

**AUDIT OF UNM COLLEGE OF NURSING DEAN'S SCHOLARS
AWARD**

THE UNIVERSITY OF NEW MEXICO

**Report 2018-02-A
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**THE UNIVERSITY OF
NEW MEXICO**

Audit and Compliance Committee Members

Thomas Clifford, Chair
Garrett Adcock, Vice Chair
Lt. Gen. Bradley Hosmer

Audit Staff

Manu Patel, Internal Audit Director
Bill Cottrell, Senior Auditor
Jane Tinker, Senior Auditor

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ABBREVIATIONS

CON.....	College of Nursing
FY.....	Fiscal Year
HR.....	University of New Mexico Human Resources
HSC.....	University of New Mexico Health Sciences Center
IA.....	University of New Mexico Internal Audit Department
Internal Audit.....	University of New Mexico Internal Audit Department
Taxation.....	UNM Unrestricted Accounting Tax Department
UAP.....	University Administrative Policy and Procedures
University.....	University of New Mexico
UNM.....	University of New Mexico
UNM Banner.....	UNM Banner Finance Accounting System

KEY RECOMMENDATIONS

1. The College of Nursing (CON) should work with the UNM Counsel to revisit and revise the award agreements to reflect the actual administration of the awards.
2. The CON should implement and monitor a process to evaluate each course taken by an awardee at a University in a degree program. Qualification as a working condition fringe benefit is determined on a course-by-course basis and not on degree programs as a whole.
3. HSC should work with the UNM Controller's Office Taxation Department to develop a formal process for routing of tax determination decisions prior to finalization of awards.

EXECUTIVE SUMMARY

Internal Audit reviewed the College of Nursing (CON) Dean's Scholar Award program for 2014-2018. The program is designed to attract and retain a robust nursing faculty by assisting CON faculty toward attainment of doctoral degrees to enhance the educational initiatives of the CON.

The Dean's Scholar Award program has an open application process, a selection committee, and both endowed and non-endowed gift funding sources. The nature of the Dean's Scholar Award is an employee benefit, since all award recipients are employees of the UNM College of Nursing.

The tax aspects of the Dean's Scholar Awards are complex and the UNM Taxation Department should review each case prior to disbursement of the award.

INTRODUCTION

BACKGROUND

Internal Audit reviewed the College of Nursing (CON) Dean's Scholars Award program. The program falls under Policy C10, Employment and Advanced Degrees, of the Faculty Handbook. The CON Dean's Scholars Award program began July 1, 2012. The program was designed to attract and retain a robust nursing faculty by assisting CON faculty toward attainment of doctoral degrees to enhance the educational initiatives of the CON. The program also included post-doctoral work for current doctoral faculty as a means to develop leadership skills and clinical research. In June 2017, the program expanded to include CON staff as a means to attract and retain a robust team. Attainment of academic degrees enhances staff member contributions to the missions of the CON and the University.

PURPOSE AND OBJECTIVES

The purpose of the audit is to review the CON Dean's Scholar Award for compliance with University Administrative Policy and Procedures (UAP); and, to review the tax consequences of the scholar awards.

SCOPE AND PROCEDURES PERFORMED

The scope of the inquiry includes review of Dean's Scholar Awards given out by the CON from 2014 through 2018. Our audit focused on obtaining audit evidence to determine if the education expenses were within policy, and assess the tax implications of the awards.

Internal Audit's work included the following procedures performed during the course of the audit:

- Discussions and interviews with the CON administration and fiscal personnel.
- Review of relevant UNM Policies and compliance of expense reporting with UNM Policies.
- Review of endowed and non-endowed fund organization documents.
- Review of education expense and travel expense reports for proper approval, business purpose, and supporting documentation.
 - Included analysis of DPEZ expense forms, Chrome River expense reports, and PCard logs for tuition payments and travel expenses.
- Review of Federal Tax Rules and Regulations and the tax implications to employees for UNM paying the cost of the tuition.
- Performing audit tests for business purpose of travel, accuracy of expense reports vs. underlying receipts, and proper approval of expense reports.

IA conducted the audit of the CON Dean's Scholar Award in conformance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors. IA found areas for improvement as discussed below in the observations section of the report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

COLLEGE OF NURSING DEAN'S SCHOLARS PROGRAM

The CON Dean's Scholar Award program is available to full-time faculty and staff employees of the UNM College of Nursing. The program accepts scholars each fiscal year upon successful completion of an application and selection process.

Availability of funding and mission needs of the College determine the number of Dean's Scholars each year. Faculty scholars can receive a stipend of up to \$20,000 per year based on application budget and full-time study; staff scholars may receive a stipend of up to \$15,000. The scholar may chose budget-based expenses or credit toward release time as negotiated with the Team Chair and Dean. Funding for the scholar awards comes from the Ridenour Endowment for Faculty and Staff Development, established in 2011 to supplement College funds available for Faculty and Staff Development.

Dean's Scholar Award Application Process

The CON solicits applications from all CON faculty and staff two times during the academic year, once each for fall and spring semesters. All applications have scoring criteria that consist of years of service to the College, a personal statement, a projected work plan, and a proposed budget. Faculty and staff with three or more years of service to the CON receive preference. An external scholar award committee (appointed by the CON Dean) reviews and scores each application and forwards a list of recommended candidates to the Dean. The Dean makes the final selection based on the recommendations and availability of funds, with priority given to candidates meeting the mission and needs of the College of Nursing. The Dean's office sends an award letter to the successful candidates who then enter into a formal agreement with the CON.

The Dean approves payment for the awards and the CON's centralized accounting office processes the payments. Payments on awards route to the UNM HSC centralized Unrestricted Accounting Office for final approval and processing.

Types of Dean's Scholars Awards Offered by College of Nursing

Doctoral Studies for Faculty - Full-time faculty members are eligible to participate in the Faculty Scholars Program for Doctoral Studies, with preference given toward faculty with three or more years of service. Doctoral scholars may receive an award of up to \$20,000 per year.

Post-Doc Studies for Faculty - This program is designed to support current faculty in developing their clinical and research productivity. Full-time faculty holding a doctoral degree are eligible. Post-doctoral scholars may receive an award of up to \$20,000 per year.

Staff Scholars program - This program is designed to attract and retain a robust and professional staff for the CON. Support for pursuit and completion of academic degrees further enhances the

ability of current staff to contribute to the missions of the College and the University. The program encourages degree completion by providing resources and support to staff who are pursuing undergraduate or graduate degrees. Regular, full-time staff who with an overall rating of “successful” on their most recent performance review are eligible, and may receive awards up to \$15,000 per year.

Funding of CON Dean’s Scholars Awards

The main funding source of the CON Dean’s Scholar Award is the CON Dean’s Legacy Fund, with supplemental funding from the Ridenour Endowment for Faculty and Staff Development. The amount of funding for each award depends upon the approved application budget and course of study submitted by the candidate. The CON’s accounting department disburses the funds through reimbursement of education expenses upon submission of receipts, or by payment directly to their educational institution upon submission of invoices.

CON Dean’s Legacy Fund – The CON Dean’s Legacy Fund, established in 1997, is a non-endowed discretionary fund administered by the CON, and funded by gifts to the CON through donor events, payroll deduction, or outright gift. Per the fund agreement, gifts to the Dean’s Legacy Fund are unrestricted, and the funds are utilized at the discretion of the Dean for receptions, food, books, and faculty and staff scholar awards. The balance of the Dean’s Legacy Fund at FYE June 30, 2018 was \$344,407. The following table presents the Dean’s Legacy Fund activity for FY 2014 – 2018:

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Beginning Fund Balance	\$474,275	\$429,194	\$383,647	\$434,642	\$303,324
Revenues	173,405	154,070	216,436	43,163	171,913
Expenditures	(218,486)	(199,617)	(165,441)	(174,481)	(130,831)
Ending Balance	\$429,194	\$383,647	\$434,642	\$303,324	\$344,407

Source: UNM Banner System

Ridenour Faculty and Staff Development Endowment – The Ridenour Faculty and Staff Development Endowment was established in FY 2011 with a transfer from the Dean’s Legacy Fund to the UNM Foundation. The endowment is named after former CON Dean Nancy Ridenour, who established the fund to ensure the highest level of expertise among nursing faculty and staff. The purpose of the endowment is to support faculty and staff development opportunities in the CON, stated as follows in the endowment agreement:

- 1) Ensure the highest level of expertise among nursing faculty and staff;
- 2) Recruit and retain qualified, committed and outstanding faculty and staff;
- 3) Enhance the UNM College of Nursing’s reputation through faculty and staff competence and skill, and;
- 4) Disseminate knowledge.

Other than expending funds in accordance with the above purpose, there are no other donor restrictions on the endowment funds.

The following table presents the balance of the Ridenour Faculty and Staff Endowment for FY 2014 – 2018:

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018 (as of 04/30/2018)
Beginning Balance	\$36,275	\$51,403	\$49,307	\$48,789	\$57,107
Investment Income	482	353	314	68	130
(Un)Realized Gains/(Losses)	6,383	126	(1,036)	5,678	4,313
Gifts	10,400	-	3,000	5,450	-
Spending Distributions	(1,553)	(1,842)	(2,000)	(1,937)	(1,561)
Administrative Fees	(584)	(732)	(795)	(942)	(834)
Ending Balance	\$51,403	\$49,307	\$48,789	\$57,107	\$59,156

Source: UNM Foundation

CON Dean's Scholars Awards 2014 – 2018

The CON awarded a total of 23 Deans Scholars Awards from fall 2013 to summer 2018, including 21 awards for faculty and two awards for staff. The following table presents the total awards and actual education expenses for fall 2013 to summer 2018:

	Academic Programs					Total Scholar Award	Actual Expenses
	Bachelor's Program	Master's Program	PhD	Post Doc	Doctor of Nursing Practice		
Fall 2013	\$ -	\$ -	\$ -	\$ 1,891	\$ 112,609	\$ 114,500	\$ 94,729
Fall 2014	-	-	-	40,000	-	40,000	18,700
Fall 2015	-	-	20,000	-	-	20,000	-
Fall 2017	3,054	650	-	7,835	76,767	88,306	25,350
Spring 2013	-	-	-	36,132	-	36,132	19,794
Spring 2014	-	-	37,530	-	-	37,530	23,916
Spring 2016	-	-	5,837	20,000	-	25,837	16,379
Spring 2017	-	-	-	6,123	-	6,123	1,862
Spring 2018	-	-	-	-	24,306	24,306	8,215
Summer 2017	-	-	80,000	-	-	80,000	27,844
Summer 2018	-	-	-	-	25,566	25,566	-
Totals	\$ 3,054	\$ 650	\$ 143,367	\$ 111,981	\$ 239,248	\$ 498,300	\$ 236,789

Source: UNM College of Nursing

The difference in award amounts and the actual expenses is attributable to estimates used in the award application budgeting process; these include estimated tuition and fees costs, planned program of study at time of application, and estimated timeline for completion of academic studies. Any unused award amounts remaining upon completion of awardee degrees stay with the CON and are available for future awards.

CON DEAN'S SCHOLARS AGREEMENTS

Each award recipient enters into a formal written agreement with the CON. The standard agreement is brief and contains the following provisions:

- The awardee name.
- The semesters for which the award is being received.
- The amount of the award.
- Notation that any equipment purchased with the award remains the property of UNM.
- A service commitment of one semester for each semester of award funding provided. The service commitment commences when the award funding ends.

The Dean's Scholars agreement states that faculty are obligated to provide service to the CON upon graduation; however, with regard to staff, the service is encouraged but not required. Although the agreement obligates faculty to provide service, there is no repayment requirement should the service not be provided. The agreement also states that the CON reports all awards to the UNM Scholarship Office, which will issue an appropriate 1099 form to the awardee. However, the UNM Scholarship office does not administer the CON Dean's Scholars Award since it is offered solely to CON faculty and staff.

Recommendation 1:

The CON should work with the UNM Counsel to revisit and revise the scholar award agreements to reflect the actual administration of the awards, including the following:

- The award is an employee fringe benefit, and the tax consequences depend upon the tax regulations governing working condition fringe benefits.
- The agreement should contain a strong service requirement for awardees, including a repayment clause if the employee does not complete the service requirement.

Response from the Dean of the College of Nursing:

Action Items
<i>Targeted Completion Date:</i> January 31, 2019
<i>Assigned to:</i> Associate Director, Finance & Administration
<i>Corrective Action Planned:</i> Management concurs with the above audit finding. The CON will work with UNM Counsel to revise the Dean's Scholar Award agreements. Furthermore, working with UNM Counsel, the CON will revise the Dean's Scholar Award Program to establish, define, and explain the following:

1. The remuneration service requirement.
2. Potential tax implications of the award, if any.
3. Guidelines for approved doctoral programs that contribute to the academic mission of the CON.

As a result, the CON will not grant new awards or place a call for applications until the program is re-evaluated and revised. The CON will obtain legal advice and guidance from UNM Counsel and approval for the program revision by each respective University area to include HSC Unrestricted Accounting, UNM Taxation and the Office of the Senior Executive Officer for Finance & Administration.

INCOME TAXATION OF DEAN'S SCHOLAR AWARD

Upon reviewing the tax consequences for the CON Dean's Scholar awards, questions arose as to the actual nature of the award. The form of the award mimics a scholarship; there is an open application process, a selection committee, and an endowed funding source. However, the substance of the payments appears to be an employee benefit, especially since all award recipients are employees of the University. The employer-employee relationship is the basis of the award; only CON employees (faculty or staff) are eligible for the award. The faculty retain their appointment, staff remain employed during the period of the award, and the award is conditioned upon continued service to the University. Therefore, the award may be an employee benefit rather than a true scholarship.

Per IRS Publication 15-B (2017), Employer's Tax Guide to Fringe Benefits, certain job-related education provided to employees may qualify for exclusion from income as a working condition benefit. To qualify, the education must meet the same requirements that would apply for determining whether the employee could deduct the expenses had the employee paid the expenses. Degree programs as a whole do not qualify as a working condition benefit. Each course in the program must be individually evaluated for qualification as a working condition benefit. The education must meet at least one of the following tests:

- The education is required by the employer or by law for the employee to keep his or her present salary, status, or job. The required education must serve a bona fide business purpose of the employer.
- The education maintains or improves skills needed in the job.

However, even if the education meets one or both of the above tests, it will not qualify for exclusion from income if:

- The education is needed to meet the minimum educational requirements of the employee's present trade or business, or
- The education is part of a program of study that will qualify the employee for a new trade or business.

During our testing of the CON Dean's Scholar Awards, we noted the College of Nursing did not evaluate each course in the program individually for qualification as a working condition fringe benefit for eight of the awardees who attended a University as part of a degree program.

Recommendation 2:

The College of Nursing should implement a process to evaluate each course taken by an awardee at a University in a degree program. Qualification as a working condition fringe benefit is determined on a course-by-course basis and not on degree programs as a whole. The documentation maintained by CON needs to include the following elements:

- Minimum educational requirements of the position for the present work.
- Comparison of current duties to new duties for duties that do not involve the same general type of work as involved in the employee's present employment. If the new duties involve the same general type of work as involved in the employee's present employment, then the documentation should include a statement indicating that information.
- Analysis on how the education maintains or improves the skills required in doing the present work. This includes a course description from a University Catalog linking the course to the specific skills maintained or improved.

Response from the Dean of the College of Nursing:

Action Items
Targeted Completion Date: January 31, 2019
Assigned to: Dean and Associate Director, Finance & Administration
Corrective Action Planned: Management concurs with the above audit finding. The CON will work to implement a selection methodology that asserts the education being pursued by prospective awardees maintains or improves the skills required in doing their present work. In addition, a process will be established to evaluate each course taken by an awardee at a University in a degree program. The CON will address this in conjunction with UNM Counsel and UNM Taxation as this process relates to the tax treatment on a course-by-course basis, with the caveat that awardees in PhD programs have had all courses vetted as part of their individual program of study through their respective Doctoral Committee. For the Doctor of Nursing Practice (DNP), the CON will require students to enroll in a program at a Research 1 reputable and comparable university. The CON will work to identify a list of appropriate universities that fulfill this criterion. Furthermore, the CON will establish and maintain an understanding with the peer institution(s) that ensures all approved coursework is beneficial to the CON.

We noted that the CON does not have a process in place to seek proper tax treatment from the UNM General Accounting Taxation department prior to approving awards and incurring expenses.

UNM General Accounting Taxation Department has not determined tax treatment of the CON Dean’s Scholar Awards. There is no process in place for routing scholar award information or tax questions to Taxation; and, Taxation may only become aware of the tax issues after the award or education expenses have been paid. Information for tax determination of the Dean’s Scholar Awards to be forwarded to the Taxation department should include the following:

- Business need and justification for the education expenses.
- Documented approval for payment of the award or education expenses.
- Documentation demonstrating that the benefit does not create a qualification for an entirely different position within the University.
- A course description from a University Catalog linking each course to the specific skills maintained or improved.

Recommendation 3:

The College of Nursing should work with the UNM General Accounting Taxation department to develop a formal process for routing the above documentation for tax determination decisions prior to finalization of the Dean’s Scholar Awards.

Response from the Dean of the College of Nursing:

Action Items
Targeted Completion Date: January 31 st , 2019
Assigned to: Associate Director, Finance & Administration
Corrective Action Planned: Management concurs with the above audit finding. The CON will work with UNM HSC Unrestricted Accounting and UNM Taxation to establish a process to formally route transactions and related documentation to HSC Unrestricted Accounting and UNM Taxation to determine the tax treatment of each transaction. Furthermore, the CON will not grant new awards or place a call for application until the program is re-evaluated and revised. The CON will obtain legal advice and guidance from UNM Counsel and approval for the program revision by each respective University area to include HSC Unrestricted Accounting, UNM Taxation and the Office of the Senior Executive Officer for Finance & Administration.

APPROVALS



Manu Patel, CPA
Director, Internal Audit Department

Approved for Publication



Chair, Audit and Compliance Committee