architecture & Planning	\$1,182,178	\$6,497	\$10,863	\$391,200	\$773,618
School of Engineering	\$8,807,713	\$143,111	\$1,352,366	\$5,439,520	\$1,872,717
School of Law	\$1,599,344	\$176,657	\$788,291	\$336,709	\$297,686
School of Public Administration	\$178,831	\$1,140	\$30,249	\$147,443	(\$1)
University College	\$220,791	\$9,041	\$0	\$123,087	\$88,664
University Libraries	\$1,295,799	\$214,008	\$0	\$1,081,791	\$0
VP Division of Enrollment Mgmt	\$1,268,328	\$291,910	\$126,454	\$740,274	\$109,690
VP Equity & Inclusion	\$589,778	\$13,358	\$0	\$316,191	\$260,229
VP for Research	(\$707,567)	\$248,792	\$0	\$3,000	(\$959,359)
Subtotals	\$32,162,696	\$3,240,803	\$5,711,719	\$22,865,315	\$344,859
Total Administration and Academic	\$37,418,790	\$5,349,543	\$11,653,102	\$31,405,679	(\$10,989,534)
Other HSC & Branches	\$2,400	\$0	\$0	\$0	\$2,400
Other Funds*	\$5,576,870				
Total Other	\$5,579,270				
Total Main Campus Fund Balance	\$42,998,060				

*Other Funds include student fees, self generated revenues, and restricted grant & aid.

Note: Does not include Branch Campuses or Health Science Center

Source: Office of Planning and Budget