

AUDIT OF THE UNIVERSITY PRESIDENT'S TRAVEL, ENTERTAINMENT, AND OTHER EXPENSES

THE UNIVERSITY OF NEW MEXICO

**Report 2020-09
October 16, 2020**



**THE UNIVERSITY OF
NEW MEXICO.**

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ABBREVIATIONS

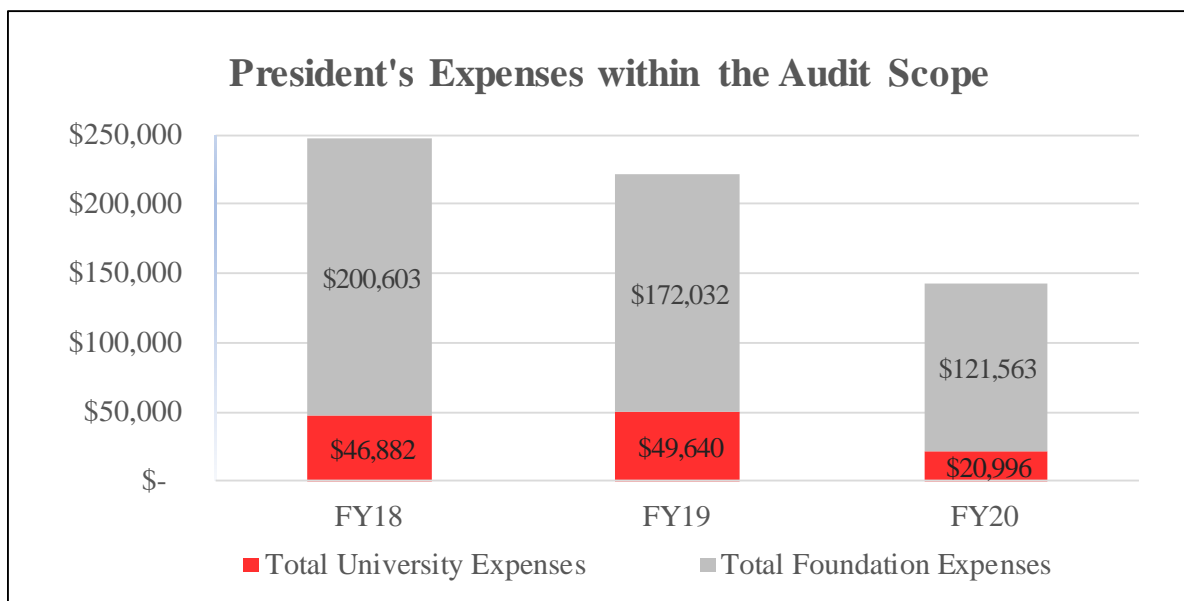
ACC	Audit and Compliance Committee
Foundation	UNM Foundation
FY20	Fiscal Year 2020 (7/1/19 – 6/30/20)
IA	UNM Internal Audit Department
IRS	Internal Revenue Service (U.S. Federal Agency)
UAP	University Administrative Policies
UNM/University	University of New Mexico

EXECUTIVE SUMMARY

As required by *Regents' Policy 3.9: Benefits of the University President*, and per the President's employment agreement, the Internal Audit Department (IA) conducted an audit of the President's travel, entertainment, and other expenses for the period of July 1, 2019 through June 30, 2020. The purpose of the audit was to determine compliance with applicable Regents', University, and University of New Mexico Foundation (Foundation) policies, the President's employment agreement, and reporting requirements of the Internal Revenue Service (IRS).

IA examined the President's travel, entertainment, and other expenses of \$20,996 and \$121,563 expended from the Office of the President organization code (031A) and the Foundation's President's Club fund, respectively, during fiscal year 2020 (FY20). Major recurring expenses during the fiscal year included payments from the President's Club fund for the President's suite at Dreamstyle Stadium and the half-suite at Dreamstyle Arena, which are used for donor cultivation and to support UNM Athletics.

Table 1. Three-Year Trend Analysis



Source: MyReports (UNM Banner System) and UNM Foundation

IA also assessed the President's compensation received in FY20 to determine whether all forms of pay and other compensation made to the President were consistent with the terms of her employment contract and related documentation.

CONCLUSION

In the audit of the President's travel, entertainment, and other expenses, IA found the expenses were reasonable, allowable, and consistent with applicable UNM policies and internal controls.

INTRODUCTION

BACKGROUND

According to *Regents' Policy 3.9: Benefits of the University President* and President Stokes' employment agreement, the University pays for or reimburses the President for reasonable and allowable expenses resulting from official travel, entertainment, and other activities by the President and her spouse if incurred in the performance of her official duties. Common examples of expenses incurred in the course of President Stokes' official duties may include any of the following: hosting University events; travel for national meetings of higher education organizations; developing partnerships throughout New Mexico; donor outreach and development; attendance of University Athletics' events; and, advancing the University's legislative agenda.

In recognition that certain official events (donor cultivation, athletic events, etc.) benefit from the participation of the President's spouse, *Regents' Policy 3.9* allows the University to cover costs incurred by the President's spouse when attending events in the course of the President's official duties. These expenses are expected to comply with applicable Regents' and University policies.

The President has available discretionary funds held by the Foundation (President's Club fund). Donations made to the President's Club Fund are used to advance the President's priorities for the University. Consistent with *Regents' Policy 3.9*, these discretionary funds are made available to the President for such miscellaneous expenses as: recognition/appreciation or retirement gifts; purchases of tables sponsored by community organizations; donor relations; receptions; meals (including alcoholic beverages); fundraising events; and, other similar events or expenses that are judged to be for the benefit of the University.

PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to determine whether the President's and the President's spouse's travel, entertainment, and other expenses were reasonable, allowable, and in accordance with Regents', University, and Foundation policies and IRS reporting requirements; and, that they are consistent with the President's employment agreement, as applicable.

The scope of the audit included all travel, entertainment, and other expenses, including the President's compensation under the terms of her employment agreement and spousal expenses, paid to or on behalf of President Stokes within the audit period. The audit period was July 1, 2019 through June 30, 2020 (FY20). All transactions that were determined to be in-scope were tested as part of this audit.

The audit sought to accomplish the following objectives:

- Assess President Stokes' and her spouse's travel reimbursements, as well as other expenses for events sponsored by the Office of the President, to ensure compliance with Regents' and University Administrative Policies (UAP).

- Assess expenses incurred within the President’s Club at the UNM Foundation to ensure compliance with Regents’ and UNM Foundation policies.
- Assess whether compensation paid to President Stokes during the audit period was consistent with the terms of her employment agreement and addenda duly authorized by the Board of Regents.

PROCEDURES

The detailed audit procedures performed include the following activities:

- Review of:
 - Policies
 - Regents’ Policy 3.9, “Benefits of the University President”
 - UAP 4000, “Allowable and Unallowable Expenditures”
 - UAP 4030, “Travel”
 - UAP 2050, “Governmental Relations and Legislative Activity”
 - UNM Foundation Policy 4.6, “Foundation Debts, Disbursements & Investments”
 - UNM Foundation Policy 4.9, “Foundation Support of Other Organizations”
 - President Stokes’ Employment Agreement (effective March 1, 2018, and in effect throughout audit period)
 - Results of Annual Evaluation (included salary modifications agreed to by Regents)
 - Control self-assessment
- Analysis of:
 - Out-of-scope transactions for appropriateness of scoping classification
 - Vendor history assessment for non-salary payments (e.g. reimbursements) paid to President Stokes
- Detailed testing to assess that all transactions were:
 - Reasonable and allowable, per the aforementioned policies and/or employment agreement
 - Accounted for appropriately
 - Supported by the necessary documentation consistent with *UAP 4000*, including receipts; and, if applicable, a signed ‘Documentation Form for Spousal Expenses,’ consistent with *Regents’ Policy 3.9*
 - Reviewed for taxability of reimbursements/payments, and if taxable, traced to President Stokes’ earnings detail report

The audit of the President’s Travel, Entertainment, and Other Expenses was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

PRESIDENT'S UNIVERSITY EXPENSES

To identify in-scope transactions, IA generated an operating ledger detail report for FY20 across all indices within organization code 031A. The table below (Table 2) is a summary of total revenues and expenses from the Office of the President's operating ledger. IA noted that President Stokes' travel activity was impacted by the COVID-19 pandemic, resulting in less expenses in FY20 compared to FY19. IA also performed an assessment of the vendor history for President Stokes to identify any other payments made to her outside of the Office of the President's index, noting none had occurred. IA identified expenses totaling \$20,996, and tested these transactions against Regents' and University policies and internal controls.

Table 2. FY20 Financial Position, Office of the President

Operating Ledger Summary at June 30, 2020			
Account Type	Budgeted	Actual	Encumbrances
Total Revenue	1,646,080	2,331,366	-
Salary Expense	988,514	1,008,387	-
Other Expense	657,566	236,118	6,544
Total Expenses	1,646,080	1,244,505	6,544
Change in reserves	-	1,086,861	(6,544)

MyReports (UNM Banner System)

During the course of this testwork, IA identified an exception relating to an element of President Stokes' compensation agreement, the Albuquerque Country Club membership dues, that was paid out of the Office of the President's index in September 2019. While this fringe benefit is consistent with the terms of her employment agreement, there was a processing error within the PCard Office in which the membership dues were not reported to Payroll. This resulted in the membership fees not being reported as taxable income for 2019.

Recommendation 1

The Controller's Office should strengthen their process controls to ensure taxable fringe benefits, including country club memberships, are properly reported in the correct tax year. The Controller's Office should work with HR annually to identify all employment contracts with noncash fringe benefits so they are reported as taxable income in the correct year.

Response from Chief of Staff, Office of the President

Action Items
Targeted Completion Date: Correction was completed September 2020
Assigned to: University Controller
Corrective Action Planned: Management agrees with the Recommendation, and has implemented a corrective action plan to prevent the recurrence of this issue. The tax on the Country Club membership paid in 2019 was taxed as soon as possible after discovery of the omission, in September 2020. A list all of employees whose contracts include a country club membership benefit was obtained from Human Resources in September 2020. This information was reviewed for 2020 taxable transactions, and the Main Campus Associate Controller for Unrestricted Accounting will obtain this information from Human Resources prior to the end of each calendar year, to ensure that all appropriate taxes for this noncash benefit have been properly reported to payroll for taxation in the proper calendar year.

PRESIDENT’S CLUB EXPENSES (UNM FOUNDATION)

Because of the discretion President Stokes has in the use and application of President’s Club funds held by the UNM Foundation, IA determined that all expenses be subjected to substantive audit procedures. IA obtained an activity-level report from the Foundation for the President’s Club for FY20, which consisted of expenses totaling \$121,563. This accounts for approximately 85% of in-scope expenses. IA tested all transactions against Regents’ and Foundation policies and internal controls. IA did not identify any reportable conditions arising from this testwork.

IA also developed the following table (Table 3) to characterize the non-salary expenses audited by type of activity and source of funds.

Table 3. Expenses Audited by Type and Source

Expenses Audited in FY20			
Description	University	Foundation	Total
Development / Entertainment	-	71,361	71,361
President's Event Catering / Supplies	5,224	22,028	27,252
Table Sponsorship	-	13,650	13,650
Regents' Development Catering	-	10,524	10,524
Travel Expenses	5,677	-	5,677
University Support	-	4,000	4,000
Membership Dues	3,510	-	3,510
University House - Internet / Cable	2,861	-	2,861
Student Veteran Initiatives	2,750	-	2,750
Business Meals	974	-	974
Total Travel, Entertainment, Other Expenses	20,996	121,563	142,559

Source: MyReports - UNM Banner Systems (University); UNM Foundation

PRESIDENT'S COMPENSATION

Pursuant to the terms of President Stokes' employment agreement, IA identified six (6) salary expense elements within President Stokes' compensation agreement. IA assessed whether payments made to President Stokes' were consistent with her employment agreement and related documentation. Aside from the taxability matter relating to the country club membership described above, IA found that President Stokes' compensation expenses were consistent with the terms of her employment agreement in effect during FY20.

APPROVALS



Victor Griego, CPA
Interim Director, Internal Audit Department

Approved for Publication:



Chair, Audit and Compliance Committee