

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

THE UNIVERSITY OF NEW MEXICO

**Report 2015-02
March 10, 2015**



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ABBREVIATIONS

ABE.....	Adult Basic Education
Branch.....	University of New Mexico Taos Branch Campus
EOD	Employee and Organizational Development
FY	Fiscal Year
GED	General Education Development
HVAC	Heating, Venting and Air Conditioning
I&G	Instructional and General Funding
Internal Audit	University of New Mexico Internal Audit Department
IT.....	Information Technology
P-Card	Purchasing Card
PCI	Payment Card Industry
PPD	UNM Taos Physical Plant Department
SSN	Social Security Numbers
UAPP	University Administrative Policies and Procedures
University.....	The University of New Mexico
UNM	The University of New Mexico
UNM Foundation	University of New Mexico Foundation
UNM-Taos	University of New Mexico - Taos

UNM-Taos does not currently have a comprehensive business operations manual that covers the key operational processes.

UNM-Taos had \$4,050,034 in carry-over reserves available for FY 2015.

Ten of thirteen reserves tested were reported as discretionary although these funds are intended for specific purposes.

Total expenditures were within budget each year for Fiscal Years (FYs) 2012-2014.

EXECUTIVE SUMMARY

BUSINESS PROCESSES

University of New Mexico Taos (UNM-Taos) adheres to University policies and procedures; however, they do not have a comprehensive business operations manual that covers the key operational processes. The procedures that lack documentation include, but are not limited to, functions such as: accounts payable, purchasing card usage, fixed asset management, cashiering operations, payroll, and IT security. UNM-Taos currently employs two key accounting positions (Business Manager and Accountant II) in the business office.

FINANCIAL ANALYSIS

Unrestricted funding sources include instruction and general (I&G), public support, and other revenue. Significant components of I&G include state appropriations and tuition and fees. Public support and other funding sources primarily consist of non-endowed spending distributions and program income generated within various departments.

Restricted funding primarily consists of federal and non-federal contracts and grants.

Reserves

UNM-Taos's unrestricted reserves are primarily used for administrative overhead, program support, and student services. Supporting documentation was not available for two of thirteen reserves tested and reported as "Dedicated."

Budget Administration

UNM-Taos practices the University's standard budget process when preparing and adjusting approved budgets.

Five of nine Branch employees that handle or have access to cash did not complete cash management training.

CASH RECEIPTS

UNM-Taos primarily receives cash receipts for tuition, child care center fees, virtual bookstore commissions, and its snack bar. Beginning in FY 2015, UNM-Taos ceased acceptance of credit card payments.

CASH DISBURSEMENTS

Purchasing and Accounts Payable

UNM-Taos adheres to the University of New Mexico (University) Purchasing and Accounts Payable policies and procedures. In addition, all state and federal rules and regulations apply to their purchases of goods and services.

UNM-Taos maintained social security numbers on documentation for certain disbursements reviewed by Internal Audit. This is a violation of UAPP 2030: Social Security Numbers. In addition, pay rates on documentation supporting these disbursements were changed without any documented explanation for the change.

ENDOWED AND NON-ENDOWED GIFTS

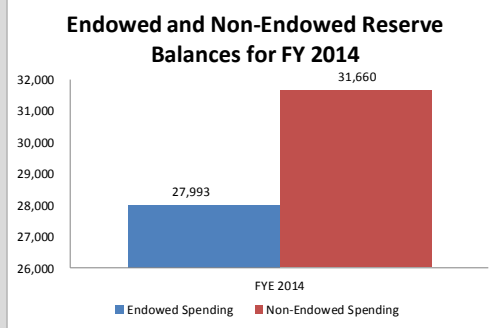
Endowed Funds

UNM-Taos's endowments are primarily intended for student scholarships. For FY 2014, the Branch had 8 endowments with a principal (corpus) balance of \$212,857.

Non-Endowed Funds

Non-endowed gifts are primarily used to provide funding for scholarships and program support.

Fiscal Year	Endowment Count	Principal Balance at Fair Value
2012	8	\$ 176,009
2013	8	\$ 188,146
2014	8	\$ 212,857



UNM Taos does not have the following general IT controls:

- *Documented IT security policies and procedures*
- *Backup procedures for the file servers and Point-of-Sale cash register machines*
- *Disaster Recovery Plan*
- *Encryption on laptop computers issued to employees*

Required training courses were not completed by all UNM Taos employees by December 31, 2013.

FIXED ASSETS

UNM-Taos follows UAPP 7710: Property Management and Control, for the acquisition, maintenance, tracking, disposal, and reporting of fixed assets and computers.

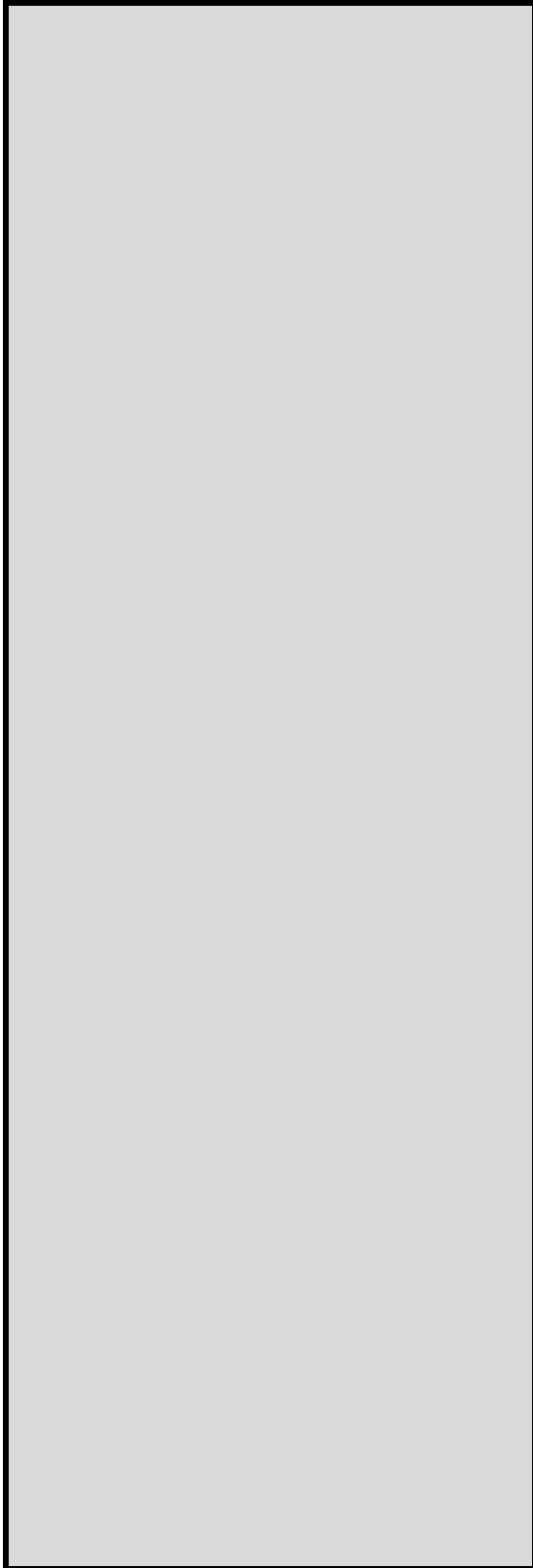
UNM-Taos issues smart phones to certain employees for business use. However, they do not currently have procedures in place for tagging and inventorying smart phones. Without strong internal controls in place for smart phones issued to employees, the risk of loss, theft, and abuse is increased.

IT SECURITY

UNM-Taos utilizes a payment system that provides a secure payment environment for cash and credit card payments. The payment system desktop computer is shared by three UNM-Taos users. The users logon the desktop with a shared user account and password. Users should not be sharing user accounts and passwords.

REQUIRED TRAINING

The University requires mandatory training for employees in order to fulfill state and federal safety, risk, and employment law requirements. All UNM employees must take the required training annually through the University's Learning Central website by December 31st of each year.

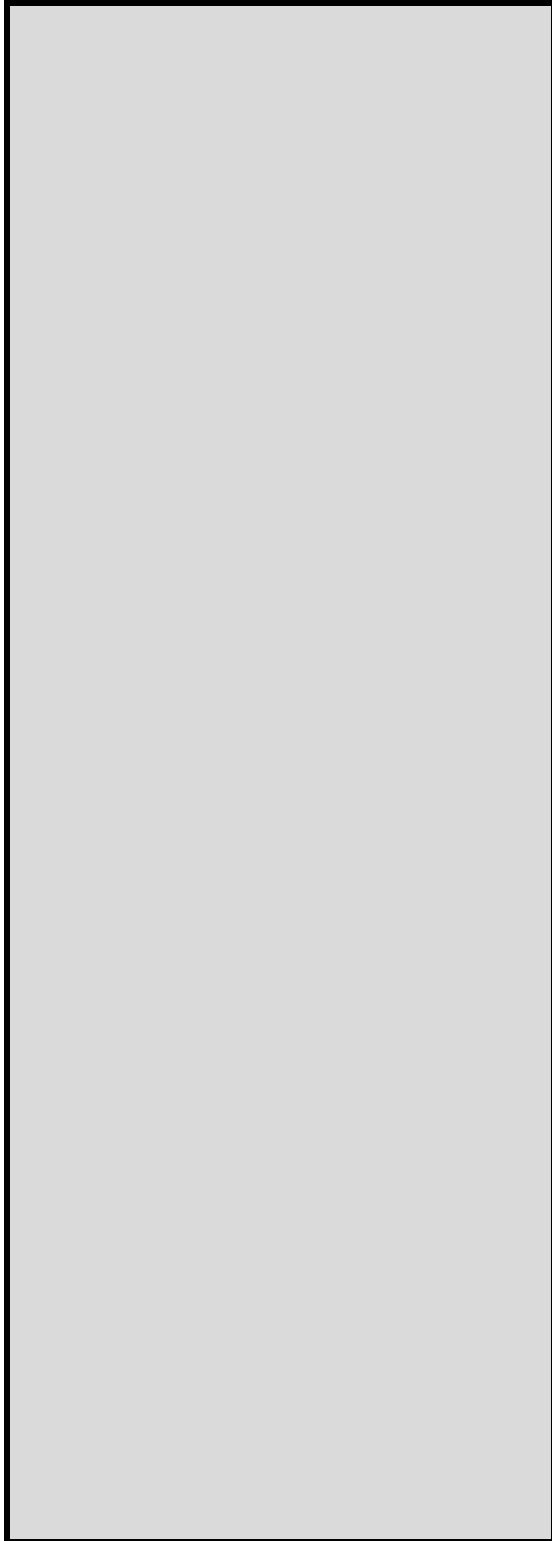


CONCLUSION

UNM-Taos generally operates in an effective and efficient manner. However, during the audit Internal Audit noted findings of non-compliance with UNM policies and procedures and areas where the Branch could improve efficiency and effectiveness in its operations. The following is a summary of recommendations made in the report.

Key Recommendations

- The Director of Business Operations should develop and implement a comprehensive business operations manual that outlines policies and procedures for specific business functions, including, but not limited to: accounts payable, purchasing card usage, fixed asset management, cashiering operations, payroll, and IT security. The Executive Director should consider adding resources to the business office, such as an additional full-time employee, to strengthen internal controls within the accounting function.
- The Executive Director should enforce UAPP 7000: Budgets and Reserves. Documentation should indicate the purpose for which reserves are dedicated. Reserves that are intended for specific purposes should be designated as “Dedicated” at the beginning of each fiscal year.
- All UNM-Taos staff that handle or have access to cash should take Cash Management training.



- The UNM-Taos Business Office should not maintain social security numbers on any documentation that is used for business use. The reason for any change in pay rates for disbursements should be properly documented, reviewed, and approved.
- The UNM-Taos Business Manager should reimburse its Physical Plant department for improvements to the Fine Art's HVAC system, which should have been charged to the non-endowed gift intended for these purposes.
- Internal Controls should be strengthened for the safeguarding of smart phones issued to employees. The Director of Business Operations should develop internal policies and procedures that require smart phones to be tagged and inventoried.
- UNM-Taos IT should install the payment software system on each cashier's workstation.
- Taos Information Technology department should develop internal IT security policies and procedures, which provide regular back-up of IT systems, a disaster recovery plan, and encryption of computers issued to employees.
- All UNM-Taos faculty, staff, and student employees should take the required annual training courses.

INTRODUCTION

BACKGROUND

The University of New Mexico Taos (UNM-Taos) is located in Taos, New Mexico. Originating as the Taos Education Center in 1982, UNM-Taos became an official Branch Campus of The University of New Mexico on July 1, 2003.

UNM-Taos is funded from state appropriations, tax levies, grants, and student tuition and fees. The University of New Mexico (University) has administrative and academic oversight of UNM-Taos, and the Executive Director reported to the Office of the President Special Assistant for Branch Affairs; effective January 8, 2015, the Executive Director reports to the Office of the Provost. UNM-Taos employed 299 faculty and staff, which included 101 full-time and 198 part-time and temporary faculty and staff during FY 2014. UNM-Taos also employed 107 student employees. UNM-Taos's total unrestricted budget for FY 2014 was \$7,205,094.

UNM-Taos offers a diverse selection of for-credit and non-credit Community Education courses. The programs provide residents of Taos and the surrounding area with lifelong learning opportunities for personal and professional growth. The curriculum includes Associate degrees and vocational certificate programs, adult basic education (ABE and GED), workforce training, and courses for personal enrichment. UNM-Taos programs are fully accredited by the North Central Association of Colleges and Secondary Schools. Enrollment and credit hours, by term, for FY 2014 is presented below.

	Summer 2013	Fall 2013	Spring 2014
Headcount	363	1,857	1,675
Credit Hours	1,552	14,337	13,248

Beginning in fall 1997, UNM-Taos relocated operations to the Klauer Campus south of Taos. The Klauer campus is a multi-use facility that encompasses instructional and vocational facilities and general classrooms.

PURPOSE AND OBJECTIVES

The audit was selected as part of the Internal Audit annual audit plan. The purpose of our audit was to review the business processes at UNM-Taos to determine whether adequate internal controls are in place, and to determine if UNM-Taos complies with policies and procedures. The objectives of this audit were to perform a financial analysis over a three-year period for FYs 2012-2014, and evaluate and/or test the following UNM-Taos processes and transactions:

- Cash receipts
- Cash disbursements, including accounts payable and purchasing, P-card, payroll and benefits, and travel

- Endowed and non-endowed gifts
- Fixed assets
- Virtual bookstore
- IT security
- Required training

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

The UNM-Taos Audit of Financial and Operational Efficiency was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

SCOPE AND PROCEDURES PERFORMED

Our audit focused on the business operations for FY 2014 and included a trend analysis over a three-year period for FYs 2012-2014. Procedures performed are as follows:

- **Interviews:** In order to gain an understanding of processes and controls, Internal Audit read written policies and procedures and interviewed management and staff at both UNM-Taos and UNM Main campus.
- **Transaction Sample Selection and Compliance Testing:** To test internal controls and compliance with UNM policies and procedures for cash receipts, purchasing and accounts payable, P-Card, payroll and travel, we selected statistical samples of transactions occurring during FY 2014. Compliance test work was also performed on a sample basis for reserves, endowment spending distribution disbursements, fixed assets, and required training.
- **Assessment of IT Security:** We performed an assessment of IT security to determine if processes are in place to ensure IT data and sensitive information is secure.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

BUSINESS PROCESSES

UNM-Taos adheres to University policies and procedures; however, they do not have a comprehensive business operations manual that covers the key operational processes. The procedures that lack documentation include, but are not limited to, functions such as: accounts payable, purchasing card usage, fixed asset management, cashiering operations, payroll, and IT security. UNM-Taos currently only employs two key accounting positions (Business Manager and Accountant II) in the business office.

Recommendation 1:

A written comprehensive business manual is an important tool to provide training and also guidance during employee turnover. The Director of Business Operations should develop and implement a comprehensive business operations manual that outlines policies and procedures for specific business functions, including, but not limited to: accounts payable, purchasing card usage, fixed asset management, cashiering operations, payroll, and IT security. The Executive Director should consider adding resources to the business office, such as an additional full-time employee, to strengthen internal controls within the accounting function.

Response from the UNM-Taos Director of Business Operations:

Action Items
<i>Targeted Completion Date: December 15, 2015</i>
<i>Assigned to: Director of Business Operations, Business Manager, and IT Unit Manager</i>
<i>Corrective Action Planned: Develop comprehensive business and IT security policies and procedures modeled in part on branch operations for UNM Valencia and Gallup. Training of Business Office staff will also be part of the implementation. The addition of a full-time employee will be implemented with the start of the new fiscal year of July 1, 2015.</i>

FINANCIAL ANALYSIS

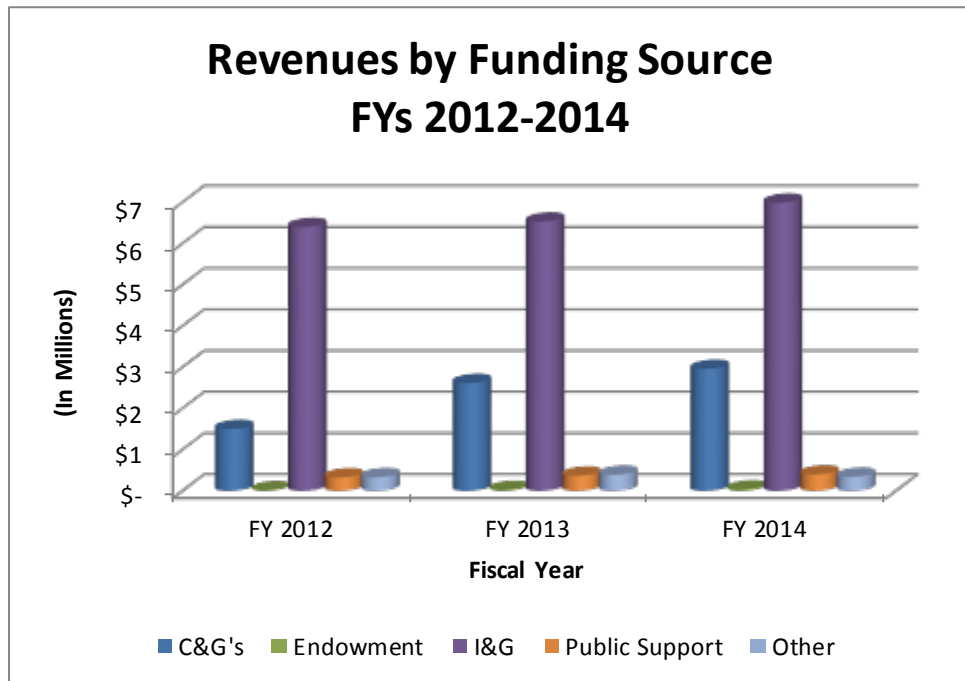
UNM-Taos Funding and Expenditures

Funding for UNM-Taos primarily comes from three sources: Instruction and general (I&G), contracts and grants, and public support. I&G funding is the largest funding source at 63 percent, followed by contracts and grants at 30 percent, equaling approximately 93 percent of total UNM-Taos funding.

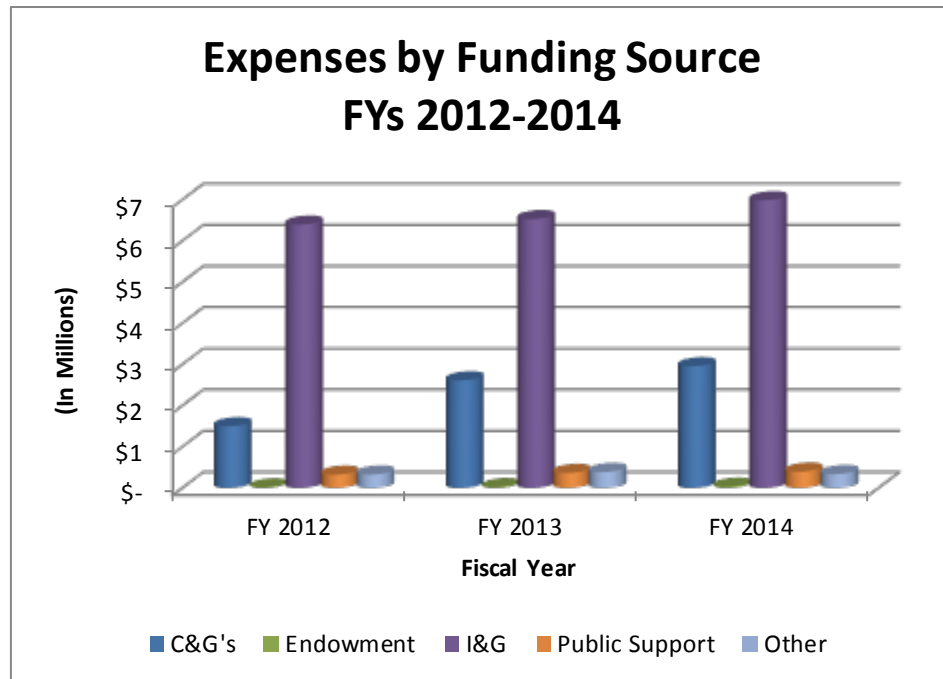
Unrestricted funding sources include I&G, public support, and other revenue. Significant components of the I&G funding include state appropriations and tuition and fees. These funding sources are approved by the UNM Board of Regents and allocated to UNM-Taos. Public support and other funding sources primarily consist of non-endowed spending distributions and program income generated within various departments. In addition, UNM-Taos receives Mill Levy funds of approximately \$1.2 - \$1.5 million every year for operations, which are presented in other revenues.

Restricted funding primarily consists of federal and non-federal contracts and grants. Such funds are restricted for specific purposes as indicated in the contract or grant agreement.

Revenues by funding source and related expenses for FYs 2012-2014 are presented in the graphs below.



Source: Banner Accounting System



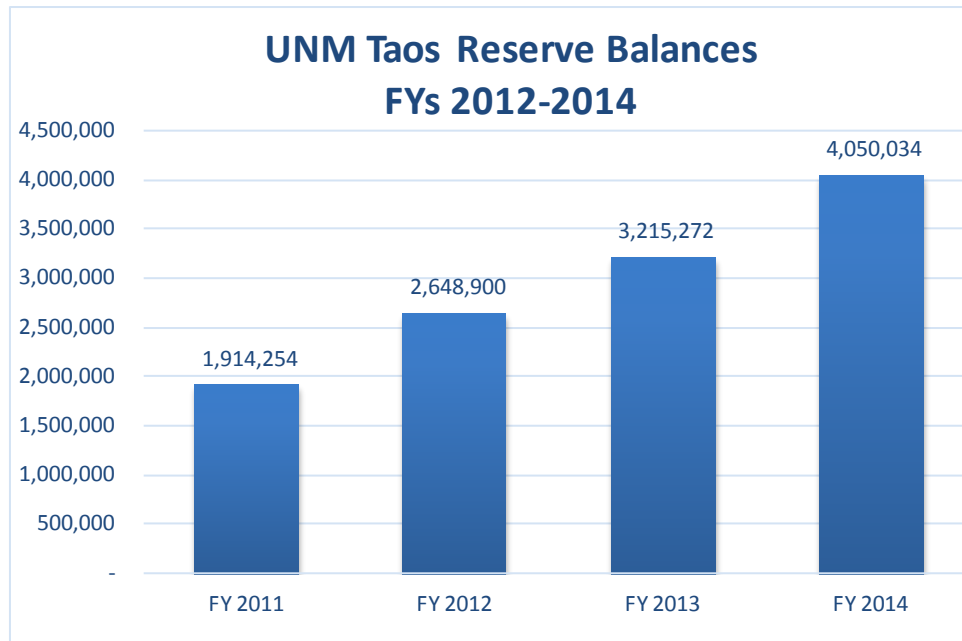
Source: Banner Accounting System

Revenues and expenses have steadily increased since 2012, primarily due to increases in contracts and grants of \$1.5 million and increases in I&G of approximately \$591,000. UNM-Taos received a federal grant in FY 2013 of \$987,000 that was fully expended by the end of FY 2013. UNM-Taos's Title V grants had expenses of \$1.1 million in FY 2013 and \$568,000 in FY 2014, compared to \$326,000 in FY 2012. This contributed to the steady increase in contracts and grants revenues. A trend analysis of revenues and expenses by funding source are presented at [Exhibit 1](#).

Reserves Analysis and Test work

Reserves represent unrestricted carry-over funds available for spending at the beginning of the year. At the end of the fiscal year, unspent funds are carried over into the new fiscal year. The reserve balance carry forward represents actual dollars after net income (loss) from the prior year. Reserves are classified into three categories: committed, dedicated and discretionary.

UNM-Taos's unrestricted reserves are primarily used for administrative overhead, program support, and student services. As of June 30, 2014, UNM-Taos had \$4,050,034 in carry-over reserves available for FY 2015. Of the total reserves, \$1,595,627 are dedicated for specific purposes. The total reserves also include \$505,332 of I&G funds used for building and equipment renewal and replacement. The following graph presents a three-year trend of reserves for FYs 2012-2014.



Source: Banner Accounting System

The increase in reserves is primarily due to payroll expenses funded by two Title V grants (restricted funds) from FY's 2012-2014 which were funded by I&G funds prior to FY 2011. UNM-Taos has been accumulating I&G reserves to fund these positions when the grants end in FY 2016, resulting in the steady increase in reserves from FY 2012-2014.

At the beginning of each fiscal year, departments assign portions of reserve balances for either committed or dedicated purposes based on University Reserve policy UAPP 7000: Budgets and Reserves. Once dedications have been designated, the remaining reserve balances are discretionary and will only be used if needed. Internal Audit completed detailed test work over reserve designations for FY 2015, which covered approximately \$2.9 million of UNM-Taos's \$4.1 million in reserves. Ten of thirteen reserves tested were reported as discretionary although these funds are intended for specific purposes such as nursing programs, summer sessions, and program support. Two of the thirteen reserves tested were reported as dedicated; however, documentation was not provided to support the purpose of the dedication. Dedications should have a clear, focused purpose with a documented description and identify the entity or individual making the dedication, as required by UAPP 7000.

Recommendation 2:

The Executive Director should enforce UAPP 7000: Budgets and Reserves. The policy requires preparing and maintaining adequate supporting documentation for dedicated reservations. Documentation should indicate the purpose for which reserves are dedicated. Reserves that are intended for specific purposes and are currently reported as discretionary should be designated as dedicated at the beginning of each fiscal year.

Response from the UNM-Taos Executive Director:

Action Items
<i>Targeted Completion Date: August 31, 2015</i>
<i>Assigned to: Executive Director</i>
<i>Corrective Action Planned: Assign dedicated categories with specific purposes for carry over reserves as per Policy UAPP 7000.</i>

Budget Administration

Unrestricted funds for UNM-Taos primarily consist of I&G funding, which are approved by the Board of Regents on an annual basis. Budgeted I&G revenues primarily consist of state appropriations and tuition and fees. Approximately 74 percent of total budgeted expenses for FYs 2012-2014 are for salaries and benefits. UNM-Taos adheres to the University's standard budget process when preparing and adjusting approved budgets. Total expenditures were within budget each year for FYs 2012-2014 and are presented in [Exhibit 2](#).

CASH RECEIPTS

UNM-Taos primarily receives cash receipts for tuition, child care center fees, virtual bookstore commissions, and its snack bar. UNM-Taos collects cash payments for tuition, child care, and program support through a third party service provider linked to UNM's Cashier and Banner Systems. Cash receipts are only received by cash and check. At the beginning of FY 2015, UNM-Taos no longer accepts credit cards payments. All employees that handle or have access to cash must complete the UNM required cash management training course as required by UAPP 7200: Cash Management.

Internal Audit assessed internal controls over the cash receipts process and tested for compliance with UNM policy 7200: Cash Management. Five of nine Branch employees (including student employees) that handle or have access to cash did not complete the cash management training as required by UAPP 7200.

Recommendation 3:

All UNM-Taos employees that handle, or have access to, cash should take Cash Management training as required by UAP 7200: Cash Management.

Response from UNM-Taos Director of Business Operations:

Action Items
<i>Targeted Completion Date: December 15, 2015</i>
<i>Assigned to: Business Manager</i>
<i>Corrective Action Planned: Schedule training for regular employees and work studies involved in Cash Management functions as per UAP 7200.</i>

CASH DISBURSEMENTS**Purchasing and Accounts Payable**

UNM-Taos follows University Purchasing and Accounts Payable policies and procedures. The University's Purchasing Department is the central purchasing authority for issuing Purchase Orders for all goods and services for UNM-Taos. In addition, all state and federal rules and regulations apply to the purchase of goods and services. Acceptable methods for purchasing goods include Purchase Orders issued by the UNM Purchasing Department, the Direct Pay Request, and the Purchasing Card. Effective June 14, 2013, the New Mexico State Legislature passed, and the Governor of New Mexico signed Senate Bill 443. The bill reflects changes to the small purchase limit and informal bid limit for the purchase of goods and services. The following schedule presents the revised small purchase and informal bid limits.

Goods	Services
Over \$60,000 -State Bid Limit -Formal Competition Required -Sole Source Posted in Sunshine Portal for 30 Days -COI Required, even for exempt purchases	Over \$60,000 -State Bid Limit -Formal Competition Required -Sole Source Posted in Sunshine Portal for 30 Days -COI Required, even for exempt purchases
\$20,000 - 60,000 -Informal Bid -Buyer must obtain 3 Quotes <u>One Quote is acceptable if:</u> a) Existing Contract or b) Urgency - Buyer's Discretion or c) Fair Value per Buyer's Experience -Informal Sole Source also OK	\$5,000 - 60,000 -Informal Bid -Buyer must obtain 3 Quotes <u>One Quote is acceptable if:</u> a) Existing Contract or b) Urgency - Buyer's Discretion or c) Fair Value per Buyer's Experience -Informal Sole Source also OK
\$10,000-20,000 -One quote or other documentation which describes price and product required	
Up to \$10,000 -Small Purchase	Up to \$5,000 -Small Purchase

Source: UNM Purchasing Department

Internal audit assessed internal controls over purchasing and accounts payable disbursements, and performed test work to ensure compliance with UNM Purchasing and Accounts Payable policies and procedures, and state and federal purchasing rules and regulations. No exceptions were noted. However, Internal Audit noted social security numbers were maintained on documentation for certain disbursements reviewed. UAPP 2030: Social Security Numbers, Section 5, states "Paper and electronic documents containing SSNs will be disposed of in a secure fashion." In addition, pay rates on documentation supporting these disbursements were changed without any documented explanation for the change.

Recommendation 4:

The UNM-Taos Business Office should not maintain social security numbers on any documentation. Social security numbers should be immediately disposed of once disbursements have been processed. The reason for any change in pay rates for disbursements should be properly documented, reviewed, and approved.

Response from the UNM-Taos Director of Business Operations:

Action Items
<i>Targeted Completion Date: April 30, 2015</i>
<i>Assigned to: Business Manager</i>
<i>Corrective Action Planned: Implement procedures to eliminate social security numbers once disbursements have been processed. All Reimbursement and Departmental Invoices will be reviewed and updated to remove personally identifiable information and updates in payment rates will be documented, reviewed and approved.</i>

P-Card

The Purchasing Card is a tool issued to certain University employees for the purpose of making purchases.

UNM-Taos adheres to the University's P-Card policies and procedures. The P-Card may be used to procure approved materials, supplies and non-capital equipment not exceeding \$10,000 with any vendor that accepts Visa that is not restricted by the University. The card may also be used for allowable services not exceeding \$5,000. The P-Card can only be used for authorized items or services, for a valid business purpose, in compliance with P-Card and purchasing policies and procedures. Internal audit assessed internal controls over P-Card disbursements, and performed test work to ensure compliance with UNM's P-Card policies and procedures. No exceptions were noted.

Travel

UNM-Taos adheres to UAPP 4030: Travel for travel disbursements and reimbursements. UNM-Taos employees are reimbursed in accordance with the policy for reasonable and allowable costs incurred when traveling on official business.

UAPP 4030 requires UNM employees to provide the business purpose for the travel to their department in order to complete a direct pay approval form in Banner. The employee must obtain documented approval from their department. The completed direct pay approval form and supporting documents are submitted to the applicable Financial Services accounting office for approval. If the employee is requesting reimbursement for meals, the amount for each meal must be in compliance with the New Mexico Per Diem and Mileage Act. Internal Audit performed test work to ensure travel disbursements are in compliance with UAPP 4030 and the New Mexico Per Diem and Mileage Act. No exceptions were noted.

Payroll and Benefits

UNM-Taos adheres to UAPP 2645: Accounting of Labor Expenses for biweekly and monthly payrolls. Biweekly employees are required to complete and sign off on their time sheets. Their supervisors are required to review and approve biweekly time sheets. All time sheets are submitted to the Fiscal Service Tech to input in Banner and approved by the Unit Administrator.

Monthly employees are required to submit their annual and sick leave usage to the Business Manager or Accountant II for approval. The Fiscal Service Tech inputs the monthly employees' time and the Business Manager or Accountant II approves the time in Banner. Internal Audit performed test work to ensure payroll disbursements are in compliance with UAPP 2645: Accounting of Labor Expenses. Internal Audit assessed internal controls and performed test work to ensure payroll disbursements are in compliance with UAPP 2645. No exceptions were noted.

Tuition Remission

The University of New Mexico recognizes the importance of an educated and competent work force. To meet the demands of the changing workforce and the desire of employees to grow academically and professionally, UNM offers various voluntary education benefits for UNM-Taos employees. UNM supports and encourages employees to develop themselves through academic, professional, health and fitness, and personal enrichment courses. UNM also provides additional education benefits to spouses and dependent children of eligible employees.

Internal Audit reviewed UNM-Taos tuition remission courses taken during FY 2014 and noted that there were forty UNM-Taos employees that registered for employee/spouse tuition remission courses. All tuition remission courses reviewed appeared to be for professional development or academic courses.

ENDOWED AND NON-ENDOWED GIFTS

Private support is very important to the public service mission of UNM-Taos. There are two basic types of gifts that are received by UNM-Taos, Endowed and Non Endowed. Endowed gifts are a special type of private support whereby the donor designates that the principal be held for investment and the interest earned on the principal is spent as directed by the donor. Non-Endowed Funds are gifts intended to be spent in their entirety.

Endowed Funds

Endowed funds include gifts totaling over \$10,000 that continue on in perpetuity. The spending allocation from the funds can only be spent in accordance with the donor's intent. UNM-Taos receives an annual statement from the UNM Foundation listing the fund title, value at the beginning and end of the fiscal year, additions to the principal, total investment returns for the year, and the total spending distribution. UNM-Taos receives endowed funds through an endowment spending distribution transferred from the UNM Foundation on an annual basis. UNM-Taos's endowments are primarily intended for student scholarships.

The endowments are managed by the UNM Foundation as part of the Consolidated Investment Fund. For FY 2014, UNM-Taos had 8 endowments with a principal (corpus) balance of \$212,857. The principal balance of the endowments for FYs 2012-2014 are presented in the following table:

Fiscal Year	Endowment Count	Principal Balance at Fair Value
2012	8	\$ 176,009
2013	8	\$ 188,146
2014	8	\$ 212,857

Source: UNM Foundation

Non-Endowed Funds

Non-Endowed funds are gifts that are not invested, and the entire amount of the gift may be spent as long as it is in accordance with the donor's intent. Non-endowed gifts are primarily intended for scholarships and program support.

Unexpended endowment spending distributions and non-endowed gifts are carried over to the next fiscal year and reported with unrestricted reserves. Reserves have been consistent over the three-year period for FYs 2012-2014, and will provide funding for FY 2015, if needed. The following table presents endowed and non-endowed activity and reserves for FY's 2012-2014.

	Endowed Spending			Non-Endowed Spending		
	2012	2013	2014	2012	2013	2014
Balance, beginning of year	\$ 29,484	\$ 34,233	\$ 31,425	\$ 57,629	\$ 49,959	\$ 40,270
Spending Distribution/gifts	6,949	7,192	7,198	16,621	54,300	41,097
Awards/Disbursements	(2,200)	(10,000)	(10,630)	(24,291)	(63,989)	(49,707)
Balance, end of year	\$ 34,233	\$ 31,425	\$ 27,993	\$ 49,959	\$ 40,270	\$ 31,660

Source: Banner Accounting System

Compliance with Donor Intent

The UNM Foundation provides donor intent information to UNM-Taos. UNM-Taos is responsible for ensuring that disbursements from endowed spending accounts comply with donor intent. Internal audit performed test work to ensure disbursements were in compliance with donor intent. No exceptions were noted.

UNM-Taos received a non-endowed gift in FY 2008 for the amount of \$50,000 for the purpose of supporting the UNM-Taos Fine Arts department. Internal Audit performed procedures to ensure disbursements from the non-endowed gift were in compliance with donor intent. During FYs 2009-2011, disbursements from the gift were for computers, software, media equipment, supplies, and renovations for the UNM-Taos Fine Arts department, and were in accordance donor's intent. At the end of FY 2014, the non-endowed gift still had unexpended funds of \$7,250 recorded in the Banner Accounting System.

The non-endowed gift has been fully expended; however, there were purchases of computers and improvements made to the Fine Arts department's heating, ventilating, and air conditioning system (HVAC), which were charged to the Branch's Physical Plant Department (PPD) instead of the non-endowed gift, resulting in the available balance recorded in Banner. Management intends to reimburse its PPD from these available funds.

Recommendation 5:

The UNM-Taos Business Manager should reimburse the UNM Taos Physical Plant department for improvements to the Fine Art's HVAC system, which should have been charged to the non-endowed gift intended for these purposes. Once reimbursement is made from the non-endowed gift index, the gift will be closed and accounted for.

Response from the UNM-Taos Executive Director:

Action Items
<i>Targeted Completion Date: March 31, 2015</i>
<i>Assigned to: Business Manager</i>
<i>Corrective Action Planned: With the matter now considered resolved, the UNM-Taos Business Manager will transfer the unexpended balance to Physical Plant to reimburse for HVAC installation and repair. The Wilder-Green index will be closed out.</i>

FIXED ASSETS

UNM-Taos adheres to UAPP 7710: Property Management and Control for the acquisition, maintenance, tracking, disposal, and reporting of fixed assets and computers.

In accordance with UAPP 7710, University property and resources may be used only for UNM-Taos business. Inventoried property is defined 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 life of more than one (1) year. Inventoried property costing more than \$5,000 is also defined as equipment, is capitalized on UNM-Taos's financial reports, and is depreciated. In addition, computers, are treated as inventoried property regardless of cost.

Internal audit performed test work to ensure the purchase of equipment and computers were in compliance with UAPP 7710: Property Management and Control. No exceptions were noted.

UNM-Taos issues smart phones to certain employees for business use. However, they do not currently have procedures in place for tagging and inventorying smart phones. Without strong

internal controls in place for smart phones issued to employees, the risk of loss, theft, and abuse is increased.

Recommendation 6:

UNM-Taos should strengthen internal controls for the safeguarding of smart phones issued to employees. In addition to UAPP 7710, UNM-Taos should further develop policies and procedures that require smart phones to be tagged, monitored, and inventoried. This will ensure adequate safeguarding and monitoring of employer issued smart phones.

Response from the UNM-Taos Director of Business Operations:

Action Items
<i>Targeted Completion Date: June 30, 2015</i>
<i>Assigned to: IT Unit Manager</i>
<i>Corrective Action Planned: A detailed inventory will be conducted on employee issued cell phones, a property ID tag or other suitable identifier will be assigned to each phone and use levels monitored on a quarterly basis. The Process for identifying the phone hardware serial numbers will be developed by the Business Office and IT departments. The Business and IT Departments will coordinate a sign out process in which individuals issued phones will acknowledge receipt, and get a handout with basic security requirements for using the phones, and procedures for enabling remote wiping by the employee being issued equipment. The procedures developed will adhere to guidelines in UAPP 7710.</i>

VIRTUAL BOOKSTORE

On January 1, 2011, UNM-Taos entered into an agreement with a third party vendor to provide virtual bookstore services for UNM-Taos students and employees. The vendor was contracted to furnish services and materials including textbooks and other educational materials.

Financial aid credits are awarded, or purchased by students, and used to complete orders using the virtual bookstore. Students can also purchase items from the virtual bookstore using a debit or credit card. The vendor also offers educational digital materials including digital textbooks and other eContent educational tools. UNM-Taos receives an eight percent commission on the vendor's net sales. Commissions are paid quarterly on the 15th day of each calendar year quarter. The Branch collected \$5,854 in commissions during FY 2014.

IT SECURITY

Payment Software System

UNM-Taos collects cash payments for tuition, child care, and program support through a third party service provider linked to UNM's Cashier and Banner Systems. The service provider provides a payment system utilized by the University and administered by the Bursar's office, as a secure payment environment for cash and credit card payments. UNM-Taos does not accept in-person credit card payments. Credit card payments are accepted online through the service provider. Therefore, UNM-Taos has no Payment Card Industry (PCI) compliance requirements that need to be considered as part of this audit. The Taos cashiers are however using a shared workstation with a shared user account to logon to the workstation that has the payment system software.

UAPP 2500: Acceptable Computer Use, Section 2.1.5 Computer Accounts and Passwords states "The University, through IT and departments, provides computer accounts to authorized users for access to various University systems. These accounts are a means of operator identification and passwords are used as a security measure. An individual's computer account shall not be shared. Account use is a privilege, not a right." The payment system workstation is shared by three cashiers. Although cashiers logon the payment system with their own user account and password, the cashiers logon the desktop with a shared user account and password. Users should not be sharing user accounts and passwords.

Recommendation 7:

The UNM-Taos IT department should install the payment system software on each cashier's workstation. UNM-Taos is aware that this is an issue and is in the planning stage of installing the payment system software on each of the cashier's workstations. Alternately, the three cashiers can be assigned individual user accounts to log on to the workstation.

Response from UNM-Taos Director of Business Operations:

Action Items
<i>Targeted Completion Date: June 30, 2015</i>
<i>Assigned to: IT Unit Manager</i>
<i>Corrective Action Planned: The payment system software will be installed on each workstation being used for cashiering functions. Each user will be required to have a separate password.</i>

General Information Technology Security

In accordance with UAPP 2520: Computer Security Controls and Access to Sensitive and Protective Information, UNM-Taos should have IT security controls which include, but are not limited to, the following:

- “Information Technology department heads or designees are responsible for computer security awareness and for ensuring reasonable protection of all departmental computing systems within their purview against breaches of security, through methods such as virus protection, firewalls, *encryption*, patch management, change control, and password usage.” (Section 1)
- For all computing systems that store or process sensitive or protected information department heads or designees are responsible for developing, maintaining and executing *backups, off-site storage and disaster recovery procedures* for computerized University information. (Section 5.4)

During the course of the audit, Internal Audit identified general IT issues that require management’s attention. IT issues include the following:

- IT function does not have documented security policies and procedures
- IT department does not perform backup procedures for the file servers and Point-of-Sale cash register machines
- UNM-Taos does not have a disaster recovery plan
- Computers issued to employees are not encrypted

Recommendation 8:

UNM-Taos IT department should strengthen IT security by documenting IT security policies and procedures, implementing procedures to provide regular back-up and off-site storage of IT systems, developing a disaster recovery plan, and encrypting computers issued to employees. These IT issues should be addressed in a UNM-Taos IT procedures manual.

Response from UNM-Taos Director of Business Operations:

Action Items
<i>Targeted Completion Date: December 15, 2015</i>
<i>Assigned to: IT Unit Manager</i>
<i>Corrective Action Planned: Corrective Action Planned: UNM-Taos IT will develop an operations manual documenting IT security policies and procedures. Procedures will be modeled on those implemented at UNM-Valencia and Gallup. The IT department has already started developing the process for backups and offsite storage, and will identify disaster recovery procedures, test them regularly once the backups are working as expected. Encryption will be implemented on an ongoing basis for laptops assigned to faculty and staff.</i>

REQUIRED TRAINING

The University requires mandatory training for employees in order to fulfill state and federal safety, risk, and employment law requirements. UAPP 3290: Professional Development and Training, Section 3.2 states “The University President may designate specific training courses as mandatory for all faculty and staff. These courses are either required by federal or state regulations or address a legal, financial, or physical risk that could significantly impact the University.” The University President has designated Preventing Sexual Harassment, Basic Annual Safety Training, and Ethics: A Framework for Ethical Decision Making as required trainings which all faculty and staff must take annually through the University’s Learning Central website by December 31st of each year.

UNM Internal Audit conducted test work on required training data from Learning Central for calendar year 2013, and found that faculty and staff did not adequately complete the required annual training. Of the 406 UNM-Taos employees tested, 331 (197 faculty, 28 staff and 106 student employees) did not complete all three required training courses by December 31, 2013. Non-compliance with required annual training was primarily from temporary and part-time faculty and staff.

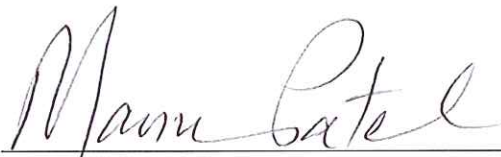
Recommendation 9:

All UNM-Taos faculty, staff, and student employees should take the required annual training courses. Compliance with the required annual training reduces the University’s exposure to legal liability or financial loss.

Response from UNM-Taos Executive Director:

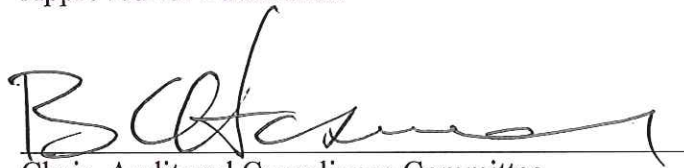
Action Items
<i>Targeted Completion Date: December 31, 2015</i>
<i>Assigned to: UNM-Taos Human Resources</i>
<i>Corrective Action Planned: Determine which faculty, staff and students employees are required to the take the training. Develop a communication mechanism to inform and remind those who need the training and provide notification to supervisors.</i>

APPROVALS



Manu Patel, CPA
Director, Internal Audit Department

Approved for Publication



Chair, Audit and Compliance Committee

UNM Taos
Three-Year Financial Trend Analysis
Fiscal Years Ended 2012-2014

Revenues	FY 2012	FY 2013	FY 2014
<i>Restricted</i>			
Contracts and Grants	\$ 1,499,761	\$ 2,614,647	\$ 2,958,182
Endowment	<u>13,324</u>	<u>20,000</u>	<u>31,990</u>
Total Restricted	1,513,085	2,634,647	2,990,172
<i>Unrestricted</i>			
Instruction and General	6,396,910	6,530,362	6,987,967
Public Services	324,756	365,931	396,829
Other	<u>327,656</u>	<u>389,059</u>	<u>339,134</u>
Total Unrestricted	<u>7,049,322</u>	<u>7,285,352</u>	<u>7,723,930</u>
Total Revenues	<u>\$ 8,562,407</u>	<u>\$ 9,919,999</u>	<u>\$ 10,714,102</u>
Expenses			
<i>Restricted</i>			
Contracts and Grants	\$ 1,489,077	\$ 2,508,264	\$ 2,969,649
Endowment	<u>7,173</u>	<u>7,863</u>	<u>7,280</u>
Total Restricted	<u>1,496,250</u>	<u>2,516,127</u>	<u>2,976,929</u>
<i>Unrestricted</i>			
Instruction and General	5,806,544	6,041,024	6,253,127
Public Services	281,946	362,884	392,215
Other	<u>227,715</u>	<u>313,087</u>	<u>243,825</u>
Total Unrestricted	<u>6,316,205</u>	<u>6,716,995</u>	<u>6,889,167</u>
Total Expenses	<u>\$ 7,812,455</u>	<u>\$ 9,233,122</u>	<u>\$ 9,866,096</u>
Revenues Over (Under) Expenses	\$ 749,952	\$ 686,877	\$ 848,006
Reserves, beginning of year	\$ 1,914,254	\$ 2,648,900	\$ 3,215,272
Adjustments	(15,306)	(120,505)	(13,244)
Reserves, end of year	\$ 2,648,900	\$ 3,215,272	\$ 4,050,034

Source: Banner Accounting System

Note: Adjustments are required to remove net revenues related to restricted endowments and contracts and grants (cost share funds only). Net revenue from these restricted funds are not closed to unrestricted reserves in Banner and must be removed for unrestricted reserves to roll from year to year.

Exhibit 1

UNM Taos
Budget vs. Actual - Unrestricted Funds
Fiscal Years 2012-2014

	FY 2012 Budget vs. Actual			FY 2013 Budget vs. Actual			FY 2014 Budget vs. Actual		
	<u>Budget</u>	<u>Actual</u>	Over (under) <u>Budget</u>	<u>Budget</u>	<u>Actual</u>	Over (under) <u>Budget</u>	<u>Budget</u>	<u>Actual</u>	Over (under) <u>Budget</u>
Revenues									
I&G	\$ 5,963,155	\$ 6,396,910	\$ 433,755	\$ 6,130,198	\$ 6,530,362	\$ 400,164	\$ 6,637,926	\$ 6,987,967	\$ 350,041
Public Support	256,825	324,756	67,931	250,950	365,931	114,981	305,198	396,829	91,631
Other Revenues	344,201	327,656	(16,545)	\$ 217,706	389,059	171,353	\$ 243,970	339,134	95,164
Budgeted use of reserves	35,966	-	(35,966)	355,249	-	(355,249)	18,000	-	(18,000)
Total Revenues	\$ 6,600,147	\$ 7,049,322	\$ 449,175	\$ 6,954,103	\$ 7,285,352	\$ 331,249	\$ 7,205,094	\$ 7,723,930	\$ 518,836
Expenses									
Labor									
Faculty	\$ 2,378,706	\$ 2,102,528	\$ (276,178)	\$ 2,061,486	\$ 1,966,138	\$ (95,348)	\$ 2,170,249	\$ 2,048,692	\$ (121,557)
Staff	1,650,299	1,571,571	(78,728)	1,704,753	1,634,133	(70,620)	1,873,427	1,705,325	(168,102)
Student	(172,207)	128,240	300,447	91,122	138,640	47,518	140,193	146,698	6,505
Tuitions/Benefits	1,047,281	932,884	(114,397)	1,110,565	1,082,548	(28,017)	1,124,090	1,203,702	79,612
Total labor	\$ 4,904,079	\$ 4,735,223	\$ (168,856)	\$ 4,967,926	\$ 4,821,459	\$ (146,467)	\$ 5,307,959	\$ 5,104,417	\$ (203,542)
Non-Labor									
Supplies	\$ 374,664	\$ 367,510	\$ (7,154)	\$ 458,392	\$ 286,364	\$ (172,028)	\$ 442,277	\$ 347,971	\$ (94,306)
Scholarships and awards	147,477	155,197	7,720	135,269	108,731	(26,538)	162,195	141,322	(20,873)
Services and fees	248,205	301,406	53,201	222,155	352,466	130,311	256,480	315,035	58,555
Travel	92,230	47,331	(44,899)	68,000	49,609	(18,391)	75,500	47,629	(27,871)
Capital	78,359	30	(78,329)	99,000	58,160	(40,840)	56,331	46,469	(9,862)
Other	755,133	709,509	(45,624)	1,003,361	1,040,206	36,845	904,352	886,322	(18,030)
Total Non-Labor	\$ 1,696,068	\$ 1,580,983	\$ (115,085)	\$ 1,986,177	\$ 1,895,536	\$ (90,641)	\$ 1,897,135	\$ 1,784,749	\$ (112,386)
Total expenses	\$ 6,600,147	\$ 6,316,206	\$ (283,941)	\$ 6,954,103	\$ 6,716,995	\$ (237,108)	\$ 7,205,094	\$ 6,889,166	\$ (315,928)
Revenues over (under) expenses	\$ -	\$ 733,116	\$ 733,116	\$ -	\$ 568,357	\$ 568,357	\$ -	\$ 834,764	\$ 834,764

Source: UNM Banner Accounting System

Exhibit 2