

AUDIT OF NON-STANDARD PAYMENTS

THE UNIVERSITY OF NEW MEXICO

Report 2024-03
July 26, 2024



THE UNIVERSITY OF
NEW MEXICO.

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ABBREVIATIONS

| | |
|---------------------|---|
| CON..... | College of Nursing |
| COP..... | College of Pharmaceuticals |
| CULLS..... | College of University Libraries and Learning Sciences |
| EPAF..... | Electronic Personnel Action Form |
| FY23..... | Fiscal Year 2023 (July 1, 2022 to June 30, 2023) |
| FY24..... | Fiscal Year 2024 (July 1, 2023 to June 30, 2024) |
| IA..... | University of New Mexico Internal Audit Department |
| Internal Audit..... | University of New Mexico Internal Audit Department |
| MOU..... | Memorandum of Understanding |
| NSP..... | Non-Standard Payment |
| PAR..... | Personnel Action Request |
| UAP..... | University Administrative Policy and Procedure |
| University..... | University of New Mexico |
| UNM..... | University of New Mexico |
| UNMMG..... | University of New Mexico Medical Group |

EXECUTIVE SUMMARY

To ensure compliance with UAP 2615: Non-Standard Payment Processing, Internal Audit (IA) completed an audit of the UNM Non-Standard Payments (NSPs) as part of its FY 2024 audit plan. State law relevant to this audit includes New Mexico Statutes Section 30-23-2, which states, “Whoever commits paying or receiving public money for services not rendered is guilty of a fourth-degree felony.”

The objective of this audit is to assess business and operational processes to determine if effective internal controls exist to mitigate the risk of inaccurate payment. To complete the audit objective, Internal Audit tested compliance with University policies, as well as State laws. Specific areas reviewed include, but are not limited to:

- Disbursements made to Non-Exempt employees that receive Non-Standard Payments (NSPs) by the Health Sciences Center, as well as other departments.
- Departments who pay with NSP have documentation for each employee to support hours worked, description of work, total pay, and method of calculation.
- Description of work in addition to normal job duties and total units requested are approved by the appropriate supervisor in advance of an employee completing work.
- Scope of work per work arrangement agrees to Electronic Personnel Action Form (EPAF).

CONCLUSION

Employees who process NSPs at UNM generally comply with UNM policies and procedures related to NSPs. During audit procedures, Internal Audit encountered instances in which we were unable to obtain all supporting documents; therefore, we could not determine accuracy of the payment. The current process has limitations which are primarily the result of: inadequate supporting documentation submitted for review; lack of a requirement to upload supporting documents; insufficient training for approvers; and/or not following processes related to approvals. As a result of the audit, Internal Audit is making the following recommendations:

Key Recommendations

- Develop and implement a comprehensive NSP business manual that outlines policies, specifically UAP policies 2000 and Faculty Handbook Policy 140, and provides guidance and requirements to departments, employment areas, and payroll personnel involved in processing each NSP type.
- Develop and implement a system for the processing, approval, and documentation storage of NSP disbursements.
- Require completeness of supporting documents for all NSP payments. Documentation submitted with approved NSPs should be sufficient for the employment area reviewer and payroll department to re-calculate an NSP disbursement for accuracy.

- Submit formal communication to employment areas and Payroll indicating NSPs should not be processed without first verifying required approvals have been obtained.
- Develop and implement a training curriculum for the NSP process. The training should focus on key elements for initiating, reviewing, and approving NSPs before being disbursed. The curriculum should provide guidance to area of employment reviewers on the use of available Banner reports for reviewing details of NSP activity, including Index, Organization Code, Suffix, etc. In addition, training should also provide information on types of NSPs, how to complete required documentation to initiate an NSP, and review and approval requirements.
- Develop a Memorandum of Understanding (MOU) which formally documents the agreement for the processing and reimbursement activity of NSPs between the School of Medicine and UNMMG.

INTRODUCTION

BACKGROUND

Recent audits and reviews, as well as overpayments reported by the Payroll Department have focused attention on controls that do not operate effectively over the NSP process. The Graduate Medical Education overpayment review was prompted by an overpayment of \$130,680. The overpayment occurred due to an input error and was not a result of fraudulent activity. The current NSP process is heavily dependent on manual data entry; therefore, preventative and detective controls are a crucial step in the process.

Due to the nature of the compensation, NSPs are used to pay faculty, staff, and student employees when a payment needs to be processed using a method other than the standard automatic monthly or bi-monthly payments. Different types of payments can occur for a variety of reasons. Extra compensation payments are used for work performed outside the scope of an employee's job duties, such as creating and implementing curriculum and receiving extra compensation as a retention bonus. Awards and prize payments are made for going above and beyond normal job duties for achievements such as a Faculty Endowment Award to a quarterly staff clinical practice payment. Faculty performance pay is paid to faculty for meeting certain goals outlined in a contract, or for meeting workload requirements at School of Medicine. Resident Physicians at Graduate Medical Education receive extra compensation for completing moonlighting shifts. Other types of NSPs include endowed faculty pay which is awarded (by a benefactor) to faculty holding a Chair position as an accomplished professor, and housing allowances for the recruitment of out of state hires.

The University is committed to serving the needs of its employees, degree seeking students, and faculty conducting research. Part of this commitment includes providing opportunities to employees, faculty, and students to participate in activities that will benefit them, such as: earning extra compensation to complete work in addition to normal job duties; publishing a research paper; or, completing moonlighting shifts at HSC. Most NSPs which are not related to staff extra compensation are tied to educational offerings and research-based projects that are tailored to meet the needs of the community which UNM serves.

PURPOSE, SCOPE, AND OBJECTIVES

An audit of the UNM Non-Standard Payment process was included in Internal Audit's FY 2024 audit plan. IA included in the scope of test work 128 disbursements in 13 types of NSPs which occurred during FY23 and the first four and half months of FY24 (07/1/2022-11/15/2023). The type of employees tested include non-exempt employees who receive NSPs, as well as residents at the School of Medicine. The following table shows this information:

Table 1

| Types of NSP Disbursements | Number of NSP Disbursements | | | Amount of NSP Disbursements | | |
|---------------------------------|-----------------------------|---------------|---------------|-----------------------------|---------------------|---------------------|
| | Main Campus | HSC | Total | Main Campus | HSC | Total |
| 415 M Distribution | 2 | 3 | 5 | \$ 18,314 | \$ 217,728 | \$ 236,042 |
| Adjust Resident Physician Pay | - | 13 | 13 | - | 19,070 | 19,070 |
| Adjust Student Earnings | 1 | - | 1 | 355 | - | 355 |
| Adjustment to Reg Pay | 4 | - | 4 | 5,456 | - | 5,456 |
| Awards and Prizes | 205 | 530 | 735 | 530,412 | 600,534 | 1,130,947 |
| Disloc/Housing Allowance | 4 | - | 4 | 2,000 | - | 2,000 |
| Earnings (No Retirement) | 8 | 13 | 21 | 355,918 | 323,890 | 679,808 |
| Endowed Faculty Pay | 78 | - | 78 | 757,526 | - | 757,526 |
| Extra Compensation | 1,123 | 155 | 1,278 | 3,553,241 | 306,842 | 3,860,083 |
| Faculty Performance Pay | 15 | 12,884 | 12,899 | 49,050 | 55,443,048 | 55,492,098 |
| Graduate Extra Comp | 69 | - | 69 | 24,350 | - | 24,350 |
| Resident Physician - Extra Comp | - | 1,900 | 1,900 | - | 2,820,093 | 2,820,093 |
| Staff Clinical Practice Pay | - | 407 | 407 | - | 717,113 | 717,113 |
| Total | 1,509 | 15,905 | 17,414 | \$5,296,622 | \$60,448,318 | \$65,744,940 |

Source: UNM Payroll Office

This audit focused on achieving the following objectives:

- Obtain an understanding of the operating effectiveness surrounding controls related to NSP Processing, specifically in the following areas:
 - Extra Compensation (work performed outside normal job duties)
 - Clinical Practice Payments (HSC healthcare staff who render licensed services as credentialed providers)
 - Health Sciences Center Performance Payments (made to HSC faculty subject to strict limitations under HSC policies)
 - Endowed Faculty Payments (professorships or lectureships)
 - Graduate Studies Extra Compensation (one-time payment for work performed by graduate student employee in another department)

- Resident Physician's Extra Compensation (payments made for work outside of regular duties)
- Awards and Prizes (payments to employees such as the Gerald May Staff Recognized Program)

PROCEDURES

Internal Audit performed the following procedures:

- Conducting inquiries with management and staff at departments/areas of employment where NSP payments are processed.
- Reviewing University Administrative Policy and Procedures (UAP) relevant to the NSP process; as well as statutes relevant to NSP.
- Developing an understanding of the NSP process from a risk-based approach.
- Conducting virtual or in-person walkthroughs of key control processes at departments who process NSPs.
- Obtaining NSP population from Payroll Department as well as supporting documents from various departments who process NSPs.
- Performing detailed testing of NSP expenditure transactions across 13 payment types for compliance with UNM's policies and procedures per UAP site, as well as applicable State laws.

The audit of UNM NSP disbursements 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

The following table lists the total sample of NSP per type and related dollar amount as well as NSPs which had at least one exception. Out of 128 NSPs tested, we identified 116 NSPs with at least one exception. Total NSPs selected for testing amount to \$2,663,654. Of this amount, \$2,271,814 had at least one exception. The following table shows this information:

Table 2

| | Total Sample | Total NSP Tested | Total Dollar Amount of NSP with Exceptions |
|---------------------------------------|--------------|---------------------|--|
| Faculty Performance | 40 | \$ 1,575,963 | \$ 1,184,124 |
| Staff Extra Compensation | 25 | 500,876 | 500,876 |
| Other* | 8 | 317,457 | 317,456 |
| UNMMG | 5 | 135,673 | 135,673 |
| Resident Physician Extra Compensation | 30 | 83,099 | 83,099 |
| Awards and Prizes | 20 | 50,586 | 50,586 |
| Total | 128 | \$ 2,663,654 | \$ 2,271,814 |

Source: UNM Payroll Office

*Note: "Other" Includes (Adj to Reg Pay, Disloc/Housing, Earnings (No Retirement), Endowed Faculty Pay, Graduate Extra Compensation)

NON-STANDARD PAYMENT BUSINESS PROCESS MANUAL

It was noted that departments have different methods for processing NSP payments; however, key controls such as documented approvals and readily available supporting documents should always align with University Policy 2000: Responsibility and Accountability for University Information and Transactions. Policy 2000 holds Initiators and Originators responsible for: ensuring the electronic transaction and/or form is complete and accurate; verifying all backup documentation; ensuring compliance with administrative processes; verifying the appropriateness of the transaction; and, ensuring compliance with University policies and procedures.

In addition to requirements listed at policy 2000: Responsibility and Accountability for University Information and Transactions C140: Extra Compensation Paid by the University requires the following procedures by the approving authority (advance written approval is not required for periods of activity consisting of two days or less per semester): required signatory approvals, and maintenance of records and supporting documentation.

Results of internal audit procedures indicates NSP standard operating procedures at the department level do not align with policies related to extra compensation paid by the University. Differences in current or existing department level procedures related to processing NSPs are a result of a lack of a standardized policy/business manual at the University. Opportunities for improvement that non-standardized policies have on the NSP process include, but are not limited to: lack of documented approvals prior to the work being completed; and, inability to provide or delay in providing supporting documents to area of employment reviewers, resulting in excessive NSPs in the queue to be reviewed. Department SOPs do not require supporting documents to be uploaded to the EPAF tracking system, therefore area of employment reviewers do not have access to supporting documents and must complete their review based on EPAF comments. Current NSP processes by employment area and transaction type are not standardized. In addition, documented guidance is not available for personnel to review.

Recommendation 1:

The Executive Vice President for Finance and Administration Office should develop and implement a comprehensive NSP business manual that outlines policies, specifically UAP policies 2000 and Faculty Handbook Policy 140. The manual should also provide guidance and requirements to departments, employment areas, and payroll personnel involved in processing each NSP type. An NSP business manual can also be utilized as a valuable tool for NSP processing training purposes.

Response from the Executive Vice President for Finance and Administration

| |
|---|
| Action Items |
| <i>Targeted Completion Date: June 30, 2025</i> |
| <i>Assigned to: Vice President for Human Resources; Vice President for Finance and Administration, Health and Health Sciences</i> |
| <i>Management’s Response: The Executive Vice President for Finance and Administration agrees with the recommendation to create a centralized business processing manual for NSPs. Human Resources and Health and Health Sciences administration will partner with the employment areas (EA) to create a centralized repository for NSP processing standards utilizing the Employee Knowledge Base. The Employee Knowledge Base is an existing centralized repository for personnel action processing guides, including ePAF-based transactions. Each EA will be responsible for creating their processing guide, consistent with the applicable policies, to include documentation, approval standards, and systematic changes and process improvements identified through the process review referenced in Recommendation 2.</i> |

SYSTEM FOR NON-STANDARD PAYMENTS PROCESS

During the course of the audit, Internal Audit assessed the current system for processing and housing NSP payment documentation.

The current system of processing NSPs includes paper NSP forms as well as EPAFs; however, there is not a system to process NSPs like other financial systems that process expenses, such as LoboWeb for purchasing and Chrome River for PCard. Areas of employment and UNM departments utilize a system of processing EPAFs that is dependent on manual data entry and review that is not efficient and sometimes results in errors and/or inaccuracies which can go undetected. During the audit period of 7/1/2022-11/15/2023, Internal Audit noted 17,414 NSPs totaling \$65,744,940, which were manually processed through the payroll process.

To facilitate effective and timely review of NSP disbursements, supporting documents should be consistently uploaded to the EPAF tracking and document management system. Results of test work indicate departments do not use the EPAF software's full capabilities which would allow departments and area of employment to store and quickly retrieve supporting documents. In addition, the current EPAF system for processing NSP's does not provide edit checks, such as calculation of extended payment amount. Nor does the system have a requirement that documented approval must occur prior to being routed to next level of review/processing. These missing processes increase the risk that an inaccurate NSP will go undetected.

IA determined that source documents are consistently unavailable or are missing. This causes issues for employment area reviewers when reviewing disbursements for accuracy and creates a system of review that is not effective. IA noted that once an NSP passes the departmental review with an error, area of employment reviewers will likely encounter difficulties identifying an error because they do not have access to source documents to compare the details of the transaction to. The area of employment reviewers have access to EPAFs; however, this does not include notes on how the "unit" or "cost" as it relates to total payout of the NSP is determined. This has been a key factor in the lack of oversight by each department's respective area of employment reviewers, due to uncertainty of the total extended amount, because this is not listed on the EPAF. Reasonableness is not considered; therefore, reviewers are unaware of the dollar amount they are approving. This leads to overpayments that go undetected by reviewers.

IA obtained a payroll report to identify corrections to NSPs during the audit period 7/1/2022-11/15/2023 and noted 26 exception discrepancies totaling \$103,250. Due to the corrections occurring outside of audit scope. Internal Audit did not perform audit procedures to determine the cause of the error or reason for the correction.

In addition, during the course of the audit, Payroll reported to IA five identified NSP overpayments totaling \$113,197. These overpayments were reported to us; however, we did not perform audit procedures to determine the cause of the overpayment as these NSPs occurred outside of the audit period selected for this audit.

The volume and current process which relies on data input and manual review has resulted in errors which continue to be identified on an ongoing basis. Considering the volume of NSPs and

instances of overpayments reported to Internal Audit, there is higher risk that overpayments can occur without being detected.

Recommendation 2:

The Executive Vice President for Finance and Administration office should develop and implement a system for the processing and approval of NSP disbursements. The system should provide a centralized location with the ability to upload and house supporting documents. In addition, the system will strengthen internal controls by improving the review and approval process for NSPs disbursed throughout the University. An implemented system may also perform edit checks and other automated functions. These strengthened internal controls will reduce the risk of NSP inaccuracies due to error and misappropriation.

Response from the Executive Vice President for Finance and Administration

| Action Items |
|---|
| Targeted Completion Date: June 30, 2025 |
| Assigned to: Vice President for Human Resources; Vice President for Finance and Administration, Health and Health Sciences, University Controller |
| Management's Response: <i>The Executive Vice President for Finance and Administration agrees with the recommendation that systematic improvements are needed to effectively issue NSP payments and reduce payment errors. It is clear from the audit findings that for certain populations of employees, such as clinical faculty and staff, NSPs are regular and recurring payments. The current processing systems, which are intended for one-time, infrequent payments, do not account for the wide-ranging circumstances in which NSPs are issued. Human Resources and Health and Health Sciences administration will partner with the employment areas (EA) to engage the Project Management and Improvement Office (PMIO) to conduct Lean based process review to document NSP processing standards across employment areas and identify areas for process improvements, including utilizing available technology solutions. While the responsible parties agree that technology solutions are needed to improve NSP processing, we are committed to implementing process improvements using currently available systems (ex. Banner, ePAF, document management systems, financial reconciliation processes). Upon completion of the PMIO facilitated process review, the responsible parties will have identified and implemented the appropriate technology solutions and data entry standards for NSPs across all applicable employment areas.</i> |

NON-STANDARD PAYMENT ASSESSMENT AND TESTING

While the name “Non-Standard Payment” indicates such payments do not occur frequently, these types of payments occur at a very high volume with large dollar amounts. There are thirteen types of non-standard pay which Departments, Schools and Colleges utilize for NSPs. Significant NSP transactions include payments to Faculty for performance; staff incentives; and payments to Resident Physicians earning extra compensation for completing moonlighting shifts at HSC. UNM

utilizes the NSP process to pay for a wide range of services and achievements which span various departments, schools, and colleges throughout the University.

IA noted several instances which indicate significant deficiency exists related to the NSP process. During NSP audit procedures, Internal Audit was unable to obtain all supporting documents which led to inability to verify the accuracy of the payment.

The NSP process is initiated at the Department where the non-standard work is completed. In general, a NSP form is completed by employees at the Department with scope of work and is submitted to Department management for approval. Once initial approval is obtained at the Department and work is completed, this information is populated on an EPAF form within LoboWeb. Department personnel populate data from the NSP form to the LoboWeb EPAF system and submit the EPAF to the area of employment for the second level of review. If area of employment reviewers have questions, they correspond with the Department to obtain additional information about the NSP. Once the area of employment approves the EPAF, Payroll processes the payment.

IA Tested the NSP Sample Population for the Following Attributes:

- Accuracy of transactions. To determine that Departments have documentation to support payment and IA is able to recalculate and agree payment to records. Items specific to this attribute include hours/units worked; description of work; total pay; and, method of calculation.
- Accuracy of coding the disbursement where the work was completed. Job/ORG/Department codes were accurately recorded to the department where work was completed, and if earnings code accurately includes/excludes from ERB contribution.
- Management review of NSP prior to completion of work. Required approvals are included on NSP/PAR (Personnel Action Request) form prior to payment. IA considered reasonableness of reviewer/approver information such as name, title, and date of review that is documented on records.
- Reviewer is an appropriate position to complete management review. Approver is an appropriate job position which excludes Faculty-Department Administrator, and Operations Manager.
- Accuracy of time period which NSPs are paid, as well as if payment end date is specified in scope of work. Ensured the end date per EPAF and account code documented on the NSP or EPAF agrees to end date for work/contract/agreement.

For NSP testing, IA focused on the areas with the most significant NSP activity during the audit period. These areas include Extra Compensation, Resident Physician-Extra Comp, and Awards and Prizes. IA stratified a random sample to select 128 disbursements for testing which occurred over the audit period 7/1/2022-11/15/2023.

Below is a table summarizing NSP activity and sample selection for the audit period 7/1/2022-11/15/2023:

Table 3

| | Main | Main | HSC | HSC | Total Sample | Total NSP Tested |
|--------------------------|-----------|-------------------|-----------|---------------------|--------------|---------------------|
| Faculty Performance | 1 | \$ 5,000 | 39 | \$ 1,570,963 | 40 | \$ 1,575,963 |
| Staff Extra | | | | | | |
| Compensation | 23 | 493,336 | 2 | 7,540 | 25 | 500,876 |
| Other* | 8 | 317,456 | - | - | 8 | 317,457 |
| UNMMG | - | - | 5 | 135,673 | 5 | 135,673 |
| Resident Physician Extra | | | | | | |
| Compensation | - | - | 30 | 83,099 | 30 | 83,099 |
| Awards and Prizes | 7 | 25,594 | 13 | 24,992 | 20 | 50,586 |
| Total | 39 | \$ 841,386 | 89 | \$ 1,822,266 | 128 | \$ 2,663,654 |

Source: Compiled From IA's Sample, Original Data Obtained from UNM Payroll Office

Note: "Other" section includes areas with low volume of NSP transactions: Faculty Performance College of Nursing (CON), College of Pharmaceuticals (COP), College of University Libraries & Learning Sciences (CULLS), Adjustment to Regular Pay, Housing Allowance, Earnings with No Retirement, Endowed Faculty Pay, Graduate Extra Compensation.

NSP DOCUMENTATION

Supporting documentation for financial transactions are essential for effective internal controls to ensure disbursements are for a valid business purpose and are accurate. Based on test work performed, Internal Audit noted that documentation is either not available or does not adequately support the NSP amount tested.

During test work, IA requested supporting documents for NSPs in our sample; however, IA encountered difficulties receiving documents timely, and in some cases, there were no documents provided at all. In some instances, follow up correspondence was required to understand how the NSP was calculated. IA's need to correspond with departments was consistent with statements made by area of employment reviewers in which they stated there is frequent correspondence with departments to request additional documentation to support payment details listed in the "comments" section of the EPAF. The correspondence is usually related to reviewers encountering difficulties recalculating the NSP or requesting departments add sufficient documentation about the NSP.

The following lists documentation issues by NSP transactions type, which IA noted during its test work. Please note the importance of an "end date" described in the following exceptions is referring to the date that is documented on the EPAF which sets the end date when payments will stop being paid to the recipient. The end date can either be the current month which indicates the payment is a one-time payment, or the end date can be a date in the future for items such as contractual payments that occur on a quarterly basis.

- **Faculty Performance NSPs** – In 35 payments tested, Internal Audit identified a total of 21 exceptions where supporting documents were not available or sufficient to recalculate and/or verify the NSP amount. There were no exceptions noted in the

additional 5 samples tested to reach a sample selection of 40 NSP. Instances of a lack of, or incomplete supporting documents include:

- NSP/PAR/FBIC or other required form to initiate/authorize the NSP was not available for review (7 exceptions)
- No documentation to support payment was available for review (1 exception)
- Internal Audit was not able to recalculate payment based on documentation provided for review (2 exceptions)
- EPAF was not provided to verify end date of NSP (11 exceptions)
- **Extra Compensation NSPs** – In 25 transactions tested, Internal Audit identified a total of 49 exceptions where supporting documents were not available or not sufficient to recalculate and/or verify the NSP amount. Instances of a lack of, or incomplete supporting documents include:
 - No documentation to support payment was available for review (21 exceptions)
 - Internal Audit was not able to recalculate payment based on documentation provided for review (5 exceptions)
 - EPAF was not provided to verify end date of NSP (23 exceptions)
- **Resident Physician Extra Compensation NSPs** – In 30 transactions tested, Internal Audit identified a total of 6 exceptions where no documentation to support payment was available for review.
- **Awards and Prizes NSPs** – In 20 transactions tested, Internal Audit identified a total of 25 exceptions where supporting documents were not available or not sufficient to recalculate and/or verify the NSP amount. Instances of a lack of, or incomplete supporting documents include:
 - No documentation to support payment was available for review (3 exceptions)
 - Internal Audit was not able to recalculate payment based on documentation provided for review (2 exceptions)
 - EPAF was not provided to verify end date of NSP (20 exceptions)
- **UNMMG Reimbursement of NSPs** – In 5 transactions tested, Internal Audit identified a total of 25 exceptions where there was no documentation to support payment available for review.
- **Other NSPs** – In 8 transactions tested, Internal Audit identified a total of 23 exceptions where supporting documents were not available or sufficient to recalculate and/or verify the NSP amount. Instances of a lack of, or incomplete supporting documents include:
 - No documentation to support payment was available for review (18 exceptions)
 - EPAF was not provided to verify end date of NSP (5 exceptions)

The following table presents details of exceptions for each NSP transaction type tested.

Table 4

| Type of Non-Standard Payment | Sample Population Per Payment Type | Total Instances of various Exceptions Per Type | E1 | E2 | E3 | E4 |
|--|------------------------------------|--|----------|-----------|----------|-----------|
| Faculty Performance - HSC | 35 | 21 | 7 | 1 | 2 | 11 |
| Extra Compensation-Main Campus | 25 | 49 | | 21 | 5 | 23 |
| Extra Compensation-Resident Physician | 30 | 6 | | 6 | | |
| Awards and Prizes | 20 | 25 | | 3 | 2 | 20 |
| Remaining - Faculty Performance VP HSC CON | 2 | 0 | | | | |
| Remaining - Faculty Performance VP HSC COP | 2 | 0 | | | | |
| Remaining - Faculty Performance Provost | 1 | 0 | | | | |
| Academic Affairs CULL | | | | | | |
| UNMMG | 5 | 25 | | 25 | | |
| Other* | 8 | 23 | | 18 | | 5 |
| Total | 128 | 149 | 7 | 74 | 9 | 59 |

Tick Mark Legend

E1-NSP/PAR/FBCI or other form to initiate NSP process not available.

(Exceptions related to forms unavailable to initiate NSP process)

E2-Documentation to support payment not available.

(Exceptions related to unavailable documentation to support payment)

E3-Unable to re-calculate disbursement.

(Total disbursements could not be re-calculated due to incomplete documentation)

E4- EPAF Not Included, unable to confirm accurate end date.

(Total disbursements which EPAFs were not included; therefore, end date could not be identified and tested)

*"Other" includes Remaining Adj to Reg Pay, Disc/Housing Allowance, Earnings (no retirement), Endowed Faculty pay, Graduate Extra Comp.

Note: Transactions tested may include multiple exceptions noted in the tick mark legend.

An efficient and effective process includes supporting documentation and additional information as needed to allow reviewers to recalculate disbursements with minimal correspondence with department personnel. Reviewers with basic knowledge and understanding of the NSP should be able to re-perform the calculation of the NSP with little to no difficulties. Lack of supporting documents is a significant issue because the inability to confirm transaction data such as dollar amount, units, and dates can result in inaccurate payments, especially as it relates to more complicated NSPs, such as multi-payment arrangements which can result in early payments as well as additional payments that continue beyond the end date listed in the agreement.

Some departments who process NSP disbursements process them slightly different due to a non-standardized NSP process; therefore, the use of EPAFs is not required for all areas of employment. Processing NSP through EPAFs and providing them to reviewers is not specifically required per UAP; however, the Main Campus Faculty EPAF guide emphasizes the importance of accurate job start and end dates. Areas of Employment and related Departments should adhere to Faculty

Handbook Policy C140 Extra Compensation Paid by the University which require Department employees to ensure approvals by the approving authority are documented, as well as adequate maintenance of records and supporting documentation.

Lack of documentation increases the risk of incorrect payment through error and increases the risk of fraud through collusion.

Recommendation 3:

Internal Controls surrounding documentation supporting NSPs should be strengthened. The Executive Vice President for Finance and Administration office should require completeness of supporting documents for all payments.

NSPs should not be processed unless adequate supporting documentation is provided for the approved NSP amount. In addition, documentation submitted with approved NSPs should be sufficient for the employment area reviewer and payroll to recalculate an NSP disbursement for accuracy.

Response from the Executive Vice President for Finance and Administration

| Action Items |
|--|
| <i>Targeted Completion Date:</i> October 15, 2024 |
| <i>Assigned to:</i> Vice President for Human Resources; Vice President for Finance and Administration, Health and Health Sciences |
| <p><i>Management's Response:</i> The Executive Vice President for Finance and Administration agrees with the recommendation that sufficient supporting documentation is required prior to processing and issuing an NSP payment. Human Resources and Health Sciences administration will coordinate an effort with all applicable EAs to inform the EAs of the recommendations from the audit, actions needed to support the PMIO Lean process review, and to reinforce NSP documentation and approval requirements. The EAs will be responsible for reviewing and updating NSP processing documentation, including the standards for sufficient supporting documents. The EAs will be responsible for communicating these standards to their applicable departmental clients and leadership. Health and Health Sciences administration will be responsible for identifying, documenting, and communicating documentation standards for clinical faculty payments.</p> <p>The EAs and payroll will review and update internal standard operating procedures to include a review and retention of NSP documentation within personnel file maintenance systems.</p> |

FORMALLY DOCUMENTED APPROVALS

Required signatory approval is listed as a key step in the NSP process. During the course of the audit, IA assessed and tested for documented approvals surrounding NSPs. Departments typically

document the scope of work on an NSP form or other types of departmental record keeping such as internal tracking sheets. Once scope of work is clearly documented on the NSP form or other type of tracking sheet, there is at least one person who is authorized and required to approve the payment at the department, such as an employee in upper management of the department; however, additional approvers often include those who hold Chair and Dean positions. Once appropriate approvals have been obtained, details of the transaction are entered into the EPAF tracking system. At this time the unit, rate, and comments about the transaction are reviewed at the area of employment by multiple reviewers whose approvals are documented in the routing queue of the EPAF. The area of employment will either send it back to the department for modification or questions or will approve and submit to Payroll for processing if there are no review comments to address. The following issues were noted surrounding the department approval for NSPs:

- **Faculty Performance NSPs** - 14 of 35 transactions tested did not include all signatures of those required to authorize payment of the NSP at the department.
- **Resident Physician Payment Extra Compensation NSPs** - 30 out of 30 transactions tested did not include approvals for moonlighting shifts at SOM.

Departments should ensure procedures align with Faculty Handbook Policy C140: Extra Compensation Paid by the University which lists signatory approvals as a key step in the NSP process; “For periods of activity consisting of two days or less per semester, advanced written approval is not required. For all other circumstances advance written approval is required.” To comply with Policy 2615 Administrative Policies and Procedures Manual: NSP Processing, “The department authorizing payment should print off the NSP form, obtain the required signatures, and submit the completed form to the appropriate employment data center indicated on the form.” Advanced approval is required by Regent’s Policy Manual – Section 5.6: Extra Compensation Paid by the University, which states “Advance approval in writing is given by the appropriate department chairperson and dean.”

Recommendation 4:

Internal Controls surrounding NSP approvals should be strengthened. NSPs should not be processed unless documented approval is provided for the approved NSP amount. The Executive Vice President for Finance and Administration should submit formal communication to employment areas and Payroll indicating NSPs should not be processed without first verifying required approvals have been obtained.

Response from the Executive Vice President for Finance and Administration

| Action Items |
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| Targeted Completion Date: October 15, 2024 |
| Assigned to: Vice President for Human Resources; Vice President for Finance and Administration, Health and Health Sciences |
| Management's Response: <i>The Executive Vice President for Finance and Administration agrees with the recommendation that documentation of approvals is required prior to processing and issuing NSPs. Human Resources and Health and Health Sciences administration will coordinate an effort with all applicable EAs to inform the EA of the recommendations from the audit, actions needed to support the PMIO lean process review, and to reinforce NSP documentation and approval requirements. The EAs will be responsible for reviewing and updating NSP processing documentation, including the requirement for documented approvals. The EAs will be responsible for communicating these standards to their applicable departmental clients and leadership. Health and Health Sciences administration will be responsible for identifying, documenting, and communicating approval requirements for clinical faculty payments.</i> |

ACCURACY OF DOCUMENTATION AND ACCOUNT CODING

Departments should ensure they comply with UAP 2645 Accounting for Labor Expenses which states, "Departments are responsible for verifying that labor expenses are posted accurately and are charged to the appropriate Banner Index." In addition to incorrect payment dates, posting to the appropriate Banner Index is crucial because it is possible that another department could pay for the expense, which could potentially affect their budget. Accounting records that do not agree to supporting documents can be a result of human error in data entry and/or in record keeping systems.

Internal Audit performed audit procedures to determine if documentation is accurate and the NSP is recorded to appropriate account coding.

Faculty Performance NSPs – In 35 transactions tested, IA noted one (1) transaction where the end date per EPAF did not agree with terms of NSP, which resulted in early payment.

Faculty Performance NSPs – In 35 transactions tested, IA noted (1) transaction where the Job/Org/Department codes do not agree to supporting documents.

Awards and Prizes NSPs – In 20 transactions tested, IA noted one (1) transaction where the Job/Org/Department codes do not agree to supporting documents.

Extra Compensation NSPs – In 25 transactions tested, IA noted one (1) transaction where the Job/Org/Department codes do not agree to supporting documents.

Without supporting documents available to area of employment reviewers, it's unlikely the errors such as miscoding will be identified, since area of employment reviewers are unable to confirm accuracy of the NSP submission in the EPAF system.

Recommendation 5:

Internal controls should be strengthened to ensure documentation is accurate and NSPs are recorded to the appropriate account coding. Departments should verify accurate information related to the disbursement is documented in the EPAF system prior to submitting an NSP to the area of employment for review.

Area of employment reviewers should have access to all NSP supporting documentation to confirm accuracy of details of the NSP, such as: accurate end date, Job Code, and Organization Code.

Response from the Executive Vice President for Finance and Administration

| Action Items |
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| <i>Targeted Completion Date:</i> December 31, 2024 |
| <i>Assigned to:</i> Vice President for Human Resources; Vice President for Finance and Administration, Health and Health Sciences, University Controller |
| <i>Management's Response:</i> The Executive Vice President for Finance and Administration agrees with the recommendation that employment areas must clarify the data entry standards for NSPs. Payroll will provide guidance to EAs as to the appropriate use of account and earn codes based on the type of payment and work performed. Human Resources and Health and Health Sciences administration will coordinate an effort with all applicable EAs to inform the EA of the recommendations from the audit, actions needed to support the PMIO lean process review, and to reinforce NSP documentation and data entry standards. The EAs will be responsible for reviewing and updating NSP processing documentation and standard operating procedures to reflect data entry standards and appropriate account code and earn code usage. The data entry standards will be identified through the PMIO lean process review. The data entry standards will be documented in the centralized process repository identified in recommendation 1. The EAs will be responsible for documenting and communicating data entry standards to their applicable departmental clients and leadership. |

TRAINING FOR NSP PROCESSING AND REVIEW PROCEDURES

During its internal control assessment, Internal Audit noted there is not a training plan in place for the processing of NSPs. Adequate training is a critical internal control which informs NSP initiators and reviewers about the information/reports necessary and available to complete a full review of costs related to NSPs.

A lack of training which guides those involved in the NSP process on uniform or standardized reports to utilize when reviewing NSPs creates a system of ineffective review. Areas of employment reviewers do not know where to locate the Banner reports which are necessary to review NSP costs at the index level. As a result of a lack of training curriculum, reviewers at area of employment have faced difficulties reviewing details of NSP activity, including Index, Organization Code, Suffix, etc. Departments input NSP costs by index codes while area of employment reviewers do not see costs by index code; they see the NSP as a total dollar amount which includes several index codes, making reconciliation difficult. SOPs related to this opportunity for improvement at each area of employment and department include, but are not limited to: EPAF SOPs for Departments, and EPAF Approver SOP. Review procedures listed in these SOPs have limitations which are the result of lack of formal training curriculum which provides guidance on reports and other information available to area of employment reviewers.

Recommendation 6:

The Executive Vice President for Finance and Administration should develop and implement a training curriculum for the NSP process. The training should focus on key elements for initiating, reviewing, and approving NSPs before being disbursed.

Training curriculum should provide guidance to area of employment reviewers on the use of available Banner reports for reviewing details of NSP activity, including Index, Organization Code, Suffix, etc. In addition, training should also provide information on types of NSPs, completing required documentation to initiate an NSP, and review and approval requirements.

NSP training can be completed during the onboarding process for new employees or on an ongoing basis.

Response from the Executive Vice President for Finance and Administration

| Action Items |
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| <i>Targeted Completion Date:</i> June 30, 2025 |
| <i>Assigned to:</i> Vice President for Human Resources |
| <i>Management's Response:</i> The Executive Vice President for Finance and Administration agrees with the recommendation to improve NSP training for department users and approvers. Human Resources' Employee and Organizational Development (EOD) department will review and update current training required of end users prior to submission of the ePAF originator and approver BAR roles. The updated training will include reinforcement of the processing standards applicable across employment areas, including documentation and approval standards, and reference to the centralized repository for EA processing guidelines. |

NSP MEMORANDUM OF UNDERSTANDING (MOU) WITH UNM MEDICAL GROUP

During the course of the audit, Internal Audit identified an arrangement between the UNM Medical Group (UNMMG) and the School of Medicine surrounding NSP activity. IA noted non-standard payments for certain faculty are processed by School of Medicine and subsequently reimbursed by UNMMG. The NSP activity is recorded in a Banner index for financial reporting.

Through discussions with the UNMMG Finance Director, IA gained an understanding of the relationship between UNM and UNMMG as it relates to processing NSPs, and noted non-compliance with UNM UAP Policy 2015: Contract Monitoring due to a lack of a formal agreement or memorandum of understanding (MOU) which provides guidance related to UNM & UNMMG processing of NSP transactions. UNMMG is staffed by employees of both UNM and UNMMG. Wage and benefit payments to UNM employees are recorded in Banner as an expense, and subsequently reimbursed by UNMMG. IA requested supporting documents related to the NSP reimbursement which UNMMG processes but was unable to obtain them. IA was therefore unable to test details of the NSPs, such as if approvals were documented. Per UNM UAP Policy 2015: Contract Monitoring: “The contract monitor is responsible for monitoring that contract requirements are satisfied, goods and services are delivered in a timely manner, safety and risk issues are addressed, and required payments are approved.” The cause for the lack of an MOU is unclear; however, UNMMG does have a process memo which adequately describes the process. As stated in UNM UAP Policy 2015: Contract Monitoring, Lack of an MOU can have a negative impact to the University’s safety and/or reputation if the contract is not executed properly and on time.

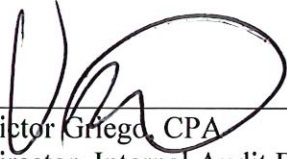
Recommendation 7:

The UNM Health and Health Sciences Senior Executive Office for Finance and Administration should work with the UNMMG Chief Financial Officer to develop a Memorandum of Understanding (MOU) which formally documents the agreement for the processing and reimbursement activity of NSPs between the School of Medicine and UNMMG.

Response from the UNM Health and Health Sciences Senior Executive Office for Finance and Administration

| Action Items |
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| <i>Targeted Completion Date:</i> July 15, 2024 |
| <i>Assigned to:</i> Vice President for Finance and Administration, Health and Health Sciences |
| <i>Management’s Response:</i> UNMMG Chief Financial Officer, in collaboration with the Chief Financial Services Officer for the School of Medicine (SOM), will amend the MOU “ Exhibit 8 - (HSC) UNMMG Operating Expense Incurred By UNM ” outlining the processing and reimbursement for services and activity with specific language that references the Non-Standard Payments. This MOU will then be executed by the appropriate UNMMG and UNM SOM representatives. |

APPROVALS



Victor Griego, CPA
Director, Internal Audit Department

Approved for Publication:



Chair, Audit and Compliance Committee