

**GALLUP BRANCH  
AUDIT OF BUSINESS PROCESSES**

**THE UNIVERSITY OF NEW MEXICO**

**Report 2011-06  
April 8, 2011**



THE UNIVERSITY of  
NEW MEXICO

---

**Audit Committee Members**

J.E. "Gene" Gallegos, Chair  
Lt. General Bradley Hosmer, Vice Chair  
James Koch

---

**Audit Staff**

Manu Patel, UNM Internal Audit Director  
Steve Cogan, REDW Principal  
Michael Padilla, REDW Audit Manager  
Lola Neudecker, UNM Senior Auditor  
William Cottrell, UNM Senior Auditor  
Lisa Wauneka, UNM IT Auditor

---

# CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
CONCLUSION.....	3
<b>INTRODUCTION.....</b>	<b>4</b>
BACKGROUND .....	4
PURPOSE AND OBJECTIVES .....	4
SCOPE AND PROCEDURES PERFORMED .....	5
<b>OBSERVATIONS, RECOMMENDATIONS AND RESPONSES.....</b>	<b>6</b>
<b>GALLUP BRANCH BUSINESS OPERATIONS .....</b>	<b>6</b>
<i>Business Operations Manual</i> .....	6
<i>General Ledger Accounts Not Reconciled</i> .....	7
<i>General Ledger Authorization</i> .....	8
<i>Fixed Assets</i> .....	9
<i>Security Cameras</i> .....	12
<i>Hard Drive Erasure Procedures on Surplus Computers</i> .....	13
<i>Auto Technology and Auto Club</i> .....	15
<b>PAYROLL .....</b>	<b>18</b>
<i>Timekeeper Segregation of Duties</i> .....	18
<i>Timesheet Calculation</i> .....	19
<i>Personnel Action Notices</i> .....	20
<b>CASH RECEIPTS.....</b>	<b>21</b>
<i>Cash Safekeeping</i> .....	21
<i>Cash Receipts Procedures</i> .....	22
<b>BOOKSTORE.....</b>	<b>23</b>
<i>Business Operations Manual</i> .....	23
<i>Safe Security and Cash Deposits</i> .....	24
<i>Governmental Gross Receipts Tax (GGRT) Reporting</i> .....	25
<i>PRISM Inventory System Inaccuracies</i> .....	26
<i>Reconciliation of Cash Drawers</i> .....	27
<i>Purchasing Card for Inventory Purchases</i> .....	28
<b>APPROVALS .....</b>	<b>31</b>

## ABBREVIATIONS

Bookstore.....	Gallup Branch Bookstore
Business Office.....	Gallup Branch Business Office
Cashiers.....	Gallup Branch Cashiers Department
Director of Business Operations.....	Gallup Branch Director of Business Operations
Executive Director.....	Gallup Branch Executive Director
GGRT.....	Governmental Gross Receipts Tax
HR.....	Human Resources Division
IT.....	Information Technology
RDSP.....	Request for Disposal of Surplus Property
UBP.....	University Business Policies and Procedures Manual
University.....	University of New Mexico
UNM.....	University of New Mexico

---

## EXECUTIVE SUMMARY

In response to numerous complaints and management changes at the University of New Mexico (UNM) Gallup Branch Campus, the UNM Internal Audit Department, in conjunction with REDW (an external certified public accounting firm), conducted an audit of the Gallup Branch Campus business operations. The following summary provides management with an overview of conditions that require attention.

### GALLUP BRANCH GENERAL BUSINESS OPERATIONS

The Gallup Branch should:

- Develop and implement a comprehensive business operations manual that outlines office policies and procedures for business functions.
- Reconcile general ledger accounts on a monthly basis.
- Restructure the approval process to ensure management reviews and approves journal entries.
- Inspect the computers purchased over the past three years and tag computers with the required UNM inventory tags.
- Ensure management attends training in accounting for and safeguarding assets through the inventory tracking process.
- Conduct a search for assets that could not be located during the fixed asset testing.
- Develop and implement a comprehensive plan for maintaining and monitoring security cameras at high-risk areas on campus.
- Develop and implement hard drive erasure procedures for surplus computers.
- Ensure the Auto Technology Department follows appropriate cash handling procedures, attends cash handling training, and develops written policies and procedures to track work orders for car repairs.

The Executive Director of the Gallup Branch (Executive Director) concurred with the recommendations and has developed corrective action plans to address the recommendations.

### PAYROLL

The Gallup Branch should:

- Segregate employee timekeeper and time approver duties.
- Modify timesheets to ensure employees cannot modify formulas and cells.
- Implement a policy or procedure that requires written documentation of all blanket compensation changes in employees' paper files.

The Executive Director concurred with the recommendations and has developed corrective action plans to address the recommendations.

### CASH RECEIPTS

The Gallup Branch should:

---

EXECUTIVE SUMMARY

- Keep the main safe locked at all times and require dual control access to the vault.
- Create policies to address specific cash receipts processes.

The Executive Director concurred with the recommendations and has developed corrective action plans to address the recommendations.

### **GALLUP BRANCH BOOKSTORE (BOOKSTORE)**

The Gallup Branch should:

- Develop and implement a comprehensive business operations manual that outlines Bookstore policies and procedures for business functions.
- Store all checks in the safe in a locked drawer until deposited and deposit all checks at the latest by the next business day after receipt.
- Ensure the Business Office reviews documentation regarding the Bookstore's Governmental Gross Receipts Taxes and submits the information to Unrestricted Accounting in a timely manner each month.
- Develop and implement policies and procedures to document Bookstore inventory procedures and to reconcile the University accounting system to the Bookstore accounting system on a monthly basis. These procedures should include recording all purchases of textbooks made with the purchasing card into the Bookstore accounting system.
- Hold personnel accountable for the reconciliation of Bookstore receipts. These reconciliations should occur daily, be signed and approved, and note any outages, as well as the reason for the outage.
- Utilize the purchasing card for all Bookstore inventory purchases.
- Obtain and review Gallup Branch departmental purchasing card reconciliations to monitor departmental budgets and spending, obtain purchasing card training, and request and obtain access to all Gallup Branch purchasing card activity in the University's accounting system.

The Executive Director concurred with the recommendations and has developed corrective action plans to address the recommendations.

### **UNIVERSITY BUSINESS POLICIES AND PROCEDURES MANUAL (UBP)**

The UNM Policy Office should update "Acquisition and Disposition of UNM Surplus Equipment," Policy 4610, to reflect the new hard drive erasure procedures. UNM Surplus Property now performs hard drive erasure. Departments are no longer required to perform hard drive erasure or supply hard drive erasure certifications.

The UNM Policy Office Manager concurs with the finding and will update the policy.

## CONCLUSION

The Gallup Branch has recurring challenges in their business operations. Previous audits performed by the UNM Internal Audit Department (Gallup Audit of Financial and Operations Efficiency report 2007-05, and Gallup Campus Audit of Business Practices and Processes report 2009-17) addressed similar audit findings. The Gallup Branch cleared these prior audit findings, but the findings have reoccurred. Significant management turnover in the past few years may have contributed to the application of inconsistent business practices and inadequate training. Management needs to develop and implement written business policies and procedures. Management should update these policies and procedures on a regular basis for proper management of Gallup Branch business processes. Employees must receive the proper training to perform their job functions.

---

## INTRODUCTION

### BACKGROUND

The UNM Gallup Branch Campus is located in Gallup, New Mexico. According to the UNM Fact Book 2009-10, the Gallup Branch is UNM's largest branch campus. In 2009, the Gallup Branch had 2,873 students, 169 faculty members, and 123 staff members. According to the University's operating ledger, in fiscal year 2010 Gallup Branch had \$17,741,955 in revenues and \$17,056,009 in expenses.

According to UNM-Gallup's web page, the campus's Mission, Vision, and Core Values are as follows.

**Mission Statement:** The University of New Mexico-Gallup develops lifelong learners in a context that is responsive to the cultures of this region.

**Vision Statement:** UNM-Gallup will be recognized as the premier post-secondary institution in this region.

**Core Values:** Excellence in education is fundamental to the core values of UNM-Gallup. UNM-Gallup values each individual, the strength of the community, and the power of working together in a climate of shared responsibility.

What takes place in the classroom is the first priority. Administration, staff, and faculty working together create the learning environment.

To accomplish our mission and vision in the next five years, UNM-Gallup will pursue the following strategic directions:

1. Continue to develop mechanisms essential to a learner-centered institution.
2. Offer programs that remain responsive to community needs.
3. Optimize resources and infrastructure to serve UNM-Gallup programs and student needs.
4. Expand more fully supportive and equitable working conditions and relationships among the Campus and local communities.

### PURPOSE AND OBJECTIVES

The UNM Internal Audit Department, in conjunction with REDW, performed the internal audit of business processes at the Gallup Branch. The audit evaluated the adequacy of internal controls and compliance with policies and procedures related to the Gallup Branch for the period of May through October 2010. REDW performed these services in accordance with the applicable Standards for Consulting Services prescribed by the American Institute of Certified Public Accountants. Although management's responses have been included in this report, REDW does not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

---

## INTRODUCTION

The purpose of this audit was to evaluate and/or test the following Gallup Branch processes and transactions:

- Reconciliation of general ledger accounts
- Payroll disbursements and accrued leave
- Cash receipts
- Financial aid disbursements
- Bookstore operations
- Accounts payable disbursements
- Journal entries
- Fixed assets
- Revenues collected from property taxes
- Employee access into Banner (the University Administrative system)
- Supervisor approvals of transactions entered into Banner

The primary objective was to determine whether each process evaluated reflects sound internal controls, best practices, and compliance with the University of New Mexico policies and procedures, when applicable.

## SCOPE AND PROCEDURES PERFORMED

**Interviews:** In order to gain an understanding of processes and controls, we read written policies and procedures and interviewed the management and staff at both the Gallup Branch and the core accounting offices of UNM located at the Albuquerque Main Campus.

**Transaction Sample Selection and Testing:** In order to test cash receipts, payroll disbursements, financial aid disbursements, accounts payable disbursements, and journal entries, we selected statistical samples of transactions occurring between May 1 and October 31, 2010. We also reviewed the fixed asset process, tested a select number of fixed assets, and traced revenues collected from property taxes into Banner.

**Security Access:** We tested the access security of the Banner system by reviewing the internal controls. The goal is to ensure there are appropriate internal controls and all access is appropriate for each employee's job duties.

**Complaints:** We reviewed complaints about the appropriateness of the cash handling procedures in the Auto Technology and Auto Club and purchases by the Student Senate.

---

## OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

### GALLUP BRANCH BUSINESS OPERATIONS

#### Business Operations Manual

**Condition:** The Gallup Branch Business Office (Business Office) does not have a comprehensive business operations manual that covers the key operational processes. The procedures not documented include, but are not limited to, functions such as: accounts payable (including credit memos); purchasing card usage; fixed asset management; cashiering operations; and Bookstore operations.

**Criteria:** Well-documented policies and procedures provide employees with guidance on performance of their duties and provide structure and organization to the office.

**Potential Risk: High** – 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 with turnover of key personnel. Documented policies and procedures assist in training and discipline as they set precedent and serve as the authority on how to conduct business.

**Cause:** The Gallup Branch does not have documented policies and procedures for the business operations.

#### **Recommendation 1:**

The Director of Business Operations should develop and implement a comprehensive business operations manual that outlines office policies and procedures for business functions, including but not limited to: accounts payable transactions; purchasing card transactions; fixed assets; grants; Bookstore operations; cashiering operations; purchasing; and payroll processes.

**Management Response:** Management's plan of action for resolving the audit finding.

Action Items
<i>Targeted Completion Date: 10/31/2011</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Director of Business Operations will work with staff to develop and implement a comprehensive Business Operations Manual for the Gallup Branch.</i>

**General Ledger Accounts Not Reconciled**

**Condition:** The Gallup Branch is not reconciling the Deposit Funds Held for Others account and the Receivable account for Middle College High School. In addition, there is no formal reconciliation of the Petty Cash and Prepaid Postage accounts. While the UNM Unrestricted Accounting (Main) Department in Albuquerque reconciles some general ledger accounts, the responsibility for reconciling these specific accounts belongs to the Gallup Branch.

**Criteria:** Per UNM Business Policy 2000 Responsibility and Accountability: "Financial managers or designees are responsible for a monthly review of the transactions affecting their funds to ensure allowability and appropriateness of transactions, conformity with approved budget, and financial integrity of the fund."

In addition, according to the General Ledger Account Reconciliation Guidelines: "Departments that process transactions to General Ledger (also known as Balance Sheet) account codes are responsible for reconciling the balances in those account codes on a monthly basis." It also states: "Reconciliations should most commonly be completed on Excel spreadsheets. When completing the reconciliation, reference the Banner Fund number (not the Index) and account code being reconciled, as well as the month and year. The completed reconciliations should be forwarded to Unrestricted Accounting, via e-mail, by the 25th of the month following the month being reconciled. The June reconciliation (last month of the fiscal year) is due by July 10."

**Potential Risk: Moderate** – A lack of formal, approved periodic reconciliations can lead to incorrect account balances and reconciling items left unaddressed. Although we consider this risk moderate, the specific risk could range from low to high depending on the amount and transactions in each account.

**Cause:** The Gallup Branch may not be aware of all the accounts that are required to be reconciled.

**Recommendation 2:**

The Gallup Branch should confer with the UNM Unrestricted Accounting (Main) Department to ensure the financial accounts are reconciled monthly.

**Management Response:** Management's plan of action for resolving the audit finding.

Action Items
<i>Targeted Completion Date: 07/01/2011</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>

**Corrective Action Planned:** *We concur. The Director of Business Operations will work with the Supervisor of Fiscal Services and UNM Unrestricted Accounting to develop a list of ALL G/L accounts needing to be reconciled on a monthly basis*

### **General Ledger Authorization**

**Condition:** The Supervisor of Fiscal Services at the Gallup Branch has the ability to generate journal entries that go directly to the core office (Unrestricted Accounting or Contract and Grants Accounting on Main Campus) without first going through another level of approval at the Gallup Branch.

**Criteria:** University Business Policy 2000 Responsibility and Accountability: 2.2. Departmental Approvers

“Approvers are individuals designated by deans, directors, or department heads to review and approve electronic transactions and/or forms before they are released for processing. Depending on the type of transaction and the level of risk, there may be more than one individual required to approve a transaction. However, the first-level approver is responsible for:

- conformity with budget;
- verifying the appropriateness of the transaction; and
- compliance with University policies and procedures.

Subsequent approvers are primarily responsible for acceptance of the added risk associated with high dollar and/or risk transactions. Approvers will be accountable for fulfilling the above responsibilities, exercising good judgment, and upholding ethical standards.”

**Potential Risk: Low** – Journal entries can go directly to the core accounting office (Unrestricted Accounting or Contract and Grants Accounting on Main Campus) without another level of approval at the Gallup Branch. An accountant at the core office who is not privy to the specific situation at the Gallup Branch could then approve an incorrect or fraudulent entry.

**Cause:** The Supervisor of Fiscal Services has access to enter and submit journal entries without another level of review and approval performed at the Gallup Branch.

**Recommendation 3:**

Although access to enter journal entries may be appropriate for the Supervisor of Fiscal Services, the Director of Business Operations should review and approve them before submittal of journal entries to the core accounting office.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<i>Targeted Completion Date: 07/01/2011</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Director of Business Operations and the Supervisor of Fiscal Services will work with Albuquerque Financial Services to make sure the Banner Approval Queues are configured properly.</i>

**Fixed Assets**

**Condition:** Staff at the Gallup Branch did not issue fixed asset tags for 11 computers in our sample of fixed assets. These computers were not included in the University's inventory because staff charged them to the wrong account and therefore they did not have fixed asset tags. The computers were charged to account 3150 Computer Supplies instead of account 3189 Computers and Servers <\$5,000. Computers charged to account 3189 become part of the University's fixed asset inventory and University Services then issues them an inventory tag. In our testing to determine if the assets existed and could be located, we could not locate two test items (computers) at the Gallup Branch.

Additionally, the branch purchased a turbine with grant money but could not install it because they lacked a required pole for the installation; the grant does not have enough funds to cover the purchase of the pole.

**Criteria:** UBP 7710 Property Management and Control Section 1, General states:

The University of New Mexico may acquire, maintain, protect, use, and dispose of property required to perform its mission. University property and resources may be used only for University business. For the purposes of this policy, inventoried property is defined, with one exception, by the following three criteria: 1) The cost is greater than \$5,000, 2) the property is moveable and 3) the property has a useful

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

life of more than one (1) year. Inventoried property costing more than \$5,000 is also defined as equipment and is capitalized on UNM's financial statements and is depreciated. Computers, however, are treated as inventoried property regardless of cost. In most cases the cost of a computer is less than \$5,000, in which case it is not capitalized and is not depreciated. Questions regarding computers should be addressed to the office of Inventory Control.

Section 3.3. Location and Security of Property states:

The location of each item of property is included in the University inventory records. Current location records must be maintained so that any item can be located for inspection or inventory purposes within a reasonable time. When property is temporarily idle or placed in storage, the department must provide adequate protection from damage or loss. Property must be protected when moved.

**Potential Risk: High** – Computers and other equipment may not be protected from theft or loss. An un-inventoried computer may be lost or stolen and management would not realize the computer was missing.

**Cause:** Staff charged the computers to the wrong account; therefore, the computers did not have inventory tags. Supervisory review of the transactions did not detect that staff charged the computers to the wrong account. Staff did not follow inventory procedures; fixed assets were moved and their location was not updated in the fixed asset system.

**Recommendation 4:**

The Executive Director should direct the Business Office to review all computer purchases over the past three years to determine if departments purchased other computers and charged them to the incorrect account code. These computers should be tagged and added to inventory records. All future computer purchases should be charged to the correct account codes, tagged, and inventoried.

**Management Response:** Management's plan of action for resolving the audit finding.

Action Items
<i>Targeted Completion Date: 10/01/2011</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Director of Business Operations will coordinate a</i>

*review of the past three years purchases. In order to access the UNM Gallup network a computer must be configured by UNM Gallup IT. IT's list of computers will be reconciled with property accounting's asset list to identify any computers not properly tagged.*

**Recommendation 5:**

The Executive Director should ensure that department deans/directors responsible for inventory attend formal training to communicate the responsibility for accounting for and safeguarding assets through the inventory process. This includes methods for adding, deleting and changing locations of inventory assets.

**Management Response: Management's plan of action for resolving the audit finding.**

Action Items
<i>Targeted Completion Date: 10/01/2011</i>
<i>Assigned to: Executive Director, Gallup Branch</i>
<i>Corrective Action Planned: We concur. There will be a series of trainings for management and staff responsible for inventory. Faculty also provides supervision of staff that are responsible for inventory and will be included in training during Fall Orientation. The Director of Business Operations will provide the training based on UNM policies and procedures.</i>

**Recommendation 6:**

The Executive Director should administer a search for assets that could not be located in the fixed asset testing. If they cannot locate items, they should file a police report with the Gallup Branch Police. The turbine purchase should be reviewed to determine why the turbine was purchased without all necessary installation components. The turbine should be installed, or returned if the pole to install the turbine cannot be purchased.

**Management Response: Management's plan of action for resolving the audit finding.**

Action Items
<i>Targeted Completion Date: 05/01/2011</i>

*Assigned to: Director of Business Operations, Gallup Branch*

*Corrective Action Planned: We concur. Most of the assets have been located. The turbine was purchased by Construction Tech. They are investigating whether a vendor specific pole is required or not.*

### Security Cameras

**Condition:** The Gallup Branch has security cameras that monitor the activity of the Bookstore and the Cashier's area. Management has not assigned responsibility for security camera maintenance and there is no log of monitoring or reviewing security camera activity. The security camera aimed toward the Bookstore's safe was not operational at the time of the audit. It is not clear how long the Bookstore safe's camera was out of operation.

**Criteria:** Individuals who are independent of the day-to-day activities of the business function being taped should monitor the security cameras. Draft Policy UBP 5320 – Security Cameras Section 4, Use and Monitoring states:

All individuals using and/or monitoring security cameras must be authorized in writing by the dean or director responsible for the area under observation. Use and/or monitoring of security cameras will be conducted in a professional, ethical, and legal manner. Any diversion for purposes other than safety and the protection of people and resources is prohibited.

**Potential Risk: Medium** – Cameras are a theft deterrent. The lack of working security cameras increases the risk of unauthorized access to the Bookstore's safe. In the case of actual theft or inappropriate activity, the video images may not be available to aid in any investigation.

**Cause:** Management has not assigned responsibility for monitoring the operation of the security cameras.

### **Recommendation 7:**

The Executive Director should provide a comprehensive plan for maintaining and monitoring the existing security cameras that is consistent with draft UBP Policy 5320. The plan should include: proper separation of duties; limiting access to the camera equipment and monitoring stations to personnel outside of the areas being monitored; procedures for access to and monitoring of the camera and camera system; procedures for monitoring logs and retention of tape recordings; and, procedures for notifying appropriate personnel when the cameras are not operational or go offline.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<b>Targeted Completion Date:</b> 07/01/2012
<b>Assigned to:</b> Manager of Information Services, Gallup Branch, Executive Director, Gallup Branch
<b>Corrective Action Planned:</b> We concur. The IT Manager will work with UNM-Main Campus IT to implement and maintain a campus wide security camera system which includes all security cameras on campus. This system will be monitored by personnel as directed by the Executive Director.

**Hard Drive Erasure Procedures on Surplus Computers**

**Condition:** We could not locate three out of the five hard drive erasure forms in the sample at the IT Department. The Main Campus Surplus Property Department did have the inventory disposal and hard drive erasure forms for all items in the audit sample. Although the IT Department did submit the asset deletion forms and hard drive certifications to the Main Campus Surplus Property department, the IT Department does not have an adequate filing system to maintain the forms and certifications.

**Criteria:** "Acquisition And Disposition of UNM Surplus Equipment," Policy 4610, UBP Section 3 states that all disposal requests containing computer equipment must also include a UNM Surplus Property Hard Drive Erasure Certification Form.

In December 2010, Surplus Property implemented a new procedure that removes the requirement of the Hard Drive Erasure Certification Form. Main Campus Information Technologies has a system in place within the Surplus Property Department to erase the hard drives of computers as they picked them up from the departments. The Main Campus Information Technologies Department will also provide the necessary documentation to certify erasure of the hard drives. Departments are no longer required to erase hard drives on computers.

**Potential Risk: Low** – The IT Department does not have adequate record keeping for proper asset deletions.

**Cause:** Although asset deletion and computer hard drive erasure processes are in place at the Gallup Branch, the process is undocumented and the IT Department was unable to provide a record of hard drive erasure certifications.

**Recommendation 8:**

The Business Office should work with the IT Department to develop and implement a filing system to track and document asset deletions.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<b>Targeted Completion Date:</b> 04/01/2011
<b>Assigned to:</b> Manager of Information Services, Gallup Branch
<p><b>Corrective Action Planned:</b> <i>We concur. This procedure is intended to document UNM - Gallup's process for complying with UBP 4610 Section 3, "Disposal of University Property" specifically:</i></p> <p><i>"All disposal requests containing computer equipment must also include a UNM Surplus Property Hard Drive Erasure Certification form."</i></p> <p><i>Since the UNM Surplus Property Hard Drive Erasure Certification no longer exists, UNM - Gallup will document hard drive erasures on the attached "UNM - Gallup Request for Disposal of Surplus Property" (RDSP) form.</i></p> <p><i>When any computer is surplused the UNM - Gallup RDSP will be filled out. The column labeled HD Code will provide the status of the hard drive that was in the machine at the time the machine was flagged for surplus.</i></p> <p><i>If the hard drive is being surplused along with the machine, the HD Present column will so specify and the Wiped column will contain the initials of the person who wiped the drive. Hard drives will be wiped according to the recommendation of the UNM Chief Security Officer.</i></p> <p><i>If the hard drive is not being surplused, then the appropriate HD Code will be entered. The HD Codes are:</i></p> <ul style="list-style-type: none"><li><i>(A) Archived - the drive has been archived to preserve data,</i></li><li><i>(R) Reused - the drive has been retained for reuse in another machine,</i></li><li><i>(S) Shredded - the drive was not functional and will be shredded.</i></li></ul> <p><i>Copies of all UNM - Gallup RDSP forms will be kept on file with the UNM - Gallup Business Office.</i></p>

**Recommendation 9:**

Under the new procedure, the Main Campus Surplus Property Department now performs hard drive erasures for surplus computers. Departments are no longer required to perform hard drive erasure or supply hard drive erasure certifications. However, UBP 4610 still requires departments to certify hard drive erasure for surplus computer equipment. The UNM Policy Office should revise the policy to reflect the new process.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<i>Targeted Completion Date: 07/01/2011</i>
<i>Assigned to: Manager, UNM Policy Office</i>
<i>Corrective Action Planned: The Policy Office will revise the policy to reflect the new process.</i>

**Auto Technology and Auto Club**

**Condition:** The Auto Club kept monies in a lock box within the Auto Technology Department. Of two deposits made, the department did not timely deposit one deposit totaling \$550.00.

Furthermore, our review of the Auto Club index for FY10 and FY11 as of December 8, 2010, does not show deposit of any Auto Club funds into the University account. It appears that the Auto Club is not following University Cash Management Policy or the Student Senate Bylaws.

The Auto Technology Department does not have written policies and procedures to:

- Track cars brought in for repair, work completed and cars picked up or in the auto shop or yard.
- Keep track of parts (starters, alternators, water pumps, etc.) brought in for repair, work completed and items returned.
- Prepare a log of any monies donated by car owners for successful repairs completed by students.
- Organize work orders by dates, repair completed, work-in-progress, etc., for easy determination of the status of auto technology related work performed by students.
- Inform customers that there are no charges for auto repairs, and that customers should be sure to receive a receipt for any donations contributed.

**Criteria:** University Business Policy 7200 Cash Management, Section 2 states: "Monies received should be deposited at the University Cashiers Department intact by the next working day following receipt. When less than \$50 is involved, monies may be accumulated up to a week. No checks shall be cashed, no purchases shall be made, and no substitution of cash, checks, or other documents shall be made from the actual monies received." The Gallup Student Senate Bylaws, Article I, Chartering A Student Organization, Section 12 state: "All club monies must be held in a University account."

**Potential Risk: Medium** – Monies that are not deposited in a timely manner may increase risk of theft. The work order system is not adequate to track repairs completed, pending repairs, parts, or returning cars to owners on time as promised.

**Cause:** The Auto Club is not following the requirement of the Student Senate Bylaws. The Auto Technology Department does not have written procedures to monitor compliance with policy.

**Recommendation 10:**

The Executive Director should ensure that the Gallup Branch Auto Club deposits all monies received to the Cashiers Department intact by the next working day following receipt.

**Management Response: Management's plan of action for resolving the audit finding.**

Action Items
<b>Targeted Completion Date:</b> 10/01/2011
<b>Assigned to:</b> Acting Dean of Instruction, Gallup Branch
<p><b>Corrective Action Planned:</b> We concur. The Dean will work with the chair of the Auto Technology Department to develop written policies and procedures for the Auto Technology Department for tracking cars and automotive parts (starters, alternators, water pumps, etc.) that are brought in to the department for repair. The tracking system will log all work completed and date/time of pick up. The policies and procedures will also track any funds received by car owners for work completed by students. Funds received by students will be deposited at the University Cashiers Department consistent with University Business Policy 7200. The Dean and department chair will review peer institutions that offer similar programs to identify best practices that could be integrated into these policies and procedures.</p> <p>The faculty sponsor of the Auto Club, who is generally the chair of the Auto Technology Department, will be responsible for ensuring that the Club develops written procedures for complying with University Business Policy 7200.</p>

**Recommendation 11:**

The Executive Director should require that all Auto Technology Department personnel who handle cash take Cash Management training.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<i>Targeted Completion Date: 10/01/2011</i>
<i>Assigned to: Human Resources Manager, Gallup Branch</i>
<i>Corrective Action Planned: We concur. UNM Learning Central offers an on-line course on cash management that focuses on University Business Policy 7200. This training would be beneficial not only to Auto Technology Department personnel but to others on the UNM Gallup campus that handle cash. In addition, the Student Senate could benefit from taking this course along with staff. The training will be mandatory for management and staff responsible for handling cash. While on-line training would allow greater flexibility, the Executive Director will work with Learning Central to provide this training on-site to allow for discussion and dialogue about cash management and to reinforce adherence to UNM policy # 7200. All staff with responsibilities for handling cash will be identified and notified about the mandatory training</i>

**Recommendation 12:**

The Auto Technology Department should develop written policies and procedures to track: work orders for car repairs and rebuilding parts; inventory of cars and parts brought to the Auto Shop for repair; when owners pick up cars; and, any donations (monies) received from owners of cars, etc. The Auto Technology Department should post signs to inform customers that there are no charges for auto repairs and they should receive a receipt for any donations they contribute.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<i>Targeted Completion Date: 10/01/2011</i>
<i>Assigned to: Acting Dean of Instruction, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The written policies and procedures for tracking car repairs</i>

*and automotive parts repairs will be included as part of recommendation 10 that will ensure all monies received by the department are deposited in accordance with UBPPM 7200.*

*Signs will be ordered by UNM Gallup Facilities Department and placed in prominent locations in the Auto Tech Department that there are no charges for auto repairs but donations are appreciated. If a car owner makes a donation, they are to receive a receipt indicating amount received, work completed and date and time of the work completed. Similar signs will be created for other units in Applied Technology that provide similar services such as Construction Technology, Cosmetology and Welding.*

*The Dean will work with the department chair to develop the Policies and Procedures Document.*

## **PAYROLL**

### **Timekeeper Segregation of Duties**

**Condition:** Three employees at the Gallup Branch (the Financial Aid Officer, Human Resources Technician, and the Fiscal Services Supervisor) have the ability to both enter and approve time.

**Criteria:** For proper segregation of duties, someone other than the person entering time should approve the time entry.

**Potential Risk: Moderate** – Without segregation of duties, these employees have the ability to both enter employee time and approve the time. This reduces the likelihood of catching errors and provides the opportunity for employees to modify their paychecks by reporting unearned overtime or under reporting sick and annual leave. One of the employees with dual roles is exempt, and the other two are non-exempt; their ability to modify their own leave time creates additional risk.

**Cause:** These employees have access to enter and approve time without additional approval.

### **Recommendation 13:**

Although there are circumstances within the University where certain employees are granted access to both enter and approve time, these situations should only occur under extreme conditions, such as in smaller departments where there can be a lack of coverage. The Gallup Branch appears to have sufficient coverage for these duties to be separated. If the Gallup Branch determines these three employees need to keep both entry and approval roles, we suggest that any entries entered and approved by the same person be reviewed on a regular basis by a different supervisor or department. The reviewer should document the process to assure accountability.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<b>Targeted Completion Date:</b> 07/01/2011
<b>Assigned to:</b> Director of Business Operations, Gallup Branch
<b>Corrective Action Planned:</b> <i>We concur. The Supervisor of Fiscal Services will have the Time Entry Role Removed. As HR is no longer responsible for the Timekeeping function, those roles will be removed from the HR staff. Financial Aid will identify an additional staff member for Time Entry Back-Up and the Financial Aid Officer will have the Time Entry role removed.</i>

**Timesheet Calculation**

**Condition:** We noted miscalculations in eight of 41 non-exempt employee timesheets we tested. The timesheets the Gallup Branch uses are not consistent and employees can alter and/or type over information. A Supervisor and Timekeeper approved all incorrect timesheets, indicating that the review process is ineffective. In addition, we could not locate one timesheet.

In some instances, the Gallup Branch uses an electronic time entry system in certain departments. However, these electronic time entry systems do not tie into the UNM payroll system, and Timekeepers still manually enter timesheets for these employees, creating a redundancy in time entry. The timekeeping process is not standardized.

**Criteria:** University policy 2610.3 regarding Time Reports for Bi-weekly and Student Employees states: "time sheets must accurately record the time employees begin and end their work, as well as the beginning and ending time of each meal period. They must also record the beginning and ending time of any split shift or departure from work for personal reasons other than for the employee's fifteen (15) minute break. Entries should be made daily to the nearest tenth of an hour."

**Potential Risk: High** – If timesheets are not calculated correctly or employees can change or alter the time entry and calculation, personnel may be over or under paid.

**Cause:** The Gallup Branch does not have a standardized timekeeping process. It also does not appear that the Excel document the branch currently uses has the proper cell and formula protection, nor are all reviewers accurately reviewing time sheets and time entries.

**Recommendation 14:**

The Executive Director should modify timesheets to guard against changes to timesheet formulas and cells. The Gallup Branch should perform timesheet training for supervisors and employees.

The Executive Director should consider timesheets that can be reviewed and uploaded into Banner, or if cost effective, consider utilizing a more advanced time tracking system.

**Management Response: Management's plan of action for resolving the audit finding.**

Action Items
<i>Targeted Completion Date: 07/01/2012</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. Effective July 1, 2010, all UNM Gallup non-exempt, hourly employees have been required to use the standard Excel time sheet found on the UNM Main Campus Payroll website. We will work with Main Campus Payroll to protect the cells. We will coordinate with the Main Campus project to explore the option of a campus wide timekeeping system that would upload into Banner.</i>

**Personnel Action Notices**

**Condition:** 19 out of 63 employee files tested did not include the most up to date Personnel Action Notice or contract. These were all a result of blanket rate increases.

**Criteria:** All employee files should contain the most recent Personnel Action Notice or contract.

**Potential Risk: Low** – If the Main Campus Payroll Department does not receive documents or notification of a change in employee status, there will be no documentation on file indicating the employee's status.

**Cause:** The missing Personnel Action Notices in employee files relates to the last blanket raise. In the past, the Main Campus Information Technologies Department would print and provide these documents to Main Campus Payroll to file. For the most recent blanket raise, Main Campus Payroll did not receive notices or documents. There is no formal policy or procedure in place to ensure the Main Campus Information Technologies Department prints and sends these forms to Main Campus Payroll.

**Recommendation 15:**

The Executive Director should implement a policy or procedure that requires updates to all blanket compensation changes in employees' paper files.

**Management Response: Management's plan of action for resolving the audit finding.**

Action Items
<i>Targeted Completion Date: 10/01/2011</i>
<i>Assigned to: Human Resources Manager, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Gallup HR Manager will work with Albuquerque HR as the official employee files are kept in Albuquerque</i>

**CASH RECEIPTS**

**Cash Safekeeping**

**Condition:** The Cashiers' Department leaves the main safe unlocked during business hours, and the vault does not require dual control for access.

**Criteria:** "Cash Management," Policy 7200, UBP Section 3. Internal Control states: "cash management internal controls are maintained by: limiting access to monies..." In order to limit access, the safe should be locked at all times and the vault should require dual control access.

**Potential Risk: High** – By keeping the safe unlocked and only requiring one key for the vault, it is possible for one person to access cash kept in the vault.

**Cause:** Once they have opened the safe for the day, the Cashiers are closing the safe, but not locking it. This is to provide easier access for the Cashiers throughout the day.

**Recommendation 16:**

The Director of Business Operations should require that cashiers keep the main safe locked at all times, and should key the vault to require dual control access.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<b>Targeted Completion Date:</b> 07/01/2012
<b>Assigned to:</b> Director of Business Operations, Gallup Branch
<b>Corrective Action Planned:</b> <i>We concur. The Director of Business Operations will work with the Cashier Supervisor to comply with Policy 7200.3. The Business Office, including Cashiers, will be moving into the new Student/Tech Center Building in late July. We will be reviewing our security processes as part of the office relocation.</i>

### Cash Receipts Procedures

**Condition:** Cashiers are not signing the Daily Vault Sheet that the department uses to reconcile cash received and cash on hand. Cashiers are not signing the Cash-In Report, the form that the individual cashiers use to verify their drawer amounts on a daily basis. Instead, they photocopy and reuse the Cash-In Report. In addition, neither the Cashier area nor the Bookstore has signage posted to indicate that customers must receive a receipt for their transactions.

**Criteria:** The persons preparing the Daily Vault Sheet should sign the sheet to indicate that they completed it and attest to the figures. Staff should also sign the Cash-In Report to attest to the actual count. The Gallup Branch should post signs at both the Cashier and Bookstore informing customers they must receive a receipt for all transactions.

**Potential Risk: Low** – Without a signature on the Daily Vault Sheet, there is no accountability for errors that may occur. A photocopied Cash-In Report does not signify that the staff actually counted and verified cash received. When employees do not issue receipts to customers, there is increased likelihood of Cashier theft.

**Cause:** No policies or procedures exist regarding the Daily Vault Sheet, Cash-In Report, or providing receipts to customers.

### **Recommendation 17:**

The Director of Business Operations should create policies to address specific cash receipts processes. It is possible that they could combine the Daily Vault Sheet and Cash-In Report into one form.

**Management Response:** Management's plan of action for resolving the audit finding.

<b>Action Items</b>

**Targeted Completion Date:** 10/01/2011

**Assigned to:** Director of Business Operations, Gallup Branch

**Corrective Action Planned:** We concur. The Director of Business Operations will work with the Supervisor of the Cashiers to develop and implement cash receipts policies for the Gallup Campus. As part of the Bookstore Renovation and Business Office Relocation, Receipt signage will be posted.

## BOOKSTORE

As part of the audit scope, we reviewed the administration of the Bookstore. The Bookstore has lost approximately \$271,000 over the past four years, resulting in a cumulative deficit of approximately \$399,600 (See Exhibit A).

The Gallup Branch implemented a new Bookstore software system several years ago, but the branch did not devote adequate resources to ensure development of the appropriate policies and procedures for the new system. The following issues related to management of the Bookstore are a result of the lack of resources dedicated to the Bookstore.

### Business Operations Manual

**Condition:** The Bookstore does not have a comprehensive business operations manual that covers the operations of key processes, including reporting of the monthly Governmental Gross Receipts Tax to the Main Campus. Under a prior audit recommendation, the Bookstore upgraded their bookstore software program to PRISM in August 2008. Although the system has been operational for two years, the Bookstore has not documented the business operations procedures.

The following error noted during the cash count of the Bookstore could have been avoided with documented business operations procedures. Two registers showed a difference in count of \$46.09. While the total of both registers was reconciled and in agreement with total deposits for the day, each drawer was off by \$46.09. Following consultation with the Valencia Branch bookstore (which also uses PRISM software), it was determined that transactions from one drawer were voided in the other drawer. When the Bookstore reconciled both drawers, each drawer showed a discrepancy, with one being short \$46.09 and the other being over \$46.09. The Bookstore can avoid this sort of confusion by following well-drafted business procedures that assign a cash drawer to each cashier; each cashier should record transactions in their own respective drawers.

**Criteria:** Well-documented policies and procedures provide employees with guidance on the performance of their duties and provide structure and organization to the office.

**Potential Risk: High** – 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 with turnover of key personnel. Documented policies and procedures assist in training and discipline as they set precedent and serve as the authority on how to conduct business.

**Recommendation 18:**

The Director of Business Operations should develop and implement a comprehensive business operations manual that outlines office policies and procedures. In addition, the Director of Business Operations should consult with the UNM Valencia Branch Bookstore, which also uses the PRISM software, to assist in developing bookstore procedures, reconciliations, and reports.

**Management Response: Management’s plan of action for resolving the audit finding.**

Action Items
<i>Targeted Completion Date: 07/01/2012</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Director of Business Operations will work with Bookstore Manager to develop &amp; implement a comprehensive Bookstore operations manual.</i>

**Safe Security and Cash Deposits**

**Condition:** The Bookstore did not follow cash deposit policy for \$50,000 in checks made out to the University of New Mexico and received from Nebraska Book Company. The checks were for book buy backs from students. The safe has locked drawers for the cashiers to store their cash drawers, and an open shelf on top of the drawers. The Interim Bookstore Manager stored the checks from Nebraska Book Company on the open shelf.

**Criteria:** UBP 7200 Cash Management Section 2 states that “monies received should be deposited at the University Cashiers Department intact by the next working day following receipt.” Section 3.2.3. Checks states that “all checks must be restrictively endorsed immediately upon receipt. Do not wait until the deposit is made. The University’s endorsement renders the check non negotiable and must be stamped on the back of all checks.”

**Potential Risk: High** – There were at least \$50,000 in non-endorsed checks made out to UNM stored on an open shelf in the safe.

**Cause:** The Interim Bookstore Manager and the Director of Business Operations were aware of the policy to deposit checks by the following working day, but believed that they should not cash Nebraska Book Company checks for book buy backs from students unless they needed the funds.

**Recommendation 19:**

Upon receipt, all checks should be kept in the safe in a locked drawer until deposited, not on the safe shelf. The checks should be deposited at the latest by the next business day after receipt.

**Management Response:** Management's plan of action for resolving the audit finding.

Action Items
<i>Targeted Completion Date: 04/01/2011</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. ALL buy-back checks received by the Gallup Branch will be deposited upon receipt. The buy-back company will be instructed to mail the checks in care of the UNM Gallup Cashier's office instead of the Bookstore.</i>

**Governmental Gross Receipts Tax (GGRT) Reporting**

**Condition:** The Interim Bookstore Manager did not submit the Bookstore's GGRT information to Unrestricted Accounting from August 2010 through November 2010. In the absence of detailed sales information from the Bookstore, Unrestricted Accounting used sales information from the Bookstore's Banner account index. Because Unrestricted Accounting did not have information from the Bookstore that indicated which textbook sales were exempt from GGRT, the Bookstore overpaid GGRT tax for the months of August 2010 through November 2010 totaling \$29,297.54.

**Criteria:** Unrestricted Accounting must have the GGRT information to submit to the State of New Mexico Taxation and Revenue Department by the 15<sup>th</sup> of every month. The Bookstore did not send the information even after repeated efforts to contact them.

**Potential Risk: Low** – The governmental gross receipts tax paid on form CRS-1 shows the University overstated the amount it sends to the New Mexico Taxation and Revenue Department

---

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

by \$29,297.54 for August 2010 through 2010, requiring an adjustment of \$29,297.54 on December 15, 2010.

**Cause:** The previous Bookstore Manager was on Administrative Leave starting in August 2010. The Business Operations Director and the Interim Bookstore Manager were not aware of the requirement to submit Bookstore sales information to Unrestricted Accounting. Unrestricted Accounting was not aware that the previous Bookstore Manager was on Administrative Leave and was sending requests for the required information to the previous Bookstore Manager's email account. Unrestricted Accounting contacted the Business Operations Director in early December 2010 about the lack of submissions of Bookstore sales information. The Business Operations Director immediately submitted the Bookstore's sales information from the months of August 2010 through November 2010.

**Recommendation 20:**

The Business Operations Director should review all GGRT submissions before sending them to Unrestricted Accounting to ensure that the GGRT submissions are complete and timely.

**Management Response:** Management's plan of action for resolving the audit finding.

Action Items
<i>Targeted Completion Date: 12/15/2010</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Director of Business Operations has been reviewing the Bookstore GGRT submissions to Unrestricted Accounting since December 2010</i>

**PRISM Inventory System Inaccuracies**

**Condition:** The Bookstore does not enter all purchases, returns, and book buyback transactions into the PRISM bookstore system.

**Criteria:** The Bookstore PRISM system should accurately reflect the Bookstore's inventory purchases.

**Potential Risk: High** – The PRISM bookstore system does not accurately reflect the Gallup Branch Bookstore's inventory purchases.

**Cause:** There are no written policies and procedures to document how the Bookstore should enter book buybacks into PRISM. The Interim Bookstore Manager does not know how to enter these transactions into the PRISM inventory system.

The Bookstore does not enter all purchases made with the purchasing card into PRISM because the Bookstore uses the Administrative Assistant 3's purchasing card for purchases; the Bookstore staff is often unaware of the transactions.

**Recommendation 21:**

The Bookstore Manager should develop a policies and procedures manual to document Bookstore inventory procedures and should reconcile the Banner account index of purchases to the PRISM inventory system on a monthly basis. The Bookstore Manager should investigate and resolve all differences.

The Bookstore Manager should develop procedures to ensure that employees record all purchases of textbooks with the purchasing card into the PRISM system.

**Management Response:** Management's plan of action for resolving the audit finding.

Action Items
<i>Targeted Completion Date: 07/01/2012</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The reconciliation of the Bookstore Inventory Control System &amp; Banner will be part of the Bookstore Operations manual. We are in the process of hiring a permanent Bookstore Manager and hope to have someone on Board by 05/01/2011.</i>

**Reconciliation of Cash Drawers**

**Condition:** We noted 37 instances out of a sample of 44 where the Bookstore deposit to the Cashier did not tie to the amount per the Bookstore register. These outages ranged from one cent to \$132.52. In addition, we noted 34 instances out of 44 where the Bookstore employees are not signing the Daily Balance Sheet. The Bookstore uses the Balance Sheet to reconcile the Bookstore cash receipts.

**Criteria:** The Bookstore should reconcile its cash receipts at the close of each day, tying the amount received and deposited to the Cashier to the amount received per the register. Staff

should investigate and approve any discrepancies. Persons performing the reconciliation should sign the reconciliation form.

**Potential Risk: High** – Without proper reconciliation of cash receipts and outages, the Bookstore cannot assure accountability for funds. Without a process to investigate Cashier outages, large cumulative outages could be ignored, and problems are not likely to be corrected.

**Cause:** A form to reconcile cash receipts is in use; however, employees do not note outages and persons performing the reconciliation do not sign the form.

**Recommendation 22:**

The Director of Business Operations should hold personnel accountable for the reconciliation of Bookstore receipts. These reconciliations should occur daily. Reconcilers should sign and approve the form, note any outages, and state the reason for the outage.

**Management Response: Management’s plan of action for resolving the audit finding.**

<b>Action Items</b>
<i>Targeted Completion Date: 08/01/2011</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Director of Business Operations will work with Bookstore employees to develop and implement a review and approval process for the daily cash drawer reconciliations.</i>

**Purchasing Card for Inventory Purchases**

**Condition** The Bookstore system has numerous outstanding credit memos from various textbook vendors. Many of these credit memos are in fact resolved, but staff did not clear the memos from the Bookstore system.

**Criteria:** UBPP 4320 Purchasing Goods Off Campus states, “The P-Card may be used to purchase goods, materials, supplies, non-capital equipment, and non-professional services on behalf of UNM with pre-approved vendors not exceeding \$5000, unless a lower limit has been set for an individual cardholder.”

UBPP 4320 Purchasing Goods Off Campus states, "The vendor should send the original invoices and credit memos for all purchases directly to the Accounts Payable Department; if an invoice or credit memo is sent to the department, the department should immediately send the documents to the Accounts Payable Department. Credit memos should receive the same departmental handling as invoices. Staff must promptly process invoices for partial shipments 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."

UBPP 4000 Allowable and Unallowable Expenditures states, "These purchasing policies and procedures provide flexibility to managers to enable them to perform their duties and to achieve the maximum benefit from the resources for which each manager is responsible."

**Potential Risk: High** – The current vendor credit memo process for returned inventory requires another invoice from the vendor to become due before they can apply the credit memo. The Accounts Payable Department has applied credit memos to outstanding invoices, but the Bookstore system does not reflect this; the Bookstore system is where the outstanding credit memos should be resolved.

The number of outstanding credit memos is difficult to manage. Some credit memos are still outstanding and negatively affect the Bookstore's cash flow.

The Bookstore could receive credit from their vendors in a timely, manageable manner; a credit directly to the purchasing card used to make the purchases, instead of via credit memo, would streamline the process.

**Cause:** The Bookstore has a longstanding practice of purchasing textbooks on purchase orders, because the previous Bookstore Manager had his purchasing card revoked. Presently, the Bookstore makes some purchases with the Administrative Assistant 3's purchasing card.

**Recommendation 23:**

The Bookstore should utilize the purchasing card for all bookstore inventory purchases. In order to comply with proper segregation of duties, the purchasing cardholder making Bookstore purchases should not be responsible for Bookstore inventory or accounting duties. The Business Operations Director should review all Bookstore inventory purchasing card transactions and the monthly purchasing card reconciliations to ensure the accuracy and appropriateness of the transactions.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<i>Targeted Completion Date: 07/01/2012</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. The Director of Business Operations will work with the Bookstore staff to implement this change in procedure. This will require the hiring of a Fiscal Tech for the Bookstore.</i>

**Recommendation 24:**

The Business Office should obtain and review Gallup Branch purchasing card reconciliations to monitor departmental budgets and spending. They should request and obtain access to all Gallup Branch purchasing card activity in UNM's financial system. The personnel in the Gallup Branch Business Office should obtain purchasing card and financial system reporting training.

**Management Response: Management's plan of action for resolving the audit finding.**

<b>Action Items</b>
<i>Targeted Completion Date: 07/01/2012</i>
<i>Assigned to: Director of Business Operations, Gallup Branch</i>
<i>Corrective Action Planned: We concur. Effective July 1, 2011, we will require ALL P-Card reconciliations to be sent to the Gallup Business Office for review as we currently do with DP-EZ's.</i>

---

APPROVALS



---

Manu Patel; CPA  
Director, Internal Audit Department

Approved for Publication



---

Chair, Audit Committee

**Gallup Branch Audit of Business Processes**

**Exhibit A**

University of New Mexico - Gallup Branch										
Bookstore (Index # 729000)										
(Amounts in 000)										
	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Amounts	Percent	Amounts	Percent	Amounts	Percent	Amounts	Percent	Amounts	Percent
Revenues	\$967.7		\$990.0		\$932.2		\$1,030.1		\$1,340.6	
Cost of Goods Sold	\$864.8	89.4%	\$745.6	75.3%	\$745.2	79.9%	\$747.5	72.6%	\$1,144.9	85.4%
Gross Profit	\$102.9	10.6%	\$244.4	24.7%	\$187.0	20.1%	\$282.6	27.4%	\$195.7	14.6%
Operating Expenses	\$194.0	20.0%	\$248.4	25.1%	\$322.7	34.6%	\$260.2	25.3%	\$235.9	17.6%
Change in Fund Balance	(91.1)	-9.4%	(4.0)	-0.4%	(135.7)	-14.6%	\$22.4	2.2%	(40.1)	-3.0%
Beginning Fund Balance	(151.1)		(242.2)		(246.2)		(381.9)		(359.5)	
Ending Fund Balance	(242.2)		(246.2)		(381.9)		(359.5)		(399.6)	
University of New Mexico - Valencia Branch										
Bookstore (Index # 230000)										
(Amounts in 000)										
	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Amounts	Percent	Amounts	Percent	Amounts	Percent	Amounts	Percent	Amounts	Percent
Revenues	\$885.7		\$851.2		\$982.7		\$995.7		\$1,061.0	
Cost of Goods Sold	\$583.5	65.9%	\$591.3	69.5%	\$637.5	64.9%	\$665.2	66.8%	\$773.7	72.9%
Gross Profit	\$302.1	34.1%	\$260.0	30.5%	\$345.2	35.1%	\$330.5	33.2%	\$287.3	27.1%
Operating Expenses	\$201.0	22.7%	\$273.1	32.1%	\$344.6	35.1%	\$324.5	32.6%	\$366.1	34.5%
Change in Fund Balance	\$101.2	11.4%	(13.2)	-1.5%	\$0.6	0.1%	\$6.1	0.6%	(78.8)	-7.4%
Beginning Fund Balance	\$338.8		\$440.0		\$426.8		\$427.4		\$433.4	
Ending Fund Balance	\$440.0		\$426.8		\$427.4		\$433.4		\$354.6	

## Gallup Branch Audit of Business Processes

### Exhibit A

University of New Mexico - Taos Branch										
Bookstore (Index # 021000)										
(Amounts in 000)										
	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Amounts	Percent								
Revenues	\$224.9		\$212.9		\$211.7		\$232.6		\$277.1	
Cost of Goods Sold	\$166.3	73.9%	\$171.2	80.4%	\$142.6	67.3%	\$152.1	65.4%	\$209.7	75.7%
Gross Profit	\$58.6	26.1%	\$41.6	19.6%	\$69.2	32.7%	\$80.5	34.6%	\$67.4	24.3%
Operating Expenses	\$35.6	15.8%	\$55.2	26.0%	\$58.3	27.5%	\$71.1	30.6%	\$60.4	21.8%
Change in Fund Balance	\$23.0	10.2%	(13.6)	-6.4%	\$10.9	5.1%	\$9.3	4.0%	\$7.0	2.5%
Beginning Fund Balance	(25.6)		(2.7)		(16.3)		(5.4)		\$3.9	
Ending Fund Balance	(2.7)		(16.3)		(5.4)		\$3.9		\$10.9	
University of New Mexico - Los Alamos Branch										
Bookstore (Index # 148000)										
(Amounts in 000)										
	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010	
	Amounts	Percent								
Revenues	\$321.0		\$286.4		\$253.4		\$203.5		\$124.2	
Cost of Goods Sold	\$211.8	66.0%	\$275.2	96.1%	\$174.9	69.0%	\$168.2	82.7%	\$91.5	73.6%
Gross Profit	\$109.2	34.0%	\$11.1	3.9%	\$78.6	31.0%	\$35.3	17.3%	\$32.8	26.4%
Operating Expenses	\$86.2	26.9%	\$80.5	28.1%	\$72.6	28.6%	\$59.0	29.0%	(0.2)	-0.1%
Change in Fund Balance	\$23.0	7.2%	(69.4)	-24.2%	\$6.0	2.4%	(23.7)	-11.6%	\$33.0	26.5%
Beginning Fund Balance	(71.0)		(48.1)		(117.5)		(111.5)		(135.2)	
Ending Fund Balance	(48.1)		(117.5)		(111.5)		(135.2)		(102.2)	