

# AUDIT OF UNM BOOKSTORE OPERATIONS

## THE UNIVERSITY OF NEW MEXICO

Report 2020-05  
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THE UNIVERSITY OF  
NEW MEXICO.

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## ABBREVIATIONS

ACC	Audit and Compliance Committee
AoC	PCI DSS Attestation of Compliance
COGS	Cost of Goods Sold
DSS	Data Security Standards
FY18	Fiscal Year 2018 (7/1/17 – 6/30/18)
FY19	Fiscal Year 2019 (7/1/18 – 6/30/19)
FY20	Fiscal Year 2020 (7/1/19 – 6/30/20)
GAAP	Generally Accepted Accounting Principles
IA	UNM Internal Audit Department
ISPO	Information Security & Privacy Office
ISS	Institutional Support Services
IT	Information Technology
JV	Journal Voucher (accounting entries used to record financial activity)
MOA	Memorandum of Agreement
PCI	Payment Card Industry
POS	Point of Sale
SAQ	PCI DSS Self-Assessment Questionnaire
SOP	Standard Operating Procedure
UAP	University Administrative Policies
University	University of New Mexico
UNM	University of New Mexico

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## **EXECUTIVE SUMMARY**

The UNM Bookstore was selected for audit as part of the FY20 Internal Audit plan. The audit focused on Bookstore operations during FY 2020, as well as financial performance during FY 2018 through FY 2020. Internal Audit (IA) examined: Bookstore sales and expenses; overall financial data; agreements made with external entities for goods and services; deposits and transfers to other UNM entities; controls over various sales transactions; controls over store inventories; IT general controls; and compliance with PCI policies and standards.

The Bookstore and Institutional Support Services (ISS) underwent substantial organizational changes during the audit period and thereafter. The impact of COVID-19 on current and future operations at the Bookstore is, and will continue to be, significant. Financial performance is tied to student enrollment, as well as the ability to allow foot traffic into the store. Reduced enrollments over the last several academic years has negatively impacted Bookstore operational performance. The Bookstore was also significantly impacted by restrictions on operations at both retail locations during the most restrictive phases of the various Public Health Orders that have been in place since March 2020 as a result of the COVID-19 pandemic. These effects have persisted through the rest of FY 2020 and into FY 2021, due to a reduced staff and student presence on campus during these time periods.

The Bookstore has a stable control environment that achieves its mission, purpose and core competencies. IA's review resulted in recommended improvements that will better safeguard the assets, continue to improve the operating processes of the organization, and better align operations with relevant UNM policies and PCI standards. The following are key audit recommendations reported for the Bookstore:

### **Key Recommendations**

1. Strengthen procedures to ensure more timely entry and reconciliation of any credit memos the Bookstore receives for merchandise returned to a distributor/wholesaler or for price adjustments.
2. Improve procedures to ensure supporting documentation for all cash collection and reconciliation events is adequately collected and stored in a common, secured area.
3. Strengthen controls related to the cash collections and reconciliations functions to ensure no one person is performing potentially incompatible functions.
4. Develop procedures to ensure that individuals responsible for cash/credit card transactions take the relevant Cash Management and Information Privacy and Security Awareness training offerings available through EOD.
5. Develop formal authentication policies surrounding IT access controls to ensure up-to-date lists of user access are maintained for relevant applications. Also, the Bookstore should work more closely with the designated IT team to timely deactivate user access accounts for departed employees, and to avoid the use of shared or general log-in credentials for certain applications.

6. [REDACTED] Require users of its Point-of-Sale and any other applicable application to change their passwords periodically.
7. Seek collaboration between the UNM Financial Services Division, Chief Information Officer's (CIO) office, its appropriate divisions, and the Bookstore, to develop and approve written processes to clearly outline and define roles and responsibilities of each UNM unit, to which PCI compliance would be applicable. An oversight mechanism should be implemented with proper authority to periodically ensure compliance responsibilities are being adhered to by each applicable unit.

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## **INTRODUCTION**

### **BACKGROUND**

UNM Bookstores (Bookstore) is an entity comprised of two distinctive and productive locations that are committed to serving the UNM community and the general public. Its primary mission is to serve the students, faculty, and staff of the University by delivering quality products and services to enhance the educational and professional goals of the University. The Bookstore accomplishes this mission by offering a selection of academic textbooks, general books, course and office supplies, computing devices, UNM-branded merchandise, apparel, and other general merchandise for sale. Stores are open to the UNM community and the general public.

Currently, the Bookstore operates out of two distinct locations. The first location is on main campus, and its product assortment is intended to support the academic programs found on main campus. The second location is the Med-Legal Bookstore, which is located at the Domenici Center for Health Sciences on North Campus. This location supports the academic and clinical programs that are housed at HSC and the North Campus. Bookstore operations at branch campuses are operated independently of the Main and Med-Legal locations and are not addressed in this report.

The UNM Bookstores are a University-owned and -operated auxiliary enterprise of UNM, currently under the administration of the Institutional Support Services (ISS) division. At the time of our audit fieldwork, the UNM Bookstores were under the administration of a Director, who retired from UNM in January 2021. An interim director was subsequently named effective February 2021; this employee has been with the University and the Bookstore since 2006.

### **PURPOSE, SCOPE AND OBJECTIVES**

The Bookstore was selected for audit as part of the FY 2020 Internal Audit plan. The audit focused on Bookstore operations for FY 2020 as well as financial performance during the period of FY 2018 through FY 2020. The audit sought to accomplish the following objectives:

- Obtain an understanding of the sources and uses of funding at the Bookstore;
- Obtain an understanding of inventory management procedures within the Bookstore, specifically as it relates to product acquisitions, selection and procurement of course materials and textbooks, shipping and receiving of inventories/merchandise, and safeguarding of inventories at the store locations;
- Obtain an understanding of the various revenue and expenditure transactions that occur at the Bookstore, and the various controls and safeguards associated with these transactions;
- Assess any money transfers between the Bookstore and other UNM departments; and

- Assess the Bookstore's internal controls over information technology and Payment Card Industry (PCI) compliance.

## **PROCEDURES**

Internal Audit performed the following procedures:

- Inquiries with management and relevant staff;
- Reviewed Bookstore operating manuals, process flow charts, guidelines, and relevant UAPs for Bookstore operations;
- Developed an understanding of the operating environment from a risk perspective;
- Conducted (where possible) virtual walkthroughs of key operating procedures at the Bookstore;
- Conducted (where possible) physical walkthroughs and inspections of key operating procedures at the Bookstore;
- Obtained population files from the Bookstore and UNM accounting systems for sampling of transactions for testing and analysis of transactions and financial performance.
- Obtained copies of agreements for service and/or merchandise the Bookstore has with both external and UNM-affiliated entities (where available and applicable), and reviewed to determine Bookstore compliance with any applicable terms of these agreements;
- Performed detailed testing of various sales and expenditure transactions at the Bookstore; and
- Gained an understanding of the IT systems in use within the Bookstore, including the relevant aspects of the systems that are controlled by the Bookstore.

The audit of the UNM Bookstore was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

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## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### FINANCIAL PERFORMANCE

As an auxiliary enterprise of the University, the Bookstore receives no direct financial support from the University for its operations. As such, it is intended to be a financially self-supporting entity and must cover its operating costs through the retail sale of course materials and other merchandise. However, as a University entity, the Bookstore receives administrative support from the University and abides by University policies as outlined in the University Administrative Policies (UAP) manual.

#### Bookstore Financial Performance

All revenues generated by the Bookstore are obtained through the sale of merchandise to students, faculty and staff, other UNM departments, and the general public. These revenues are considered unrestricted funds which primarily support Bookstore operations. A three-year comparison of revenues and expenses, covering the period from FY 2018 to FY 2020, is presented below.

**Table 1: Summarized Revenues and Expenses for the Bookstore by Fiscal Year**

	Fiscal Year		
	2020	2019	2018
Revenues	\$ 8,422,979	\$ 10,241,325	\$ 11,782,615
Expenses	9,284,526	10,639,907	12,128,359
Revenues Over (Under) Expenses	\$ (861,547)	\$ (398,582)	\$ (345,744)

SOURCE: UNM Banner Accounting System

The Bookstore generated \$8.4 million during FY 2020, and \$10.2 million in revenues during FY 2019. FY 2020 revenues represent an approximate 18% decline over revenues in FY 2019. Additionally, the Bookstore had \$9.2 million in expenses during FY 2020 and \$10.6 million in FY 2019. The latter half of FY 2020 coincides with the beginning of the period of decreased operations at the University due to the COVID-19 pandemic, which resulted in a dramatically reduced presence of students, staff, and faculty on the Main Campus, along with the cancellation of athletic and other community events at the University. This had a substantial impact on sales associated with these types of events. As a mission-critical resource to the educational mission at the University, the Bookstore remained open for student needs, albeit with reduced or no foot traffic and pivoting to curbside or online ordering models. This diminished student and staff presence likely had a significant negative impact on sales through the end of FY 2020 and well into FY 2021.

The largest expenses for the Bookstore are the purchase of inventories for resale and labor costs. The Bookstore is also responsible for an annual contribution to ISS. This contribution is used in



order to support ISS operations. In FY 2018, the Bookstore contributed \$131,500 back to ISS. In FY 2019, this amount decreased to \$27,000 and in FY 2020, no funds were provided back to ISS by the Bookstore. The Bookstore also makes an annual contribution for the use of IT services, which allows the Bookstore to have dedicated IT personnel to support Bookstore operations. Other expenses, such as supplies and other administrative costs, are a negligible portion of the Bookstore's overall expenses. However, the Bookstore is responsible for all expenses associated with the maintenance of building infrastructure, payment for its utilities as well as for custodial services to the building. Table 2 (below) outlines expenses by category for the Bookstore.

**Table 2: Bookstore Expenses for FY 2018-2020, by Expense Category**

	Fiscal Year		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Labor Expenses</b>			
Salaries	\$ 1,055,639	\$ 1,200,956	\$ 1,372,107
Benefits	298,352	324,531	364,159
<b>Total Labor Expenses</b>	<b>\$ 1,353,991</b>	<b>\$ 1,525,487</b>	<b>\$ 1,736,266</b>
<b>Non-Labor Expenses</b>			
Supplies	\$ 66,697	\$ 47,401	\$ 71,834
Travel	2,496	636	2,515
Communication Charges	18,881	22,248	31,132
Services	139,349	208,821	262,010
Plant	177,747	163,172	167,131
Utilities	59,188	62,380	66,021
Other Expenses <sup>Note 1</sup>	7,365,478	8,473,432	9,680,465
Non-Cash Expenses	100,700	136,330	110,985
<b>Total Non-Labor Expenses</b>	<b>\$ 7,930,535</b>	<b>\$ 9,114,420</b>	<b>\$ 10,392,094</b>
<b>Total Expenses</b>	<b>\$ 9,284,526</b>	<b>\$ 10,639,907</b>	<b>\$ 12,128,359</b>

SOURCE: UNM Banner Accounting System

**Note 1:** The account category "Other Expenses" contains the Cost of Goods Sold (COGS) account. Within UNM's accounting classification system, COGS is considered "other expense." This was maintained for consistency in presentation as well as to facilitate comparison to accounting records.

The Bookstore faces several challenges which are likely to have an impact on its financial performance for the foreseeable future, such as:

- An increasingly competitive retail environment, including the rise of online retailers that offer similar product assortments in one location;
- Fluctuating student enrollments which directly impact the Bookstore's potential customer base;

- Changes in course delivery methods and in related course materials (such as online-only and virtual offerings); and
- Support for online-only and virtual courses, as well as for the affordability initiatives set out by the University, result in an increasingly higher percentage of Inclusive Access and other, less-expensive, digital materials. This moves the Bookstore away from a revenue-generating model due to the minimal margins on those materials.

The Bookstore has attempted to control its costs, largely by way of unfilled staffing vacancies and reducing or eliminating some non-recurring expenses where possible. However, from FY 2018 through FY 2020, expenses have exceeded revenues primarily due to lower-than-forecasted sales. Part of the challenge in this area is the natural difficulty in forecasting sales with reasonable and realistic projections. Sales at the Bookstore are related to student enrollment, whose final per-semester numbers are not known until well after the semester begins, while budgeting and forecasting for the following fiscal year occur long before the beginning of a new academic year. Other factors not related to student enrollment, such as athletic team performance, may also play a role in sales performance.

In a review of the three most recent completed fiscal years, the Bookstore ended each year with expenses exceeding revenues. In fiscal years 2018 and 2019, the Bookstore had sufficient reserves balances to offset losses. However, as of the year ended June 30, 2020, the Bookstore has exhausted all available reserves. The Bookstore ended FY 2020 with a deficit of \$582,126, as presented in Table 3. In order to address this deficit, ISS and the Bookstore worked together to make appropriate reductions in budgeted expenses for FY 2021. Additionally, the Bookstore also received additional funding that was established for auxiliary departments at UNM, provided from the COVID-19 CARES Act funding to UNM. As a result of the reduction in budgeted expenses, as well as the CARES funding, the Bookstore was able to eliminate the deficit that existed at the end of FY 2020. Thus, it was not necessary for the Bookstore to develop a deficit reduction plan for FY 2021.

**Table 3: Deficits and Reserves Balances for the Bookstore During FY 2018-2020**

	<b>Fiscal Year</b>		
	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>
<b>Revenues</b>	\$ 11,782,615	\$ 10,241,325	\$ 8,422,979
<b>Expenses</b>	\$ 12,128,359	\$ 10,639,907	\$ 9,284,526
<b>Revenues Over (Under) Expenses</b>	\$ (345,744)	\$ (398,582)	\$ (861,547)
<b>Reserves, beginning balance</b>	\$ 1,023,747	\$ 678,003	\$ 279,421
<b>Reserves, ending balance</b>	\$ 678,003	\$ 279,421	\$ (582,126)

SOURCE: UNM Banner Accounting System

## DAILY CASH RECEIPT AND DEPOSIT DOCUMENTATION

At the end of each business day, appropriate persons at the Bookstore run daily transaction reports from the point of sale systems and perform the appropriate reconciliations of sales for posting to the relevant Banner modules. This process also includes the preparation of all appropriate accounting entries, and preparing the bank deposit for any physical cash that is collected during that business day. These reports are all prepared, and copies are stored by the Bookstore as part of their accounting records in the event there is a discrepancy or error after posting in Banner. This documentation includes copies of any checks received by the Bookstore as payments from any revenue sharing or sales royalty agreements the Bookstore has with its established vendors. Preparing a deposit for cash collected and keeping copies of these documents is also a University requirement as outlined within UAP 7200, "Cash Management."

In a random sample of cash collection days at the Bookstore during FY 2020, documentation supporting reconciliations and eventual deposit of monies received for two separate business days was not available for IA review. Bookstore management reported that no records of these cash receipts could be located at the Bookstore. Bookstore management believes the cause of this may be inadequate training of the persons that were performing these duties at that point in time. The Bookstore had relied on a temporary employee to perform some of these functions during a portion of FY 2020, and a new full-time employee was in the process of onboarding to perform these functions.

### Recommendation 1

Bookstore Management should work to ensure that supporting documentation for all cash collection and depositing events is adequately collected and stored in a common area where it is readily available for review in the event of future audits or discrepancies that may be raised by the Bursars Office or other accounting offices.

### Response from Bookstore Interim Director

<b>Action Items</b>
<b><i>Targeted Completion Date:</i></b> April 1, 2021
<b><i>Assigned to:</i></b> Business Division Manager
<b><i>Corrective Action Planned:</i></b> As of April 1, 2021, the supporting documentation for all cash collection and depositing events is stored in a common area and is easily accessible.

## CASH COLLECTION AND REPORTING SEPARATION OF DUTIES

Sound internal controls over key business processes call for separation of duties (also called segregation of duties) performed by entity personnel at certain points in a process to ensure that no one person is performing one or more incompatible duties. Several UNM policies also mandate separation of duties along several points within many key business processes. Section 3.3, “Segregation of Duties” of UAP 7200, Cash Management, states:

*“Duties for receiving and recording monies must be segregated. No single employee should be in a position that allows the employee to both receive money and record the payment into the financial system.”*

Internal Audit determined that there is not adequate separation of duties surrounding the cash collection and reporting processes within the Bookstore. Currently, one employee is performing the daily cash count and completing the over/short report, along with preparing the daily deposit and preparing postings for Banner. According to Bookstore Management, an employee that was supporting this process separated from the Bookstore during the audit period as a result of the COVID-19 restrictions on campus. Due to budgetary considerations, the Bookstore did not retain this position. This has led to potentially incompatible duties being performed by the same person within the Bookstore Business Office.

### Recommendation 2:

Bookstore Management should work to strengthen controls in order to achieve appropriate segregation of duties within the cash collection and reporting cycle. Incompatible duties should not be performed by the same persons. Separating these duties will reduce the risk of loss and/or misappropriation of cash receipts.

### Response from Bookstore Interim Director

<b>Action Items</b>
<b>Targeted Completion Date:</b> May 1, 2021
<b>Assigned to:</b> Business Division Manager
<b>Corrective Action Planned:</b> As of May 1, 2021, a designated student employee will be working 10-15 hours per week to prepare the daily cash deposit to clearly segregate duties in the cash room.

## **BOOKSTORE CASH DISBURSEMENTS**

Monies collected by the Bookstore are used to support Bookstore operations, which fall into two general categories: the purchase of inventories for resale; and, operational expenses (such as utilities, labor, supplies, plant costs, etc.).

### **Bookstore Operational Expenses**

Monies collected by the Bookstore are partially used to cover operational expenses for the Bookstore, such as: labor costs and supplies used by the Bookstore; IT/software/telecom charges; utilities; and, other relevant expenses.

Internal Audit selected a random sample of operational expense payments and tested these to determine if there were valid business purposes, proper approvals, and supporting documentation available, as well as for compliance with relevant UAPs and operational guidance set forth by the Bookstore. Of the events selected for testing, no exceptions were noted.

### **Inventories for Resale**

The largest expenditure for the Bookstore is for inventories meant for resale. The Bookstore carries a large variety of merchandise available for sale, including academic textbooks, general books, general office supplies, computers and peripherals, as well as UNM-branded apparel and gifts, among other items.

IA selected a random sample of inventory-related expenditures that occurred during FY 2020 and tested these to determine if these were for valid business purposes, proper approvals were made, and supporting documentation made available. IA also tested for compliance with relevant UAPs and operational guidance set forth by the Bookstore. Of these selected inventory-related expenditures, IA identified five events in our random sample that constituted credit memos. Of these five credit memos, IA identified the following three credit memos that were dated in FY 2019 but not entered into the accounting system until FY 2020:

- One credit memo in the amount of \$123,480.16, dated November 18, 2018, was entered on August 13, 2019
- One credit memo in the amount of \$45.00, dated April 2, 2019, was entered on August 13, 2019
- One credit memo in the amount of \$105,390.36, dated April 29, 2019, was entered on August 26, 2019

Credit memos can result from the return of unsold merchandise to a supplier or from a price discount provided to the Bookstore by a supplier. Generally, credit memos are used to reduce amounts owed to a supplier. Discussion with Bookstore management and review of its internal SOPs indicate that the standard procedure for a credit memo is for the memo to be marked as

received upon receipt and entered into their accounting system for reconciliation; this is to occur no later than one month after receipt and entry. Timely entry/posting of transactions is also called for in Section 2.1.2 (Initiators and Originators) of UAP 2000, “Responsibility and Accountability for University Transactions:”

*“Initiators/Originators are also responsible for:*

- *ensuring the electronic transaction and/or form is complete and accurate;*
- *verifying all backup documentation;*
- *notifying approvers and requester if a transaction will cause an account to go over budget;*
- *ensuring compliance with administrative processes; and*
- *ensuring deadlines are adhered to in submission of the transactions.”*

The Bookstore is unable to determine why these three memos were not entered in a timely manner; however, management believes that this occurred due to staffing challenges that existed in the period between receipt of the memos and the time they were entered into the accounting system.

The untimely entry of credit memos can have significant accounting implications. The entry of a memo that was received in one fiscal year into the records for a different fiscal year effectively overstates the amounts paid for inventories in one year. Eventually, this can significantly impact reported revenues over expenses or deficits for one or more fiscal years.

### **Recommendation 3:**

The Bookstore should work to strengthen its processes to ensure that future credit memos that are received are entered into the appropriate accounting system(s) in a timely manner and are marked as received, reviewed, approved and entered.

### **Response from Bookstore Interim Director**

<b>Action Items</b>
<b><i>Targeted Completion Date:</i></b> April 1, 2021
<b><i>Assigned to:</i></b> Business Division Manager
<b><i>Corrective Action Planned:</i></b> As of April 1, 2021, accounting procedures have been updated and all credit memos are now entered within 30 days.

## **SALES TRANSACTIONS**

As a retailer, the Bookstore accepts cash, checks, and credit/debit as tender for its sales and book rental transactions for all customers (except Inter-Department customers). The Bookstore also accepts third-party charges and Bursar Accounts as payment for qualified and enrolled students. Each student meeting minimum enrollment requirements each academic term is entitled to make use of a charge account at the Bookstore as a payment method, up to a pre-determined spending limit set by the Bookstore each respective academic term. Charges on a student's Bursar account are billed against outstanding financial aid by the Bursar/Student Accounting, and any remaining balances become the responsibility of the student. The Bookstore also conducts sales transactions to other UNM departments via Inter-Department Sales. These are settled via JV postings in Banner.

The Bookstore also makes available for purchase gift cards and certificates that are only redeemable in person for Bookstore merchandise at either the Main or Med/Legal locations. Internal Audit reviewed Bookstore SOPs surrounding the gift card and gift certificate process to identify any potential weaknesses within these processes, as well as to determine if the accounting for these is consistent with generally accepted accounting principles (GAAP) and relevant state statutes in place at the time of audit fieldwork. Bookstore practices surrounding gift cards and gift certificates are consistent with GAAP and with current state statutes.

As part of its audit procedures, Internal Audit selected a random sample of gift card and gift certificate redemption events that occurred during FY 2020 to determine compliance with Bookstore SOPs surrounding issuance and redemption of gift cards and gift certificates. Internal Audit also selected a random sample of in-person and online credit card transaction postings that occurred during FY 2020 to determine if these are being accurately collected, reported, and posted to the correct accounts and reviewed by Management as part of its daily sales reporting and posting processes. Internal audit found no deficiencies in this process from the test work.

Internal Audit also selected a sample of days of Bookstore sales to other UNM departments during FY 2020 to determine if these are being accurately captured and reported to Banner by both the Bookstore and the requesting department. Internal Audit also examined these days for evidence of review by Management as part of its daily sales reporting and posting processes. No deficiencies were found from this test work.

## **INVENTORY ACQUISITION AND MANAGEMENT**

The Bookstore offers a wide assortment of goods for resale, including (but not limited to):

- Academic textbooks
- General books
- School and office supplies
- Laptop and tablet computers

- Computer peripheral accessories
- UNM-branded “spirit” apparel and accessories
- UNM-branded clinical uniforms
- Academic regalia

IA reviewed Bookstore policies and procedures related to the selection and procurements of inventories, with an extra emphasis on course materials and other academic texts. IA also reviewed policies and procedures related to inventory management and loss prevention procedures, and made inquiries with the appropriate persons at the Bookstore. In addition to this review, IA also observes a yearly inventory count for the Bookstore and performs test counts of selected merchandise from various Bookstore departments at that time in order to determine the accuracy of the inventory records kept by the Bookstore. No deficiencies or suggestions for improvements were noted from any of these procedures.

IA also obtained copies of contracts, Memorandums of Agreement (MOA), and other agreements the Bookstore may have with selected vendors (where applicable) for the procurement and resale of merchandise or the provision of services, and reviewed these to determine if they are still in effect and for compliance with any applicable UAP and Bookstore policies. No deficiencies or suggestions for improvement were noted with these agreements.

## **REQUIRED TRAINING**

University employees that have responsibilities over monies as part of their job assignment are required to take cash handling training. Cash management training is required of any employee that has responsibility over collection, safekeeping, or depositing of monies, including cash, checks, money orders, credit card payments, or any other negotiable instrument that may be received by the University, either in person, via mail, or over the phone.

UAP 7200, Cash Management, Section 1.1; “Mandatory Cash Handling Training,” outlines who is required to take this training and when it must be taken. Specifically,

“Individuals responsible for handling cash and their direct supervisor must take the online “Cash Management” training course offered by the University Employee and Organizational Development Department. Supervisors are responsible for ensuring that new employees, students, and volunteers responsible for monies take the required training as soon as possible after being assigned cash handling duties, but no later than sixty (60) days after the assignment date.”

The Bookstore's policies also require its employees take PCI (Credit Card) Environments or 2020 Information Privacy and Security Awareness training annually. Both training courses are offered online for UNM employees by EOD.



During the course of our audit work, we randomly selected seventeen employees that handle or have access to cash and also handle credit card transactions. We noted that three of them did not complete the cash management training as required by UAP 7200, and two of them did not take PCI (Credit Card) Environments training or 2020 Information Privacy and Security Awareness training annually as required by the department's policies.

The Bookstore did not have established procedures to ensure its employees comply with the requirements of UAP and the department related to cash management and credit card security. Potential misuse and/or theft of cash could occur as employees that handle cash may not understand accountability and the risks related to cash handling. Without taking the required PCI or security awareness training, employees that handle credit card transactions may not have full knowledge to help them protect information security.

#### **Recommendation 4**

Bookstore's management should develop procedures to ensure that individuals responsible for handling cash and/or credit card transactions take the online Cash Management, and PCI (Credit Card) Environments or 2020 Information Privacy and Security Awareness training course, respectively.

#### **Response from Bookstore Interim Director**

<b>Action Items</b>
<i>Targeted Completion Date:</i> April 1, 2021
<i>Assigned to:</i> Business Division Manager & Assistant to the Director
<i>Management's Response:</i> All current employees identified in the audit finding have completed the necessary training. As of April 1, 2021, this procedure is now a part of onboarding SOP to ensure that all necessary parties take the appropriate training within their first 60 days of employment.

## **IT SECURITY**

### **Access Control**

The Bookstore uses a variety of business applications provided by different vendors to process and record business transactions in its routine operations. The UNM Bookstore accepts credit card payments onsite and online. Brief descriptions of the applications selected for our review are listed below:



Employee access to the applications above is controlled through a request approved by their supervisor. Access is based on each employee’s job duties. The request is processed by a designated IT team of UNM IT Campus Outreach & Engagement department (ISS IT) who manage the request as the solution’s SuperUser or administrator. Currently, the Bookstore does not have its own IT employee. The Bookstore transferred its IT individual and outsourced IT support services to the UNM IT Campus Outreach & Engagement department in the beginning of calendar year 2017, as part of an ISS shared services arrangement.

Internal Audit conducted procedures to determine if the Bookstore has proper controls in place over user access to those applications mentioned above. No exceptions were noted for [REDACTED] however, IA noted several instances of exceptions where: separated users were not being disabled; group, shared, or generic accounts were used that were not uniquely identified; and, service accounts were used that may no longer need to access to the applications, etc. Those exceptions are detailed by application as follows:

1. [REDACTED] It has an active group user named [REDACTED] that has not been accessed since 2012. A user account that is not being used or no longer has business need should not be listed as an active user.
2. [REDACTED] It has two elevated user roles, [REDACTED] [REDACTED] Of 15 Admin users, one was already terminated in April 2017. Another has a group shared user account named [REDACTED] that is not

directly traced to an individual. Of 14 SuperAdmin users: (1) one user is the Bookstore's employee that should be granted Admin privileges, not those of SuperAdmin; (2) another user is a vendor's service account holder that was separated from their employer; and (3) 10 other users are vendors' service account holders, some of which may also have been separated from their respective employers.

3. [REDACTED] One active user was terminated in July 2020, and another active user is a group shared account named [REDACTED] that is not directly traced to an individual.
4. [REDACTED] The register application had 136 active users as of November 14, 2020. In the pool of active users, 83 users were actually terminated over the last 4 years, two users are generic accounts named [REDACTED] [REDACTED] respectively, and one user had two accounts.
5. [REDACTED] As of Aug 28, 2020, the application had 81 users who were marked as "Disabled" for separated employees, and 154 active users. Of the 154 active users, 59 of them were separated over the last 4 years, 36 of them were used for group, generic or template accounts, and one employee user had two accounts.
6. [REDACTED] One former employee separated in June 2020 was still an active user as of September 15, 2020. Another former employee was not timely disabled after separation in November 2019.

UAP 2520: Computer Security Controls and Access to Sensitive and Protected Information, Section 1 General states, "All departments operating University owned computers, including those operated by faculty, staff, and students, must develop departmental security practices which comply with the security practices listed herein. In addition, departments must have environment-specific management practices for business functions such as maintenance, change control procedures capacity planning, software licensing and copyright protection, training, documentation, power, and records management for computing systems under their control."

UAP 2520: Computer Security Controls and Access to Sensitive and Protected Information, Section 2 Access to Departmental Systems also states, "Access to departmental computing systems must be authorized by the department head or designee...The department head or designee ensures proper management of computer accounts and user identification by: handling system user authentication securely (e.g. passwords, PIN numbers, access codes); terminating an account in a timely manner when an individual's affiliation with the University is terminated or completed."

Best practices also require a unique identification is assigned to each user to ensure any action each user takes is uniquely accountable and traceable.

The Bookstore has not completed its initiatives working with a designated IT team of ISS IT to develop formal departmental authentication policies on access control. Without adequate controls to authenticate the users for accessing computers and systems, the Bookstore may grant

excess privileges to individuals. This may result in unauthorized use of, disclosure or modification to, and damage or loss to systems or data. It may not be able to safeguard the sensitive and protected information within the systems, and may not be able to hold the appropriate individuals accountable in case of errors or irregularities.

### **Recommendation 5:**

Bookstore management should develop formal authentication policies to:

1. Timely deactivate any users that no longer need access to computing systems or are terminated, and periodically monitor the task by reconciling active users to active employees;
2. Ensure template accounts are strictly used for creating accounts, not for any other access purposes; and
3. Eliminate using group, shared, or generic accounts that cannot readily trace access and activities to an individual for accountability.

### **Response from Bookstore Interim Director/ISS IT**

<b>Action Items</b>
<i>Targeted Completion Date:</i> 4/30/21
<i>Assigned to:</i> ISS IT
<p><b><i>Management's Response:</i></b></p> <ol style="list-style-type: none"> <li>1. ISS IT has deactivated all users that no longer need access or have been terminated. ISS IT will also reconcile all users on a quarterly basis. ISS IT will provide User Management &amp; De-provisioning SOP by 4/30/21.</li> <li>2. All template accounts are only used to help create new user accounts. None of the template accounts have any access to the system.</li> <li>3. ISS IT has cleaned up all permission groups and removed any shared or generic accounts. User Management &amp; De-provisioning SOP to be provided by 4/30/21.</li> </ol>

### **General Information Technology Security**

During the course of the audit, Internal Audit identified general IT issues that require management's attention as follows:

1. [REDACTED]
2. Passwords for the Bookstore's POS application do not expire, and the department's current policies do not require users to change their passwords.

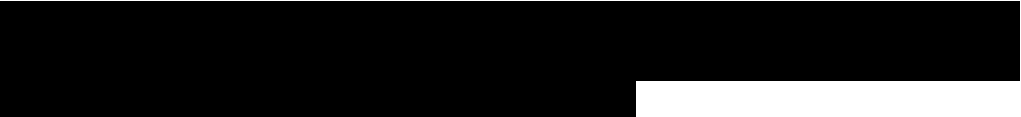
UAP 2520: Computer Security Controls and Access to Sensitive and Protective Information, Section 5.4 Data Loss Protection states, “For all computing systems that store or process sensitive or protected information, department heads or designees are responsible for developing, maintaining and executing backup, off-site storage and disaster recovery procedures for computerized University information. All mission critical systems and data must be protected by disaster recovery procedures that include storing the data an appropriate distance from campus that meets the University's needs. Disaster recovery plans should be maintained by the unit, periodically tested and updated as needed.”

UAP 2500: Acceptable Computer Use, Section 2.1.5. Computer Accounts and Passwords also stipulates, “A password is a security measure designed to prevent unauthorized persons from logging on with another person’s computer account and reading or changing data accessible to that user... For this security feature to be effective, the user must protect the secrecy of his/her password. Each user should: choose a password that is easy to remember but hard to guess; change his/her password regularly and at any time the user believes the password may have been compromised... similar measures apply to all authentication methods such as PINs.”

The Bookstore does not have controls in place to ensure it has implemented required disaster recovery plans, and its users who access certain applications change their passwords regularly. Without a disaster recovery plan, the Bookstore may not be able to recover critical IT systems and data in the event of a disaster. Not changing passwords regularly increases the risk of improper account access by other users.

**Recommendation 6:**

The UNM Bookstore should strengthen its IT security by executing the following:

1. 
2. Requiring users of its Point-of-Sale and any other applicable application to change their passwords periodically.

**Response from Bookstore Interim Director/ISS IT:**

<b>Action Items</b>
<b>Targeted Completion Date:</b> 5/31/21 & 4/30/21
<b>Assigned to:</b> ISS IT
<b>Management's Response:</b> <ol style="list-style-type: none"><li>1. [REDACTED]</li><li>2. ISS IT will require all cashiers of the Point-of-Sale to change their password every 180 days or every week of June 1 and week of December 1. This change will also include any other application that does not already require a regular password change. User Management &amp; De-provisioning SOP will be provided by 4/30/21.</li></ol>

**PAYMENT CARD INDUSTRY (PCI) COMPLIANCE**

UAP 7215 Credit Card Processing, Section 1 states, "The University of New Mexico is committed to protecting against exposure and possible theft of personally identifiable information associated with UNM credit card processing, and to complying with the most recent version of the Payment Card Industry (PCI) Data Security Standards (PCI-DSS) and all other relevant PCI standards." According to PCI DSS instructions and guidelines, "Self-Assessment Questionnaires (SAQs) are validation tools intended to assist merchants and service providers in self-evaluating their compliance with the PCI DSS." Questions and responses related to SAQs can be helpful for UNM to confirm its compliance and identify areas for improvement. The designated responders for the UNM Bookstore merchant IDs are required to respond to a series of PCI questions through a provider's website where the web-based Self-Assessment Questionnaire (SAQ) and web-based Attestation of Compliance (AoC) can be produced and generated. This is done annually, or when new card processing is requested, major processing changes, or system changes occur.

UAP 7215: Credit Card Processing states "Departments responsible for credit card processing must maintain accurate documentation of their cardholder data environment and PCI compliance activities, including...all related policies, processes, and procedures."

On November 13, 2020, Internal Audit inquired about PCI compliance to the University Treasurer. [REDACTED]

[REDACTED] The ISPO was able to provide IA with background information, but then referred us to the Bookstore for Bookstore specific

responses and maintenance of Bookstore PCI compliance documentation, as he indicated his office did not create or maintain the SAQ and AoC for individual units. IA could not obtain direct documentation verifying the responses, and who may have responded, to the SAQ on behalf of the Bookstore.

UAP 7215 also indicates, “Departments that process cards, or that otherwise have access to the cardholder data environment, must: ... Ensure that all third-party providers of PCI-related services to the department be compliant with the current version of PCI DSS and with all other relevant PCI standards.” The UNM Bookstore was not obtaining submitted AoCs from all third-party providers that it works with, and can improve its compliance process by doing so annually.



The 2020 provider’s copy included the responses to a series of questions in connection with SAQ and AoC. IA noted that the response to one SAQ question, “Is access for terminated users immediately deactivated or removed?” was checked “Yes.” IA did not intend to test and did not test responses to the SAQ/AoC during our review. However, given an observation IA identified in Recommendation 5 earlier that many terminated users were not deactivated or removed for years,



In addition, UNM does not currently have documented

roles and responsibilities pertaining to compliance with UNM PCI policies and/or standards for the Bookstore.

UAP 7215: Credit Card Processing states, “Before a merchant ID number (MID) or customer account number (CAN) will be issued, a compliant implementation plan for the cardholder data environment must be provided to and approved, as appropriate, by the University Controller and the Main Campus Chief Information Office (CIO)...UNM Information Technologies (IT) and the University Controller will assist departments that process credit cards, or who have access to cardholder data, in complying with the PCI DSS.”

UAP 7215: Credit Card Processing also states, “Departments must also create, maintain, and test business continuity, disaster recovery plans, and security incident response plans annually.”

UNM does not have written documentation that defines the most up-to-date roles and responsibilities of its service providers and each UNM unit involved, including: Bookstore management; Bookstore IT support, ISPO with UNM IT; Controller’s Office; and UNM CIO’s office, etc.

Internal Audit noted that UNM had a project for PCI compliance initiatives in 2015 that leveraged consulting services from a PCI Qualified Security Assessor (QSA).

**Recommendation 7:**

The UNM Financial Services Division and the UNM CIO’s office should work with all units that process credit cards, and related business units to develop and approve written processes assigning roles and responsibilities to:

1. Clearly outline and define roles and responsibilities of its service providers and UNM units involved, and identify PCI compliance requirements for all applicable merchant IDs;
2. Ensure that management oversight of PCI activities is assigned as they determine going forward;
3. Maintain local copies of complete responses to compliance questions, and the generated SAQs and AoCs, for applicable merchant IDs, with internal supporting documentation and names and titles of responders;
4. Formally review the responses to the compliance questions;



5. Collect and maintain copies of AoCs from third-party service providers;
6. Implement or resume an oversight mechanism or official committee with proper authority to periodically ensure above-mentioned compliance responsibilities are performed and documented annually as expected, and address any deviation to the plan in a timely manner; and
7. Consider engaging a Qualified Security Assessor (QSA) to assess and consult on UNM’s PCI compliance activities.

**Response from UNM Financial Services Division and the CIO’s Office**

<b>Action Items</b>
<b>Targeted Completion Date:</b> 10/01/2021
<b>Assigned to:</b> UNM Controller and UNM CIO
<p><b>Management’s Response:</b> Management agrees with the recommendations. In March 2021, the UNM Controller and Chief Information Officer formed a task force to review and document roles and responsibilities within the UNM Financial Services Division, UNM Information Technologies, other appropriate offices, and UNM’s authorized credit card processors as they relate to the oversight of UNM’s authorized credit card processors. [REDACTED], and an oversight committee and approach will be established through the task force. Activity of the oversight committee will include an internal review of the responses to UNM authorized credit card processor’s compliance questions. Each credit card processor will also be required to store copies of AoCs from third party service providers [REDACTED]. The ISPO has been tasked with preparing a recommendation and timeline for periodic reviews of UNM’s authorized credit card processors by a Qualified Security Assessor. The documentation and plans are expected to be complete by 10/01/2021, and will be presented to UNM executive leadership, with any necessary funding considerations, for adoption.</p>

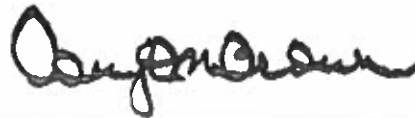
## APPROVALS



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Victor Griego, CPA  
Interim Director, Internal Audit Department

Approved for Publication



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Chair, Audit and Compliance Committee