

# REVIEW OF HARWOOD MUSEUM OF THE UNIVERSITY OF NEW MEXICO

THE UNIVERSITY OF NEW MEXICO

Report 2015-03  
May 29, 2015



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James Koch

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Chien-Chih Yeh, Internal Audit Manager  
Lisa Wauneka, IT Auditor  
Victor Griego, Internal Auditor II  
Brandon Trujillo, Internal Auditor II  
Abhishek Chetry, Student Technical Specialist

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## ABBREVIATIONS

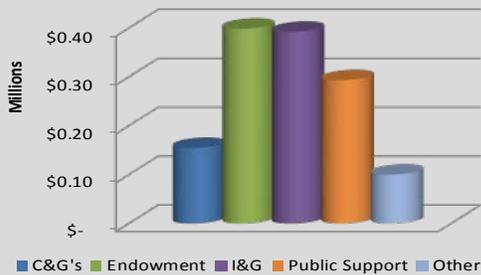
AY.....	Academic Year
FY.....	Fiscal Year
Harwood.....	Harwood Foundation of the University of New Mexico
Harwood.....	Harwood Museum
Harwood Board.....	Governing Board of the Harwood Foundation of the University of New Mexico
GASB.....	Governmental Accounting Standards Board
I&G.....	Instruction & General
IMLS.....	Institute of Museum and Library Services
P-Card.....	Purchasing Card
	
RPM.....	The University of New Mexico Board of Regents' Policy Manual
The Museum.....	Harwood Museum
UAPP.....	University Administrative Policies and Procedures
UNM.....	University of New Mexico

## EXECUTIVE SUMMARY

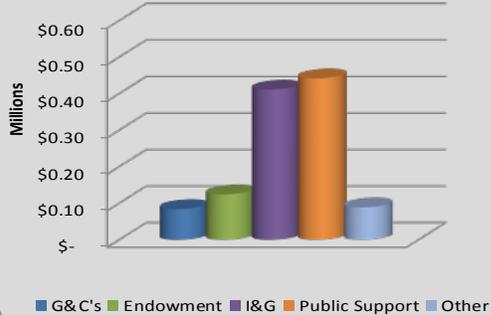
### GOVERNANCE

The 2007 Board of Regents' Delegation Resolution (Resolution) delegates authority and responsibility for the governance, oversight, management and operation of the Harwood Foundation of the University of New Mexico (Harwood Museum, or Harwood) to the Governing Board of the Harwood Foundation of the University of New Mexico (Harwood Board). Both Regents' Policy Manual (RPM) and UAPP polices are inconsistent with the Resolution with respect to delegations of authority and director supervision. In the UNM organizational chart, the Harwood Museum is under the purview of the Office of the Provost. The Office of the Provost is not formally authorized by the Resolution to carry out its budget support responsibility and fulfill its governance role as outlined in the RPM and UAPP 6410. As a result, the Provost may not be able to effectively perform the responsibility under current governance structure.

**Revenues by Funding Source - FY 2014**



**Expenses by Funding Source - FY 2014**



### FINANCIAL ANALYSIS

Funding for the Harwood Museum is primarily from five sources. These funding sources include instruction and general (I&G), endowments, federal contracts and grants (Fiscal Year 2014 only), public support, and other sources.

Governmental Accounting Standards Board (GASB) Statement 34 states "Governments should recognize as revenues any donations of works of art, historical treasures, and similar assets in accordance with GASB Statement 33. When donated collection items are added to non-capitalized collections, governments should recognize program expense equal to the amount of revenues recognized." The Museum does not comply with this revenue and expense recognition required by GASB Statements 33/34 for donated collection items.

**Reserves**

<u>Public Support</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Harwood Deficit Index	\$(100,444)	\$(90,444)	\$(89,444)
Other Public Support	133,535	92,118	40,084
Total Public Support	\$ 33,091	\$ 1,674	\$ (49,360)
Other Unrestricted	\$ 453,100	\$ 507,742	\$ 400,077
Total Reserves	\$ 486,191	\$ 509,416	\$ 350,717

*Two of ten Harwood employees that handle or have access to cash did not complete the cash management training.*

*Two out of eleven travel disbursements tested did not have sufficient documentation supporting additional fees that were charged during business travel.*

**RESERVES**

The Museum has an index (Harwood Deficit) in the Public Support fund, which had a deficit of (\$89,444) at the end of FY 2014. Although the Museum is budgeting \$1,000 annually to reduce the deficit, a Deficit Reduction Plan is not in place as required by UAPP 7000: Budgets and Reserves.

**CASH RECEIPTS**

The primary sources of cash receipts received by Harwood are for admission, non-endowed gifts, and gift shop sales. All employees that handle or have access to cash must complete the University of New Mexico's (UNM) required cash management training course as required by UAPP 7200: Cash Management.

**CASH DISBURSEMENTS****Purchasing and Accounts Payable**

Harwood did not follow purchasing policies and procedures by obtaining an approved purchase order prior to receiving services exceeding \$5,000 for two of nine contracted services tested.

**Travel**

Harwood follows UAPP 4030: Travel for travel disbursements and reimbursements. Reimbursement for meals must be in compliance with the New Mexico Per Diem and Mileage Act.

Two out of eleven travel disbursements tested did not have sufficient documentation supporting additional fees that were charged during business travel. In addition, the travel date indicated on documentation supporting a travel reimbursement for an employee was the same date as travel for a separate business purpose.

*Harwood received a federal grant of \$150,000 for funding its Museum's Corazon del Museo project.*

## **EL CORAZON DEL MUSEO PROJECT**

In October 2013, Harwood commenced a two-year project entitled El Corazon Del Museo: Harwood Museum of Art's Collection Digitization and Public Access Project. The project involves establishing the technical infrastructure required for converting and transferring current collection data from the old system to a new system, and configuring the Museum's web site to accommodate the online collection catalogue.

Harwood received a federal grant in FY 2014 in the amount of \$150,000 for the purpose of funding the Museum's Corazon del Museo project. The grant has a two year funding period, and the Museum is providing a cost share match of \$210,000, which is primarily through in-kind services.

## **COLLECTIONS MANAGEMENT**

### **Insurance Reporting**

Harwood reported [REDACTED] of its owned art collections for fine art insurance coverage for both FYs 2014 and 2015 to UNM Safety and Risk Services. Not all items have value entered in the art collection database resulting in an understatement of the actual value for purpose of insurance reporting.

### **Collections Inventory**

Harwood has not performed a formal inventory since 2007. Without a more frequent physical inventory of its collection holdings, Harwood may not be able to prevent or detect any loss of collections in a timely manner and provide accurate inventory records for management reporting.

Fiscal Year	Endowment Count	Fair Market Value
2012	9	\$ 2,267,249
2013	9	\$ 2,399,257
2014	9	\$ 2,673,395

*Issues related to non-endowed gifts submitted to the UNM Foundation:*

- *Gifts are not always submitted to the UNM Foundation for deposit in a timely manner*

[REDACTED]

[REDACTED]

### ENDOWED AND NON-ENDOWED FUNDS

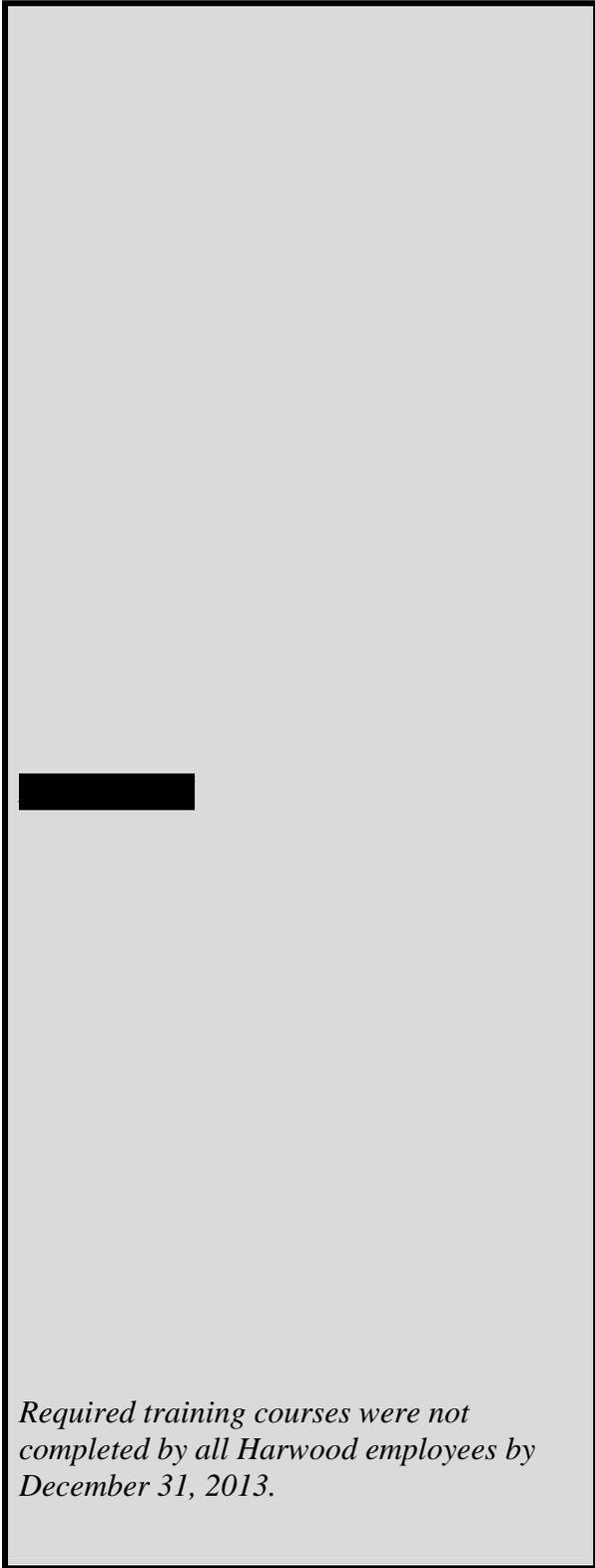
#### Endowed Funds

Endowment funds are managed by the UNM Foundation. For FY 2014, the Museum had nine endowments with a principal (corpus) balance of \$2,673,395. The Museum’s endowments are primarily intended to support museum operations and art collections.

#### Non-Endowed Funds

Non-endowed gifts are primarily to support Museum operations and art exhibitions. Internal Audit identified the following issues related to non-endowed gifts submitted to the UNM Foundation:

- Gifts received from donors are not always submitted to the UNM Foundation for deposit in a timely manner. Consequently, the Museum is not in compliance with UAPP 7200: Cash Management.
- Gifts exceeding \$5,000 were submitted on the same transmittal form with other gifts, although the UNM Foundation requires such gifts to be submitted on their own form.

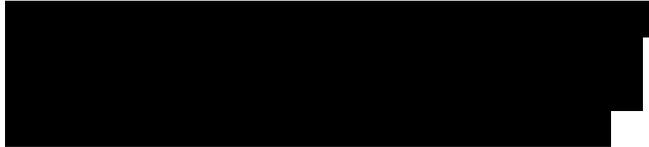


*Required training courses were not completed by all Harwood employees by December 31, 2013.*

## **FIXED ASSETS**

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

One of four equipment purchases tested was not capitalized, tagged, and added to the fixed asset listing, although the cost exceeded \$5,000. In addition, three computers that were gifted to the Museum were not tagged and inventoried.



## **REQUIRED TRAINING**

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

The required courses include Preventing Sexual Harassment, Basic Annual Safety Training, and Ethics: A Framework for Ethical Decision Making. Of the 24 Harwood employees tested, nine did not complete all three required training courses by December 31, 2013.



## **CONCLUSION**

The Harwood Museum has adequate internal controls and is in compliance with University policies and procedures for reserve designations, payroll disbursements, management of its federal grant, and compliance with donor intent for endowed and non-endowed disbursements. However, Internal Audit noted findings of internal control deficiencies, non-compliance with UNM policies and procedures, and areas where the Museum could improve its operations. The following is a summary of key recommendations.

### **Key Recommendations**

- The Office of the Provost should review the current Resolution, RPM, and UAPP policies and provide the Harwood Board, the President, and Board of Regents with the recommended changes to clarify roles and responsibilities of these parties.
- The Museum Director should ensure the Museum complies with GASB Statements 33/34 financial reporting requirements of recording program expenses equal to the revenues for the fair value of donated collection items.
- The Museum's Director should develop a deficit reduction plan which will eliminate the Museum's operating deficit in a reasonable time period.
- All Harwood employees that handle and/or have access to cash should take Cash Management training.



- The Museum should obtain an approved purchase order prior to purchasing and receiving goods or services not purchased with a P-Card.
- A thorough review of travel disbursements should be performed to ensure that payments are for a valid business purpose and properly documented. The reviews should also ensure that documentation supporting reimbursements have an accurate date of travel.
- Harwood should complete data entry of art collection items that are missing critical information, such as value and loaned items. Harwood should report accurate values for fine art collections for insurance coverage to UNM Safety and Risk Services.
- Harwood should complete a formal physical inventory for its collections items to maintain current inventory records, and notify Inventory Control of its certified inventory results within a year.
- Harwood should develop and enforce a written security plan to:
  1. Ensure that employees who are authorized to work in a controlled area receive an appropriate background check.  

  3. Track movement of collection objects through the new



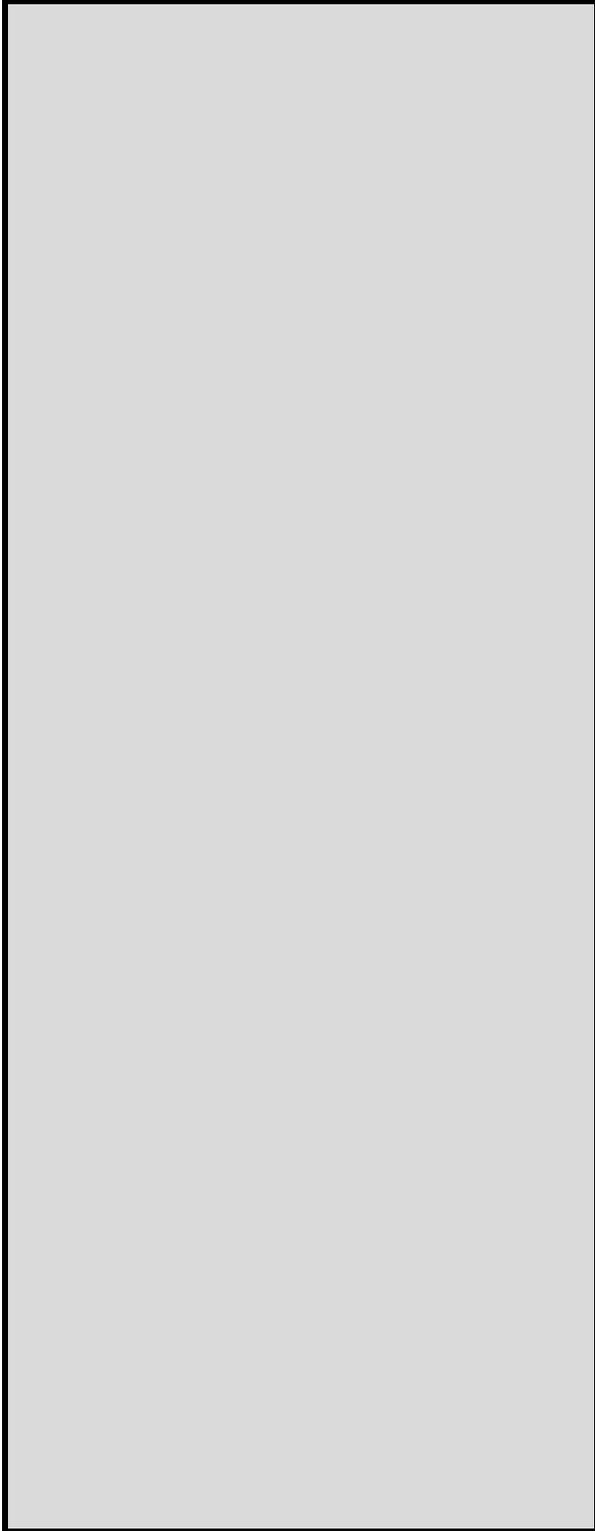
database to check pieces in and out, and reconcile the tracking movement report with collections items on a monthly basis.

- Harwood should make the accession recommendations to the UNM Board of Regents for approval, as required by its Collections Management Policy.
- The Museum Director should strengthen internal controls for the receipt of gifts for each of the following:
  1. Gifts exceeding \$5,000 should be submitted to the UNM Foundation on their own transmittal form.
  2. Gifts received by the Museum should be submitted to the UNM Foundation for deposit in a timely manner.



- Harwood should ensure an accurate inventory listing is established for all gift shop inventory items and tracking system is updated.
- All purchased equipment exceeding \$5,000 and purchased/gifted computers should be tagged and inventoried.





- All Museum employees should take the required annual training courses by the deadline.

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## **INTRODUCTION**

### **BACKGROUND**

The Harwood Museum of Art's vision is "*the Harwood Museum of Art brings Taos arts to the world and world arts to Taos.*"

The mission of the Harwood Museum of Art of the University of New Mexico is to collect, preserve, exhibit, and interpret the arts, especially those created in, inspired by, or relevant to northern New Mexico. The Museum advances the University's mission and engages diverse audiences by stimulating learning, creativity and research through exhibitions, programs and publications.

Harwood Museum's organizational profile in its grant application file states, "the Harwood Museum of Art is located in the arid mountain town of Taos, New Mexico... For nearly a century, the Harwood has been a center for arts and culture in Taos. Burt and Elizabeth Harwood generously lent books out of their home before it was established as the Harwood Foundation in 1923. From that time on it served as the Art Field School of the University of New Mexico (UNM), as an exhibition and performance space, and – for a period – as the Town's public library. The Harwood was gifted to UNM in 1935. A 1997 renovation added the Agnes Martin Gallery, bringing national and international prominence to the Harwood. In December 2010, the museum opened a new auditorium and galleries as part of an 11,000 sq. ft. expansion. The expansion also dedicates over 6,000 square feet to art collection and archives storage, as well as to a loading dock and preparatory areas.

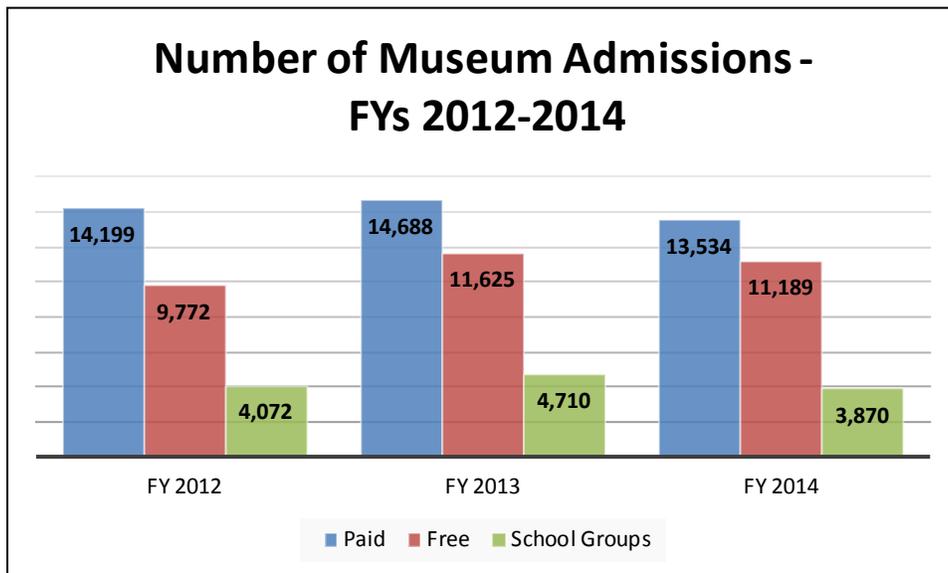
The Harwood is a respected repository of the work of important American artists who have lived and worked in this internationally renowned art colony. The Harwood preserves, exhibits and interprets a unique record of Taos's role in the development of American art."

### **Governance**

A resolution by the UNM Board of Regents delegates authority and responsibility to the Harwood Board to oversee and manage the operations of the Harwood Museum. All authority not expressly delegated by this Delegation Resolution is retained by the Regents, including but not limited to the ownership, control, acquisition, disposition and use of all property and rights of the Museum. All decisions of the Harwood Board are subject to review and action by the Regents.

### **Museum Admission and Sales Revenues**

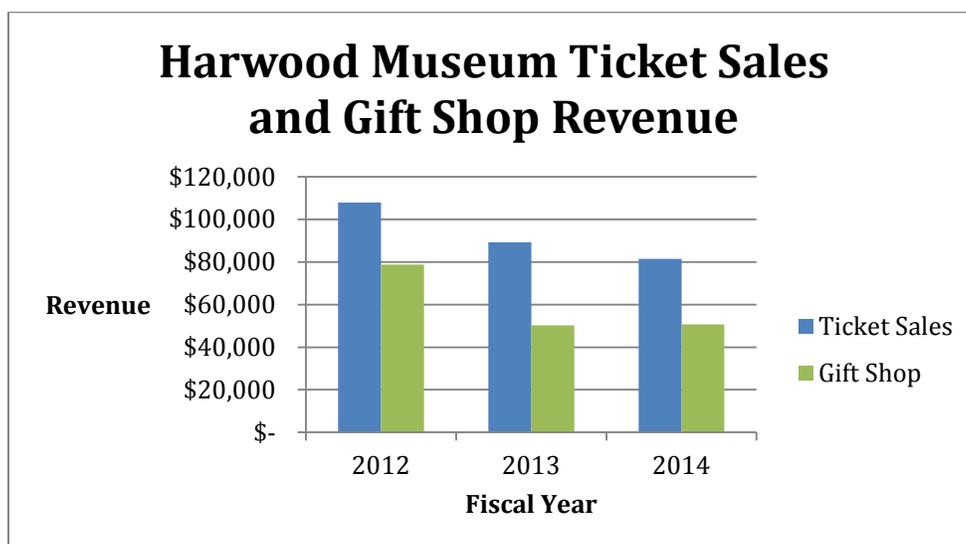
There are three general types of admissions to the Harwood Museum - paid admission, free admission, and group admission (free). The following graph presents a three-year trend of admissions for FYs 2012-2014.



Source: Harwood Museum

The primary sources of sales revenues include paid admission to museum exhibition, gift shop sales, and public education program. Harwood organized three exhibitions in FY 2014. There were two fundraising events, *Art on Tap 2014* and *Art of Wine 2014*, organized through the Harwood Museum Alliance. Both events supported exhibitions housed in the museum galleries. The number of the total admissions to museum exhibitions was approximately 11,300.

The following graph presents ticket sales and gift shop sales for FYs 2012-2014.



Source: Banner Accounting System

## PURPOSE AND OBJECTIVES

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

- Cash receipts
- Cash disbursements, including accounts payable and purchasing, P-card, payroll and benefits, and travel
- Endowed and non-endowed gifts
- Fixed assets
- Art collection management
- Gift shop merchandise inventory
- IT security
- Required training

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

The review of Harwood Museum of the University of New Mexico was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

## SCOPE AND PROCEDURES PERFORMED

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

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

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## OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

### GOVERNANCE

According to the 2007 Board of Regents' Delegation Resolution (Resolution) Sections 1 and 3.B., the Resolution delegates authority and responsibility for the governance, oversight, management and operation of the Harwood Museum to the Harwood Board. Its selected key responsibilities include:

“1. Manage and direct the operations of the Museum in a manner that ensures compliance with UNM policies, adherence to and accountability for the operating budget, and coordination with UNM administrative office.

2. Manage and oversee the operational use of all Museum property, promptly attending to the inventory, protection and security of the collections and other property.

3. Oversee and supervise the work of the Director of the Harwood Museum.

a) The Director and other employees of the Harwood Museum shall be employees of the University, subject to all of the policies of the University.

b) The Director of the Harwood Museum shall report to the Harwood Board regarding the operations of the museum. The Harwood Board is responsible for all employment decisions regarding the Museum Director, including decisions to hire, evaluate, recommend raises, discipline and terminate the Director. The Harwood Board shall appoint a Board member who is a UNM employee to act as the supervisor of the Director ("Supervisor"). The Supervisor will implement the decisions of the Harwood Board with respect to the Director, and in consultation with the UNM Human Resource Department, shall ensure that the Harwood Board actions with respect to the Director are consistent with UNM personnel policies and practices.

c) Museum staff shall be supervised by and report to the Director of the Museum. Members of the Harwood Board shall communicate concerns about staff performance, priorities, and activities through the Supervisor and Director.

9. Annually approve and submit to the President of the University a budget request for University operating and general funds to support the operating budget of the Museum. The request to the President must meet UNM's established timelines

governing the submission of proposed budget requests and any process governing the adoption of the UNM Annual Budget.

10. Annually submit an operating budget and an annual report of activities for the Museum to the Regents. The operating budget is to identify all operating, capital and program expenses, the source of all funds, including but not limited to University budgeted and allocated funds and private donations (including those to be made by the Alliance, gift shop revenue, endowment expenditures and special events revenue).”

The Resolution Section 3.C. further states, “the Chair of the Harwood Board has authority to sign contracts for the Museum with a value not to exceed Twenty-Five Thousand Dollars (\$25,000), except for contracts reserved to the Regents, President, or Director of Purchasing pursuant to UNM Policy 2210.” This may have the effect of delegating contracting and purchasing signature authority for UNM to non-UNM employee board members.

The Resolution Section 3.A. states that three of the nine members of the Harwood Board may be appointed based on recommendations of the UNM President. The UNM Provost currently is not involved with recommending the three members. Moreover, Regents’ Policy Manual (RPM) Section 8.5, Museums, delegates authority for all museums to the President. UAAP 6410, Museums and Collections, delegates the Harwood Museum director reporting to an “appropriate dean” with oversight provided by the Provost and President with the assistance of the UNM Museum Council. Both policies are inconsistent with the Resolution with respect to delegations of authority and director supervision.

In the UNM organizational chart, the Harwood Museum is under the purview of the Office of the Provost. However, the Office of the Provost is not formally authorized by the Resolution to carry out its budget support responsibility and fulfill its governance role as outlined in the RPM and UAPP 6410. As a result, the Provost may not be able to effectively perform the responsibility under current governance structure.

### **Recommendation 1:**

Ensuring the adequacy and effectiveness of Harwood Museum’s governance process is ultimately a responsibility of the UNM Provost, President, and Board of Regents. The Office of the Provost should review the current Resolution, RPM, and UAPP policies, and provide the Harwood Board, the President, and Board of Regents with the recommended changes to the Resolution and both policies to clarify roles and responsibilities of these parties. This will create an effective and efficient governance structure that will provide for operational and financial accountability for the Museum, and clear reporting and supervisory responsibilities for the Director.

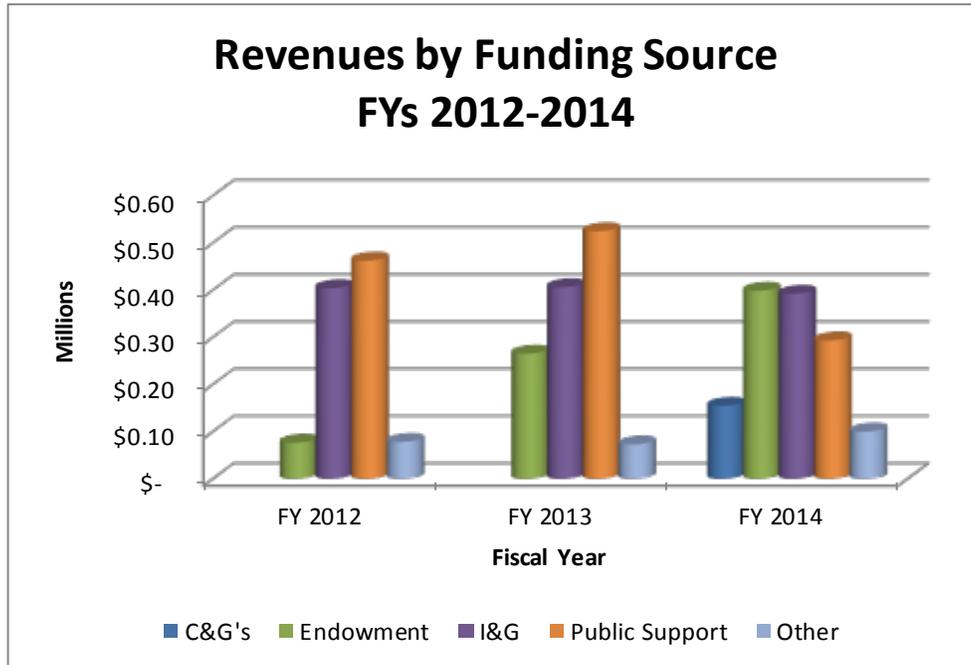
**Response from the Office of the Provost:**

<b>Action Items</b>
<b>Targeted Completion Date:</b> 9/1/2015
<b>Assigned to:</b> The Provost
<b>Corrective Action Planned:</b> The Provost will work with the Office of the President and the Director of the Policy Office to draft revisions to UAPP that provide an effective and efficient governance structure for Harwood Museum structure that will provide for operational and financial accountability for the Museum, and clear reporting and supervisory responsibilities for the Director.

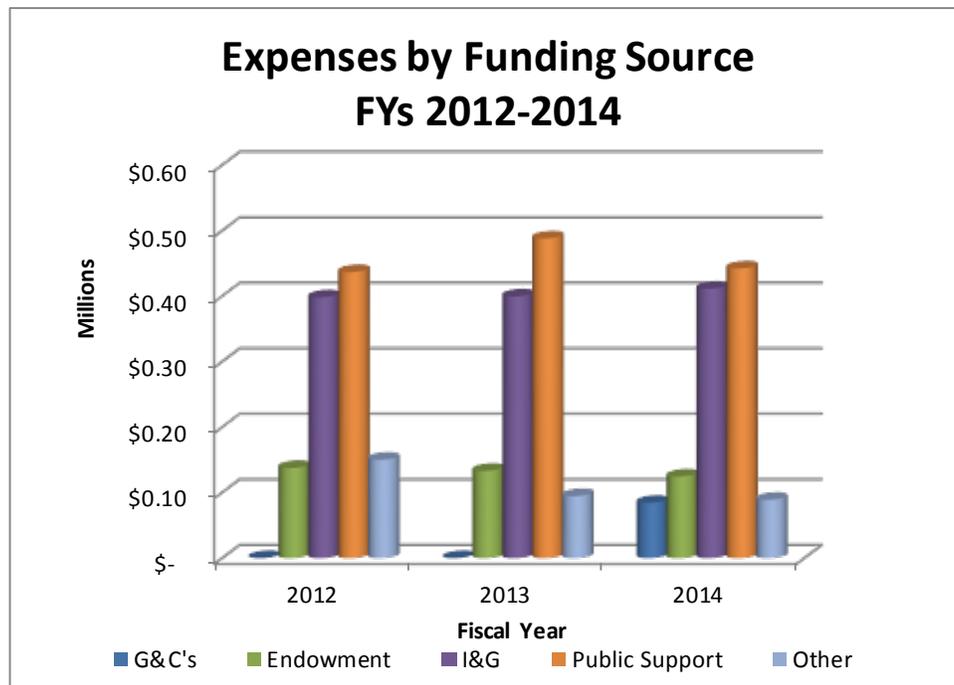
**FINANCIAL ANALYSIS**

Funding for Harwood is primarily from five sources. These funding sources include instruction and general (I&G), endowments, federal contracts and grants (FY 2014 only), public support, and other sources. Endowments and I&G are the largest sources of funding, and consist of approximately 29.77 percent and 29.30 percent, respectively, of total funding for the Museum during FY 2014.

Unrestricted funding sources include I&G, public support, and other program sources. Significant components of I&G include appropriations approved by the UNM Board of Regents. Public support primarily consists of ticket sales and non-endowed gifts. Other funding sources primarily consist of endowed spending distributions and gift shop sales. The following graphs present revenues and expenses by funding source for FYs 2012-2014.



Source: Banner Accounting System



Source: Banner Accounting System

## **Financial Analysis for FYs 2012-2014**

Harwood revenues have slightly increased since FY 2012 while expenses have remained consistent over the three-year period. Contract and grant revenue in FY 2014 is from the Institute of Museum and Library Services (IMLS) grant received for funding of the Museum's art collection digitization and public access project (El Corazon Del Museo). The Museum's revenue from endowments also experienced significant increases in revenues due to increases in realized and unrealized gains - primarily from strong performance in the stock market during FYs 2013 and 2014. Realized and unrealized gains increased from approximately \$22,000 in FY 2012 to \$267,000 in FY 2014. A trend analysis of revenues by funding source and the related expenses for FYs 2012-2014 is presented at [Exhibit 1](#).

### **Art Collection Financial Reporting**

The Harwood Museum adheres to Governmental Accounting Standards for financial reporting. GASB Statement 34 states "Governments are not required to capitalize collections that are a) held for public exhibition, education, research in furtherance of public service, rather than financial gain; (b) protected, kept unencumbered, cared for, and preserved; and (c) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections." The Harwood Museum meets this capitalization criterion and elects to not capitalize its art collection.

GASB Statement 34 further states "Governments should recognize as revenues any donations of works of art, historical treasures, and similar assets in accordance with GASB Statement 33. When donated collection items are added to non-capitalized collections, governments should recognize program expense equal to the amount of revenues recognized." The Museum does not recognize revenues and expenses as required by GASB Statements 33/34 for donated collection items.

### **Recommendation 2:**

The Harwood Museum Director should ensure the Museum complies with GASB Statements 33/34, effective FY 2015, for financial reporting requirements pertaining to revenue and expense recognition. The Museum should record program expenses equal to the revenues for the fair value of donated collection items.

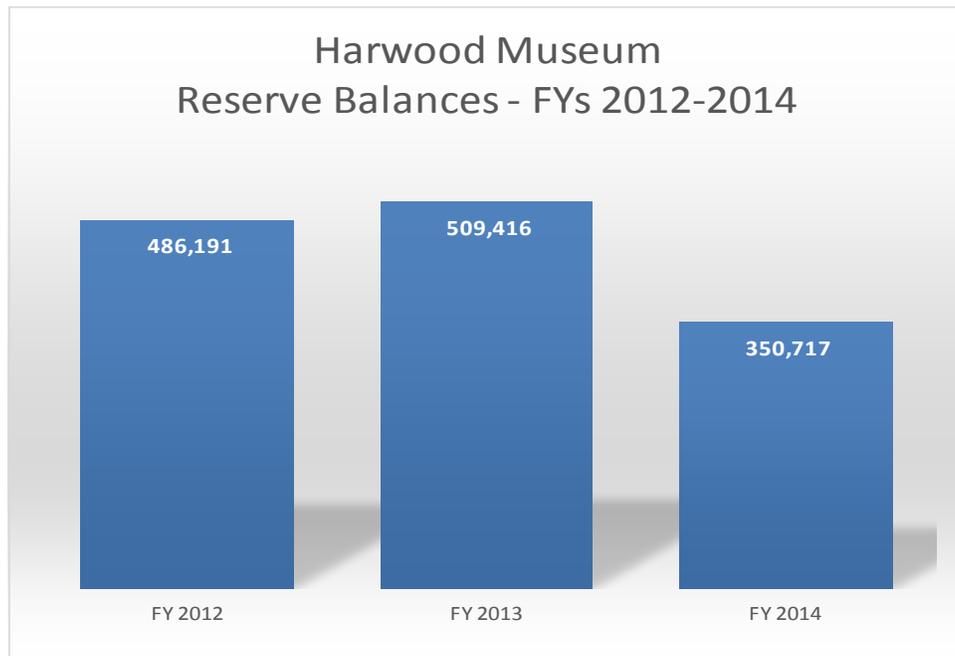
**Response from the Harwood Museum Director:**

<b>Action Items</b>
<b>Targeted Completion Date:</b> June 30, 2015
<b>Assigned to:</b> Director; Unit Administrator 2; Provost's Office Financial Officer
<b>Corrective Action Planned:</b> For FY15 forward, The Harwood Museum of Art will make the necessary entries in order to comply with GASB standard 33/34, which requires units receiving non-capitalized collections to recognize these donations by booking a revenue entry equal to the fair market value of the donation and an expense entry equal to the amount of revenues recognized for that donation. The Provost's Office will work with the Harwood's staff to ensure that these entries are booked in a timely manner in accordance with when the collections are donated and are booked in the appropriate account codes designated to monitoring these entries. These account codes include 1000 (Gifts) for revenue and 31Q0 (Non-Capital Art Acquisitions) for expense. Also, in order to properly manage these entries, a new index will be created under the proper fund type, so that it will be easy for the Harwood Museum to track these entries, and to account for these entries as new collections are donated.

**Reserves**

Reserves represent unrestricted carry-over funds available for spending at the beginning of the year. At the fiscal year-end, unspent funds are carried over into the new fiscal year. The reserve balance carry forward represents actual dollars after net income (loss) from the prior year. Reserves are classified into three categories: committed, dedicated and discretionary. At the beginning of each fiscal year, the Museum assigns portions of reserve balances for either committed or dedicated purposes. Once commitments and dedications have been determined, the remaining reserve balances are discretionary and will only be used if needed.

Reserves are primarily used for spending in accordance with donor intent from endowed and non-endowed gifts. As of June 30, 2014, the Museum had reserves of \$350,717 available for FY 2015. Internal Audit completed detailed test work over reserve categories available for FY 2015 based on UAPP 7000: Budgets and Reserves, which covered approximately \$242,000 of the Museum's total reserves. The Museum is in compliance with UAPP 7000 regarding reserve designations. The following graphs illustrate trends in fiscal year reserve balances for FYs 2012-2014.



**Source:** Banner Accounting System

The museum reported a deficit of \$49,360 in the Public Support fund at the end of FY 2014. Internal Audit noted an index (Harwood Deficit) in the Public Support fund, which had an initial deficit of \$130,444 in FY 2009 and was reduced to \$89,444 during FY 2014. The following table presents the deficit in the Public Support fund and reserves for all other unrestricted funds for FYs 2009-2014.

<b>Reserves</b>						
<b>Public Support</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<i>Harwood Deficit Index</i>	\$(130,444)	\$(120,444)	\$(110,444)	\$(100,444)	\$(90,444)	\$(89,444)
Other Public Service Indices	92,183	96,978	100,577	133,535	92,118	40,084
<b>Total Public Support</b>	<b>\$ (38,261)</b>	<b>\$ (23,466)</b>	<b>\$ (9,867)</b>	<b>\$ 33,091</b>	<b>\$ 1,674</b>	<b>\$ (49,360)</b>
<b>Other Unrestricted</b>	<b>\$ 590,840</b>	<b>\$ 721,901</b>	<b>\$ 560,612</b>	<b>\$ 453,100</b>	<b>\$ 507,742</b>	<b>\$ 400,077</b>
<b>Total Reserves</b>	<b>\$ 552,579</b>	<b>\$ 698,435</b>	<b>\$ 550,745</b>	<b>\$ 486,191</b>	<b>\$ 509,416</b>	<b>\$ 350,717</b>

University Administrative Policy and Procedures Manual – Policy 7000: Budgets and Reserves states the following, “If a department anticipates a year-end deficit, the department head must notify his or her dean or director of the estimated deficit as soon as he or she is aware of the projected deficit. The dean or director must identify funds to cover the deficit or the department's next fiscal year budget will be reduced by an amount sufficient to cover the prior year's deficit. The department head must also submit a plan for resolving the causes of the deficit. Exemption from this process requires written approval from the cognizant vice

president with a copy to the Office of Planning, Budget, and Analysis or the HSC Budget Office.”

During FY 2009, the Museum had a Deficit Reduction Plan to eliminate the deficit in the index in accordance with UAPP 7000, and made payments of \$10,000 each year during FYs 2010-2013. The Museum’s Board of Directors elected to reduce the payment to \$1,000 during FY 2014, but did not develop a new Deficit Reduction Plan to reflect revised future budgeted payments.

**Recommendation 3:**

The Museum’s Director should develop a current deficit reduction plan which will eliminate the Museum’s operating deficit in a reasonable time period.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date:</i> September 1, 2015
<i>Assigned to:</i> Director
<i>Corrective Action Planned:</i> By June 30, 2015, in consultation with the Harwood Board, the Director will develop a new deficit reduction plan that will be submitted to the Provost’s Office and Office of Planning, Budget & Analysis for vetting and approval. The development of the deficit plan will be informed by the Harwood Board’s fundraising strategies to address operating revenue shortfalls. This plan will be in keeping with standards established within Academic Affairs and reflect a reasonable time frame. Harwood’s Governing Board approved a deficit reduction plan with committed annual payments of \$10,000 which will eliminate the deficit by the end of fiscal year 2024.

**Budget Administration**

Budgeted unrestricted funds primarily consist of I&G funding and public support (over 90 percent). I&G funding is based on budgeted amounts prepared by the Provost’s office and approved by the UNM Board of Regents on an annual basis. For FY14, budgeted expenses primarily consist of salaries and benefits (approximately 44 percent of total budgeted expenses) and other expenses (approximately 34 percent of total budgeted expenses). The Museum’s total expenditures were within budget each year for FYs 2012-2014. The Museum practices the University’s standard budget process when preparing and adjusting approved budgets. The Museum’s budget for FYs 2012-2014 is presented in **Exhibit 2**.

## CASH RECEIPTS

The primary sources of cash receipts received by the Harwood Museum are for admission fees, non-endowed gifts, and gift shop sales. The Museum receives non-endowed gifts, admissions, and gift store sales in the form of cash, checks, and credit cards. The Museum utilizes a sales point solution software to monitor and maintain cash receipts for admission and gift shop sales. All employees that handle or have access to cash must complete the UNM required cash management training course as required by UAPP 7200: Cash Management.

Internal Audit assessed internal controls over the cash receipts process and tested them for compliance with UAPP 7200: Cash Management. Two of ten Harwood employees that handle or have access to cash did not complete the cash management training as required by UAPP 7200.

### Recommendation 4:

All Harwood staff and direct supervisors that handle cash or have access to cash should take Cash Management training as required by UAPP 7200: Cash Management.

### Response from the Harwood Museum Director:

<b>Action Items</b>
<i>Targeted Completion Date:</i> June 1, 2015
<i>Assigned to:</i> Unit Administrator 2
<i>Corrective Action Planned:</i> The two employees who had not taken the training were immediately notified, and have since taken the training. By June 1, 2015, all Harwood Museum staff members who handle or have access to cash will repeat the training outlined in UAPP 7200, in order to refresh their knowledge.

## CASH DISBURSMENTS

### Purchasing Card

The Purchasing Card (P-Card) is a tool issued to certain employees for the purpose of making purchases on behalf of the Museum. Harwood is required to follow UNM's P-Card policies and procedures. The P-Card may be used to procure approved materials, supplies and non-capital equipment not exceeding \$10,000 with any vendor that accepts Visa and that is not

restricted by the University. The card may also be used for allowable services not exceeding \$5,000. The P-Card can only be used for authorized items or services, in compliance with P-Card and purchasing policies and procedures. It may only be used for items purchased for approved Harwood business purposes.

Internal Audit assessed internal controls and performed test work to ensure P-Card disbursements are in compliance with P-Card policies and procedures. No exceptions were noted.

### **Purchasing and Accounts Payable**

Harwood follows UNM Purchasing and Accounts Payable policies and procedures. The University of New Mexico's Purchasing Department is the central purchasing authority for issuing Purchase Orders for all goods and services for the Museum. In addition, all state and federal rules and regulations apply to the purchase of goods and services made by the Museum. Acceptable methods for purchasing goods off campus include Purchase Orders issued by the UNM Purchasing Department, the Direct Pay Request, and the Purchasing Card.

The New Mexico State Legislature passed, and the Governor of New Mexico signed Senate Bill 443, effective June 14, 2013, reflecting changes to the small purchase limit and informal bid limit for the purchase of goods and services. The following schedule presents the revised small purchase and informal bid limits.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

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

**Source:** UNM Purchasing Department

Purchasing policies and procedure were not followed for the purchase of two of nine contracted service tested exceeding \$5,000. Harwood did not obtain an approved purchase order prior to receiving the services

**Recommendation 5:**

The Director should strengthen internal controls to ensure the Museum complies with purchasing and accounts payable policies and procedures for all purchases. The Museum should obtain an approved purchase order prior to contracting and receiving goods or services not purchased with a P-Card.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date:</i> June 1, 2015
<i>Assigned to:</i> Unit Administrator 2
<i>Corrective Action Planned:</i> All staff members who process purchasing and accounts payable transactions will be required to participate in a policy refresher session with the Unit Administrator 2 to ensure that lapses do not occur in the future.

**Travel**

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

In order to complete a direct pay approval form in Banner, UAPP 4030 requires UNM employees to provide the business purpose for the travel. The employee must obtain documented approval from their department. The completed direct pay approval form and supporting documents are submitted to the applicable Financial Services accounting office for approval, no longer than twenty business days after completion of travel. If the employee is requesting reimbursement for meals, the amount for each meal must be in compliance with the New Mexico Per Diem and Mileage Act.

Two out of eleven travel disbursements tested did not have sufficient documentation supporting additional fees that were charged on a P-card during business travel. In addition, the travel date indicated on documentation supporting a travel reimbursement for an employee was the same date as travel for a separate business purpose. Management believes the reimbursement was for a valid business purpose. However, the documented date may not have been entered accurately.

**Recommendation 6:**

Internal controls should be strengthened for travel disbursements. Museum management should perform a thorough review of travel disbursements to ensure that payments are for a valid business purpose and properly documented. The reviews should also ensure that documentation supporting reimbursements have an accurate date of travel.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date:</i> June 1, 2015
<i>Assigned to:</i> Unit Administrator 2
<i>Corrective Action Planned:</i> All staff members who process travel reimbursements will be required to participate in a policy refresher session with the Unit Administrator 2 to ensure that lapses do not occur in the future.

**Payroll**

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

Monthly employees are required to submit their annual and sick leave usage to the Museum Director for approval. The Fiscal Service Tech inputs the monthly employees time and the Unit Administrator approves the time in Banner.

Internal Audit assessed internal controls and performed test work to ensure payroll disbursements are in compliance with UAPP 2645. No exceptions were noted.

**EL CORAZON DEL MUSEO PROJECT**

In October 2013, Harwood Museum commenced a two-year project called El Corazon Del Museo: Harwood Museum of Art's Collection Digitization and Public Access Project. The project involves establishing the technical infrastructure required for the new database system and eMuseum, converting and transferring current collection data from its old system to the new system, and configuring the Museum's web site to accommodate the online collection catalogue. Online access to Harwood's collection is anticipated for late 2015.

The Corazon Del Museo project consists of the following key phases as prepared by the Museum:

- **Design, build, and launch Harwood's in-house photo studio:**

In January 2014, Harwood consulted with experts to design and create an in-house photo studio and train staff in high quality, color accurate digital photographing. The

experts provided advice and training of various kinds. Such training was documented with video and a manual for training for future staff and interns. The Museum also established workflows to implement the photo imaging of the collection and prepared its digital collections for online access.

- **Digitizing the collection:**

In 2012, the Museum proposed digitizing 3,800 objects during its grant period. The Museum will prioritize items to ensure the most important are ready for eMuseum access. According to the Museum, as of February 18, 2015, Harwood has photographed approximately 2,500 objects, 600 of which have been linked to its new system.

- **Data migration and getting live on the new database:**

The Museum has migrated from the old database of Harwood's collection of art and archives to the new database. The new database should improve its efficiency and accuracy in the curatorial, collections and other functions of the Museum. The Museum moved hosting to a third party service provider. The cost was comparable, and UNM IT Services did not charge the museum for the work they did to set up the initial system.

- **eMuseum preparation:**

The Museum will publish the collection on-line using a third party service provider that syncs with the new database system.

The Harwood Museum received a federal grant in FY 2014 in the amount of \$150,000 for the purpose of funding the Museum's Corazon Del Museo project. The grant has a two year funding period and the Museum is providing a cost share match of \$210,000, which is primarily through in-kind services. Significant provisions include the following:

- All expenditures from grant funds must be for the purpose of completing the Corazon Del Museo Project (allowable costs).
- The Museum must submit two annual financial and narrative reports during the funding period.
- Cost share requirements must be met by the end of the funding period.

Internal Audit performed test work to ensure the Museum is in compliance with allowable costs, reporting requirements, and cost share requirements. No exceptions were noted.

## **ART COLLECTION MANAGEMENT**

### **Accessioning**

According to UAPP Policy 6410, Museums and Collections, and Harwood Collections Management Policy 2013, accessioning is the formal process used to legally acquire and catalog the accessioned collection item or group of items into Harwood Museum. This is done by a variety of methods including gift, bequest, purchase, exchange, transfer, and any formal process by which title to a collection items is transferred to Harwood. In the last three years, Harwood has acquired the majority of collections through gifts. Harwood's curator and director determine whether to acquire the collection item based on a number of criteria and considerations, such as relevance to Harwood's collection goals, purposes and programs; availability of storage, protection, and preservation and resources needed; nature and physical condition of the collection items, etc.

Harwood's curator and director will make a recommendation to the Collections Committee, which will specifically approve each accession. Upon approval by the Collections Committee, its chair will recommend the collection item to the Harwood Museum of Art's Governing Board for approval or disapproval.

### **Record Keeping**

- **Value**

Internal Audit judgmentally selected a total of 18 items from Harwood's registration database for items acquired in calendar years 2013 and 2014. We tested selected key controls over the accessioning process by tracing them to supporting documentations such as minutes of Harwood's Collections Committee and Governing Board, gift deeds, appraisals, etc. There were no exceptions noted. Internal Audit also judgmentally selected a total of eight items from the controlled storage area and a Reported Gift Form submitted to the UNM Foundation. These items appear to have included key information in Harwood's registration database except for the value for three items gifted in 2013, even though the values were readily available. Additionally, 61 of 93 items recorded in calendar year 2014 had no value entered.

- **Migration**

Harwood implemented a new collection registration database system effective August 1, 2014, and has been in the process of familiarizing itself with numerous features the new system offers. Internal Audit was informed that a few records were duplicated during the database migration from the old system to the new system; Harwood is working on cleaning up the duplications.



UAPP Policy 6410: Museums and Collections 5. Collections Information, states that “UNM museum directors and collection administrators are responsible for maintaining policies and procedures for addressing collections data development, maintenance, preservation, and retention.”

### **Recommendation 7:**

Harwood should:

- Complete data entry of art collection items that are missing critical information, such as value and loaned items from other museums.
- Clean up duplicate data resulting from the database migration.
- Ensure the collection records are reviewed by the Director periodically.
- Report accurate value for fine art insurance coverage to UNM Safety and Risk Services based on data generated from the complete and accurate database.

### **Response from the Harwood Museum Director:**

<b>Action Items</b>
<b><i>Targeted Completion Date:</i></b> To Be Determined
<b><i>Assigned to:</i></b> Director
<b><i>Corrective Action Planned:</i></b> Incoming and outgoing loans have been tracked in the new database since its August 1, 2014 launch. The previous database did not have that capability. By November 1, 2015, when that information is available all data entry of collection items missing critical information, including value, and clean-up of duplicate data entry items will be complete. Beginning immediately, the director will review collection records on a quarterly basis. A current, accurate valuation of Harwood’s entire collection will require the engagement of a professional appraiser. This is a significant expense that Harwood’s operating budget cannot currently support. The timeline for completing the collection valuation will be informed by the Harwood Board’s fundraising strategies to address operating revenue shortfalls.

### **Collections Inventory**

According to UNM Inventory Control, Harwood most recently submitted certified inventory records for its art collections in 2007. During Harwood’s building expansion, Harwood relocated the collections to a new storage area in 2011. They performed an informal “inventory,” labeled the items with new site location, and updated them in the old registration database. Harwood has not performed a formal inventory since then. Without a more frequent physical inventory of its collection holdings, Harwood may not be able to prevent or detect any loss of collections in a timely manner and provide an accurate inventory records for management reporting.

UAPP Policy 6410: Museums and Collections 6.2.1. states the importance of an ongoing inventory system: “Effective collections management requires a continuous inventory system to support decisions regarding collections use, growth, storage, and security. In addition to facilitating research, documentation, and storage, an ongoing inventory system is an essential security device to deter and detect theft. Full inventory control requires creating and maintaining reliable information about the identification, location, and accessibility of collection items. In order to safeguard assets, assure compliance with applicable laws and regulations, and promote efficient use of resources, museum directors and collection administrators must determine the level of inventory, cycle, and methods most appropriate for their collection items. Museum and collection staff members are responsible for conducting inventories and maintaining accurate and current inventory records.”

**Recommendation 8:**

Harwood should complete a formal physical inventory for its collection items, maintain current inventory records, and notify Inventory Control of its certified inventory results within a year. Harwood should determine the level of inventory, cycle, and methods most appropriate for its collection items, and reflect them in the Collections Management Policy for ongoing physical inventory procedures.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<b><i>Targeted Completion Date:</i></b> May 1, 2017
<b><i>Assigned to:</i></b> Director
<b><i>Corrective Action Planned:</i></b> In keeping with professional best practices, the director will create a narrative description of protocol and timelines for inventory control. This information will be incorporated into the Harwood’s Collections Management Policy. The new protocol and policy will be implemented by November 1, 2015. A formal physical inventory of the museum’s 4,900 object collection will require additional funding, in order to support two temporary Curatorial Assistants who will conduct the inventory under the guidance of the Curator of Collections and Exhibitions. If new funding is identified by the Harwood Board, the inventory will be completed by May 1, 2017, in keeping with the American Alliance of Museums’ recommendation that formal inventories take place every ten years. In the event that additional funding to hire two new temporary employees is not forthcoming in FY16, the Director will work with UNM Human Resources to undertake a staffing analysis to ascertain whether a staffing reorganization could shift existing staff resources to the task of completing an inventory within one year as recommended.

**Security**

Two employees working in the controlled storage area were not issued keys to access the controlled areas, partly due to the fact that a background check was not performed. Other authorized employees need to accompany them or open the evaluator/rooms for them on a daily basis.



Harwood issues keys to employees to fulfill their job duties. However, it does not maintain a schedule of keys issued to the employees who are authorized to access the controlled area.



UAPP Policy 6410: Museums and Collections 6.2. Risk Management and Security states “The programmatic activities of UNM’s museums and collections naturally involve an exposure of collections to risks of damage or loss. Museum directors and collection administrators will maintain formal operating standards and procedures that assure sufficient control and individual accountability designed to minimize and control the level of risk of loss or damage to collections.”

**Recommendation 9:**

Harwood should develop and enforce a written security plan and work with UNM Human Resources to ensure that the existing employee who is authorized to work in the controlled area receives an appropriate background check. Upon clearance completion, Harwood may issue the employee key access to help ensure the controlled area is secure at all times.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date: August 1, 2015</i>
<i>Assigned to: Director</i>
<i>Corrective Action Planned: In keeping with appropriate security protocol for museums, the director will develop and enforce a security plan that will include, among other things, policy and procedures relating to a schedule of keys. Harwood is currently working with Human Resources to clarify and streamline procedures relating to background checks for Harwood Museum of Art employees. Our preference is that a background check be a condition of employment for every museum position.</i>

**Recommendation 10:**

Harwood should develop and enforce a written security plan to:

- Maintain a schedule of keys issued to the employees who are authorized to access the controlled area.  
[REDACTED]
- Track movement of collection objects through the new database by checking pieces in and out, and reconciling the tracking movement report with collections items on a monthly basis.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date: August 1, 2015</i>
<i>Assigned to: Director</i>
<i>Corrective Action Planned: In keeping with appropriate security protocol for museums, the director will develop and enforce a security plan that will include, among other things, policy and procedures relating to a schedule of keys. [REDACTED] The Museum has been tracking the movement of collection objects in the new database since the August 2014 launch of that database.</i>

**Harwood Collections Management Policy**

The Harwood's Collections Management Policy Version July 2013 states it holds three distinct collections: the permanent collection, the study collection, and the historic archive collection. The permanent collection requires a more formal approval process, which is "the Chair of the Collections Committee will then make a recommendation to the Harwood Museum of Art's Governing Board, which will either approve or disapprove the accession(s). The Governing Board will then recommend the accession(s) to the University of New Mexico Board of Regents, which has the final authority." However, the Harwood Governing Board has not made its accession recommendations to the University of New Mexico Board of Regents for approval.

The Harwood's Collections Management Policy states "the Study Collection – [is] Works of art *not* accessioned into the Museum's permanent collection, but approved by the Collections

Committee.” The Harwood’s management has not submitted the study collection to its Collections Committee for approval as required.

The Harwood’s Collections Management Policy states that “a duplicate copy of the Museum’s registration database will be placed with the Registrar of the University of New Mexico.” Harwood has not placed a duplicate copy of its database with the Registrar of the University of New Mexico.

UAPP 6410: Museums and Collections states that “Museum directors and collection administrators report to the appropriate dean and are responsible for implementing policies and procedures to ensure protection and enhancement of collections and related programs. The UNM Museum Council is responsible for reviewing museum and collection policies, and procedures to ensure compliance with the specific standards of their respective academic disciplines.”

**Recommendation 11:**

Harwood should ensure its Governing Board obtains the UNM Board of Regents’ approval for the permanent collections, and its management obtains the Harwood Collections Committee’s approval for the study collections, as required by the established policy. Harwood should place a duplicate copy of its database with the Registrar of the University of New Mexico as required by the established policy.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date: June 1, 2015</i>
<i>Assigned to: Director</i>
<i><b>Corrective Action Planned:</b> These inconsistencies will be addressed by revising Harwood’s Collections Management Policy. The UNM Board of Regents Resolution establishing the Harwood’s Governing Board delegates authority to that Governing Board for “the governance, oversight, management and operation of the Harwood Museum.” Since objects accepted into the Harwood’s Study Collection are not accessioned or part of the Harwood’s permanent collection, they do not require Collections Committee or Governing Board approval. A duplicate copy of the Harwood’s collections management database is stored off-site, [REDACTED] Beginning June 1, 2015 we will also store a copy of that database with the Registrar of the University of New Mexico.</i>

## ENDOWED AND NON-ENDOWED GIFTS (FUNDS)

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

### Endowed Gifts

Endowed funds include gifts totaling over \$10,000 that continue on in perpetuity. The spending allocation from the funds can only be spent in accordance with the donor's intent. Although some of the older endowed funds may have gifts that are less than \$10,000, endowed gifts typically exceed \$10,000. In some instances, endowed gifts can be funded over multiple years. If endowed gifts are funded over several years, there may be no funds available to spend until the endowment is fully funded.

The Museum receives an annual statement from the UNM Foundation, which lists the fund title, value at the beginning and end of the fiscal year, additions to the principal, total investment returns for the year, and the total spending distribution. The Museum received endowed funds through an endowment spending distribution, which is transferred from the UNM Foundation on an annual basis. The Museum's endowments are primarily intended to support museum operations and art collections.

The Museum's endowments are managed by the UNM Foundation as part of the Consolidated Investment Fund. For FY 2014, the Museum had nine endowments with a principal (corpus) balance of \$2,673,395. The principal balances of the Museum's endowments for FYs 2012-2014 are presented in the following table:

Fiscal Year	Endowment Count	Fair Market Value
2012	9	\$ 2,267,249
2013	9	\$ 2,399,257
2014	9	\$ 2,673,395

**Source:** UNM Foundation

### Non-Endowed Gifts

Non-Endowed funds are gifts that are not invested, and the entire amount of the gift may be spent. The entire amount of the gift can be spent as long as it is in accordance with the donor's intent. Non-endowed gifts are primarily to support museum operations and art exhibitions. The Museum received approximately \$364,000 in non-endowed gifts during FY 2014. The following table presents endowed and non-endowed activity and reserves for FYs 2012-2014.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

	Endowed Spending			Non-Endowed Spending		
	FY 2012	FY 2013	FY 2014	FY 2012	FY 2013	FY 2014
Reserves, beginning of year	\$ 152,528	\$ 112,022	\$ 112,832	\$ 326,589	\$ 288,011	\$ 357,833
Spending Distribution/gifts	44,504	46,998	47,469	23,713	133,768	363,517
Disbursements	<u>(85,010)</u>	<u>(46,188)</u>	<u>(45,796)</u>	<u>(62,291)</u>	<u>(63,946)</u>	<u>(460,646)</u>
Reserves, end of year	\$ 112,022	\$ 112,832	\$ 114,506	\$ 288,011	\$ 357,833	\$ 260,704

Source: Banner Accounting System

Compliance with Donor Intent

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

Receipt of Endowed and Non-Endowed Gifts

The majority of endowed and non-endowed gifts are received at the Museum and subsequently submitted to the UNM Foundation via a transmittal form developed by the UNM Foundation. Internal Audit identified the following issues related to gifts submitted to the UNM Foundation using the transmittal form.

- Gifts received from donors are not always submitted to UNM Foundation for deposit in a timely manner. Consequently, the Museum is not in compliance with UAPP 7200: Cash Management, which requires cash receipts exceeding \$50 to be deposited within one working day.



- Gifts exceeding \$5,000 were submitted on the same transmittal form with other gifts, although the Foundation requires such gifts to be submitted on their own form. Larger gifts submitted on their own form can be processed more efficiently.

**Recommendation 12:**

The Museum Director should strengthen internal controls to ensure procedures are in place for the following:

- Gifts received by the Museum should be submitted to the UNM Foundation for deposit in a timely manner as required by UAPP 7200: Cash Management.



- Gifts exceeding \$5,000 should be submitted to the UNM Foundation on their own transmittal form so that larger gifts are processed more efficiently.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date: August 1, 2015</i>
<i>Assigned to: Director; Unit Administrator 2</i>
<i><b>Corrective Action Planned:</b> Per the response to recommendation #3, by June 1, 2015, all Harwood Museum staff who handle or have access to cash will repeat the required cash management training outlined in UAPP 7200. Gifts exceeding \$5,000 will be submitted to the UNM Foundation on their own transmittal form. [REDACTED] The initial investment for minimal upgrades is being covered by University resources; however, there is an upgraded and on-going investment for which funding must be identified. A funding stream will be identified during the 2016 budget cycle in consultation with the Harwood Board.</i>

**GIFT SHOP MERCHANDISE INVENTORY**

Harwood’s gift shop carries a variety of merchandise available for visitors to purchase, including books, cards, catalogs, posters, etc. As of June 30, 2014, the total value was approximately \$120,000. Harwood conducted an annual inventory for purposes of financial reporting and inventory management. The quantity for one of five inventory items tested in our sample did not match with the Museum’s inventory tracking system.

**Recommendation 13:**

Procedures should be developed for the Museum to help ensure accurate inventory listing is established for all inventory items and the tracking system is updated.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date: July 1, 2015</i>
<i>Assigned to: Director of Visitor Services</i>
<i>Corrective Action Planned: Written protocol for inventory control of gift shop items will be reviewed and enforced.</i>

**FIXED ASSETS**

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

UAPP 7710 states that University property and resources may be used only for University business. Inventoried property is defined by the following three criteria: 1) The cost is greater than \$5,000, 2) the property is moveable, and 3) the property has a useful life of more than one (1) year. Inventoried property costing more than \$5,000 is also defined as equipment, is capitalized on the University's financial reports, and is depreciated. In addition, computers are treated as inventoried property regardless of cost.

One of the four equipment purchases tested was not capitalized, tagged, and added to the fixed asset listing, even though the cost of the equipment was over \$5,000. In addition, three computers that were gifted to the Museum were not tagged and inventoried.

**Recommendation 14:**

Internal controls should be strengthened to ensure all purchased equipment exceeding \$5,000 and all purchased/gifted computers are tagged and inventoried.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date: June 1, 2015</i>
<i>Assigned to: Unit Administrator 2</i>
<i>Corrective Action Planned: The equipment purchase cited here for not being capitalized was a unique circumstance. The museum purchased a digital camera that cost less than \$5,000. The auditors have stated that the accessories purchased to accompany this camera, which pushed the total cost over \$5,000, should have been taken into consideration. There was, however, no single piece of equipment that exceeded \$5,000. That said, Harwood will strengthen internal controls for equipment purchasing in keeping with UAPP 7710. Performance management protocol will be strengthened relative to adherence to policy requirements for individuals who perform these duties.</i>

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

## REQUIRED TRAINING

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

UNM Internal Audit conducted test work on required training data from Learning Central for calendar year 2013, and found that not all staff adequately completed the required annual training by the deadline. Of the 24 Harwood employees tested, nine did not complete all three required training courses by December 31, 2013. However, four of those nine employees took the trainings within two weeks after the deadline.

### **Recommendation 16:**

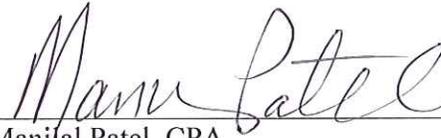
All Museum employees should take the required annual training courses. Compliance with the required annual training reduces the University’s exposure to legal liability or financial loss.

**Response from the Harwood Museum Director:**

<b>Action Items</b>
<i>Targeted Completion Date: October 1, 2015</i>
<i>Assigned to: Director</i>
<i>Corrective Action Planned: On October 1 of each year, the Director or her/his designee will request a report from Human Resources on individuals who have not yet completed their annual training and then track and enforce completion with the goal of 100% compliance by December of 2015 and each year thereafter.</i>

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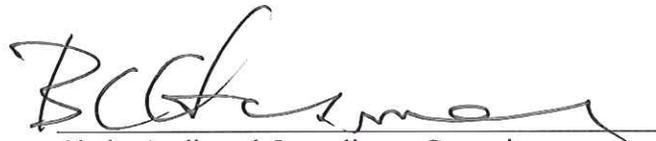
**APPROVALS**



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Manil Patel, CPA  
Director, Internal Audit Department

Approved for Publication



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Chair, Audit and Compliance Committee

**Harwood Museum**  
**Three-Year Financial Trend Analysis**  
**Fiscal Years 2012-2014**

<b>Revenues</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<i>Restricted</i>			
Contracts and Grants	\$ -	\$ -	\$ 154,637
Endowment	<u>76,625</u>	<u>265,148</u>	<u>398,669</u>
Total restricted revenue	76,625	265,148	553,306
<i>Unrestricted</i>			
Instruction and General	404,177	406,270	392,320
Public Services	448,782	526,310	291,435
Other	<u>78,292</u>	<u>72,880</u>	<u>100,097</u>
Total unrestricted revenue	<u>931,251</u>	<u>1,005,460</u>	<u>783,852</u>
Total Revenues	<u>\$ 1,007,876</u>	<u>\$ 1,270,608</u>	<u>\$ 1,337,158</u>
<b>Expenses</b>			
<i>Restricted</i>			
Contracts and Grants	\$ -	\$ -	\$ 84,378
Endowment	<u>137,572</u>	<u>133,140</u>	<u>124,532</u>
Total restricted expenses	137,572	133,140	208,910
<i>Unrestricted</i>			
Instruction and General	398,181	399,604	411,365
Public Services	447,521	487,980	442,176
Other	<u>150,223</u>	<u>94,650</u>	<u>89,009</u>
Total unrestricted expenses	<u>995,925</u>	<u>982,234</u>	<u>942,550</u>
Total Expenses	<u>\$ 1,133,497</u>	<u>\$ 1,115,374</u>	<u>\$ 1,151,460</u>
Revenues Over (Under) Expenses	\$ (125,621)	\$ 155,234	\$ 185,698
Reserves, beginning of year	\$ 550,866	\$ 486,191	\$ 509,416
Adjustments	60,946	(132,009)	(344,397)
Reserves, end of year	\$ 486,191	\$ 509,416	\$ 350,717

Source: Banner Accounting System

**Note:** Adjustments are required to eliminate net revenues/losses related to restricted endowments and contracts and grants (FY 2014 only). Net revenue/(loss) from these restricted funds are not closed to unrestricted reserves in Banner and must be eliminated for unrestricted reserves to roll from year to year.

**Exhibit 1**

Harwood Museum  
Budget vs. Actual Analysis - Unrestricted Funds  
Fiscal Years Ended June 30, 2012-2014

	FY 2012			FY 2013			FY 2014		
	Budget	Actual	Over (under) Budget	Budget	Actual	Over (under) Budget	Budget	Actual	Over (under) Budget
<b>Revenues</b>									
I&G	\$ 402,618	\$ 402,618	\$ -	\$ 406,270	\$ 406,270	\$ -	\$ 400,632	\$ 392,320	\$ (8,313)
Public Support	620,865	450,341	(170,524)	466,848	524,897	58,049	401,708	292,786	(108,922)
Other	30,007	78,292	48,285	(18,548)	74,293	92,841	53,181	98,747	45,566
Budgeted use of Reserves	304,998	-	(304,998)	420,417	-	(420,417)	332,654	-	(332,654)
<b>Total Revenues</b>	<b>\$ 1,358,488</b>	<b>\$ 931,251</b>	<b>\$ (427,237)</b>	<b>\$ 1,274,987</b>	<b>\$ 1,005,460</b>	<b>\$ (269,527)</b>	<b>\$ 1,188,175</b>	<b>\$ 783,852</b>	<b>\$ (404,323)</b>
<b>Expenses</b>									
Faculty	\$ -	\$ 700	700	\$ -	\$ 1,455	1,455	\$ -	\$ 100	100
Staff	465,985	456,921	(9,064)	457,143	456,726	(417)	484,224	482,244	(1,980)
Benefits	50,870.00	37,476.06	(13,394)	48,622	39,579	(9,043)	41,289	40,901	(388)
<b>Total labor</b>	<b>\$ 516,855</b>	<b>\$ 495,097</b>	<b>\$ (21,758)</b>	<b>\$ 505,765</b>	<b>\$ 497,760</b>	<b>\$ (8,005)</b>	<b>\$ 525,513</b>	<b>\$ 523,245</b>	<b>\$ (2,268)</b>
<b>Non-Labor</b>									
Supplies	\$ 93,802	\$ 168,236	\$ 74,434	\$ 120,994	\$ 152,744	\$ 31,750	\$ 70,240	\$ 78,712	\$ 8,472
Services and fees	245,745	164,474	(81,271)	220,722	188,305	(32,417)	181,534	192,781	11,247
Travel	8,850	8,621	(229)	12,450	17,272	4,822	6,950	11,726	4,776
Other	493,236	159,496	(333,740)	415,056	126,153	(288,903)	403,938	136,086	(267,852)
<b>Total Non-Labor</b>	<b>\$ 841,633</b>	<b>\$ 500,828</b>	<b>\$ (340,805)</b>	<b>\$ 769,222</b>	<b>\$ 484,474</b>	<b>\$ (284,748)</b>	<b>\$ 662,662</b>	<b>\$ 419,305</b>	<b>\$ (243,357)</b>
<b>Total expenses</b>	<b>\$ 1,358,488</b>	<b>\$ 995,925</b>	<b>\$ (362,563)</b>	<b>\$ 1,274,987</b>	<b>\$ 982,234</b>	<b>\$ (292,753)</b>	<b>\$ 1,188,175</b>	<b>\$ 942,550</b>	<b>\$ (245,625)</b>
<b>Revenues over (under) expenses</b>	<b>\$ -</b>	<b>\$ (64,673)</b>	<b>\$ (64,673)</b>	<b>\$ -</b>	<b>\$ 23,226</b>	<b>\$ 23,226</b>	<b>\$ -</b>	<b>\$ (158,698)</b>	<b>\$ (158,698)</b>

Source: Banner Accounting System

Exhibit 2