

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY**

FINANCIAL STATEMENTS

JUNE 30, 2000

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY**

TABLE OF CONTENTS

	Exhibit/Page
OFFICIAL ROSTER	1
INDEPENDENT AUDITORS' REPORT	2
COMBINED FINANCIAL STATEMENTS	
Combined Balance Sheet	A 4
Combined Statement of Changes in Fund Balances	B 6
Combined Statement of Current Funds Revenues, Expenditures and Other Changes	C 8
Notes to Financial Statements	10
SCHEDULES	
	Schedule/Page
Unrestricted Current Funds- Revenues, Expenditures, Transfers and Beginning and Ending Balances Budget Comparisons	1 25
Unrestricted Current Funds – Instruction and General – Revenues, Expenditures, Transfers and Beginning and Ending Balances Budget Comparisons	2 27
Restricted Current Funds – Revenues and Expenditures Budget Comparisons	3 28
Restricted Current Funds – Instruction and General – Revenues and Expenditures Budget Comparisons	4 29
Plant Funds – Restricted and Unrestricted – Revenues and Expenditures Budget Comparisons	5 30
Schedule of Cash and Cash Equivalents	6 31

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY**

CONTENTS (CONTINUED)

SCHEDULES (CONTINUED)

Schedule/Page

Schedule of Investments	7	33
Schedule of Security Requirements	8	34
Schedule of Financial Aid Program and Schedule of Changes in Fund Balance	9	35

SINGLE AUDIT

Schedule of Expenditures of Federal Awards	10	36
Schedule of Expenditures of State Awards	11	41
Schedule of Expenditures of Private Awards	12	44
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		45
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133		47
Summary Schedule of Prior Audit Findings		49
Schedule of Findings and Questioned Costs		50
Exit Conference		95

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY**

Official Roster

June 30, 2000

Board of Regents

Name	Title
S. Peter Bickley, Jr.	Chair
Wayne Bingham	Vice Chair
Rita Montoya Almanza	Secretary/Treasurer
John Loehr	Member
Joe M. Romero, Jr.	Member

Administrative Officials

Selimo Rael	President
Dr. Glen Davidson	Provost

Independent Auditors' Report

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
S. Peter Bickley, Jr., Chair
To The Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We were engaged to audit the accompanying general purpose financial statements of New Mexico Highlands University (University), as of and for the year ended June 30, 2000, as listed in the table of contents. Our audit was to be conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*. These financial statements are the responsibility of the University's management.

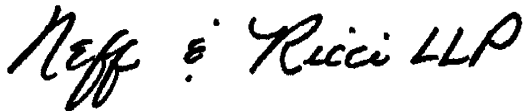
On July 1, 1999, the University began a data processing system conversion. Certain conditions affecting the University's financial statements appear to have arisen, directly or indirectly, from activities related to the conversion, including the following. Interfund payables and receivables at July 1, 1999, were combined with cash in each fund into one cash balance for all funds. Interfund activity for the year ended June 30, 2000, could not be reconciled back to the June 30, 1999 balances for each fund. Payroll processing controls and procedures were inadequate during the year ended June 30, 2000. There has not been a complete reconciliation between the general ledger, payroll system reports, W-2's, or Federal and State payroll tax and other payroll related reports since the conversion. Payroll tax reports were not always filed on the due dates and may not be correct. February 2001, adjustments made by the University to the payroll liability accounts affected June 30, 2000 cash and we were not provided sufficient information to determine the accuracy of such adjustments. The University adjusted for obvious labor distribution errors made by employees that we had noted, however, we do not know if other similar errors exist. In the restricted funds, the University was unable to provide adequate information for our testing as to the existence and collectibility of approximately \$1.8 million of receivables related to certain programs. In addition to the matters related to the system conversion, the allowance for doubtful accounts on student receivables at June 30, 2000 of \$1 million, may be not be properly stated. The detailed listing of equipment at June 30, 2000 may not be correct.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the combined financial statements of the University as of and for the year ended June 30, 2000.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
S. Peter Bickley, Jr., Chair
To The Board of Regents
New Mexico Highlands University

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2001, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

We were engaged to audit the combined financial statements of New Mexico Highlands University, taken as a whole. The accompanying schedule of expenditures of federal awards (schedule 10) is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined financial statements. In addition, the supplementary information included in schedules 1 through 9 and 11 through 12 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Because of the matters discussed in the second paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying schedule of expenditures of federal awards schedules 1 through 9 and 11 through 12, in relation to the general purpose financial statements taken as a whole.



Albuquerque, New Mexico
February 21, 2001

Exhibit A

Plant Funds					
Unex- pended	Renewals & Replace- ments	Retirement of Indeb- tedness	Investment In Plant	Agency Funds	Total All Funds
\$ -	-	-	-	23,773	23,773
732,739	-	-	-	-	2,623,880
1,097,211	-	-	-	34,822	7,561,158
-	-	-	-	-	1,312,073
-	-	-	-	-	(1,240,684)
-	29,083	826,005	21,706	-	3,294,969
-	-	-	-	-	721,435
-	-	682,326	101,468	-	831,341
-	-	-	-	-	10,425
-	-	-	1,915,932	-	1,915,932
-	-	-	50,964,533	-	50,964,533
-	-	-	2,860,652	-	2,860,652
-	-	-	13,506,407	-	13,506,407
-	-	-	6,273,155	-	6,273,155
-	-	-	561,491	-	561,491
-	-	-	5,872,898	-	5,872,898
\$ 1,829,950	29,083	1,508,331	82,078,242	58,595	97,093,438
\$ -	-	-	-	-	754,933
440,885	31,149	-	-	-	2,222,978
-	-	-	-	-	2,205,173
-	-	-	-	-	22,011
2,424,165	-	-	-	58,595	3,294,969
-	-	-	-	-	294,699
-	-	-	713,626	-	713,626
-	-	-	428,721	-	428,721
-	-	278,482	8,261,518	-	8,540,000
2,865,050	31,149	278,482	9,403,865	58,595	18,477,110
-	-	-	-	-	444,143
-	-	-	-	-	3,183,673
-	-	-	-	-	2,121,452
(1,035,100)	(2,066)	1,229,849	72,674,377	-	72,867,060
(1,035,100)	(2,066)	1,229,849	72,674,377	-	78,616,328
\$ 1,829,950	29,083	1,508,331	82,078,242	58,595	97,093,438

Plant Funds				
Unex- pended	Renewals & Replac- ements	Retirement of Indeb- tedness	Investment In Plant	Total All Funds
\$ -	-	-	-	49,844,147
-	-	481,323	-	481,323
3,879,468	-	-	-	3,879,468
-	-	13,426	-	268,520
-	-	-	-	3,496,928
-	-	-	10,659,790	10,659,790
3,879,468	-	494,749	10,659,790	68,630,176
-	-	-	-	48,656,464
-	-	-	-	3,400,534
-	-	-	-	80,182
-	-	-	-	44,557
5,370,506	-	-	-	5,370,506
-	850,942	-	-	850,942
-	-	-	5,417,677	5,417,677
-	-	645,893	-	645,893
-	-	-	-	21,083
5,370,506	850,942	645,893	5,417,677	64,487,838
-	-	-	-	-
85,495	678,863	236,000	-	-
85,495	678,863	236,000	-	-
(1,405,543)	(172,079)	84,856	5,242,113	4,142,338
-	-	-	-	1,112,883
370,443	170,013	1,144,993	67,432,264	73,361,107
\$ (1,035,100)	(2,066)	1,229,849	72,674,377	78,616,328

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES AND OTHER CHANGES
For the Year Ended June 30, 2000**

**Exhibit C
Page 1 of 2**

	Unrestricted	Restricted	Total Funds
Revenues			
Instruction and general:			
Tuition and fees	\$ 4,601,261	-	4,601,261
State appropriations	18,132,800	-	18,132,800
Federal grants and contracts	-	1,137,157	1,137,157
State grants and contracts	-	2,444,268	2,444,268
Private gifts and grants	1,416	565,055	566,471
Land and Permanent Fund Income	127,437	-	127,437
Indirect costs recovered	1,695,746	-	1,695,746
Sales and services	97,191	-	97,191
Other	88,014	12,114	100,128
	<hr/>		
Subtotal	24,743,865	4,158,594	28,902,459
Other:			
State appropriations	1,878,111	-	1,878,111
Federal grants and contracts	-	10,428,807	10,428,807
State grants and contracts	-	4,586,477	4,586,477
Private gifts and grants	71,655	214,303	285,958
Fees	469,402	-	469,402
Sales and services	3,079,078	3,867	3,082,945
Other	210,203	(215)	209,988
	<hr/>		
Total revenues	30,452,314	19,391,833	49,844,147
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Expenditures			
Instructional and general:			
Instruction	12,889,734	2,768,845	15,658,579
Academic support	2,102,580	199,264	2,301,844
Student services	2,233,007	525,115	2,758,122
Institutional support	3,011,562	59,169	3,070,731
Operations and maintenance	3,401,147	7,869	3,409,016
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Subtotal	23,638,030	3,560,262	27,198,292

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES AND OTHER CHANGES
For the Year Ended June 30, 2000**

**Exhibit C
Page 2 of 2**

	Unrestricted	Restricted	Total All Funds
Other:			
Student social and cultural	315,200	12,902	328,102
Research	707,803	2,535,264	3,243,067
Public service	624,886	9,408,471	10,033,357
Internal service departments	236,396	16,550	252,946
Student aid	389,734	3,224,098	3,613,832
Auxiliary enterprises	2,136,142	31,699	2,167,841
Intercollegiate athletics	1,815,427	3,600	1,819,027
	<hr/>		
Total expenditures	29,863,618	18,792,846	48,656,464
	<hr/>		
Transfers Among Funds-Additions (Deductions)			
Mandatory transfers	(19,894)	-	(19,894)
Nonmandatory transfers	(1,000,358)	38,356	(962,002)
	<hr/>		
Total transfers	(1,020,252)	38,356	(981,896)
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Net increase (decrease) in fund balance	\$ (431,556)	637,343	205,787
	<hr/> <hr/>		

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. New Mexico Highlands University (University) formerly known as New Mexico Normal University, was established in 1893 when New Mexico was still a territory. The institution began operations in October 1898 and in 1917, the institution became a four-year teacher training college awarding the Bachelor of Arts degree. Graduate work in certain departments, leading to the degrees of Master of Arts and Master of Science, were added in the late 1920's and the mid-1950's, respectively. In 1941, the New Mexico Legislature changed the name of the institution to New Mexico Highlands University.

The University's campus, including its golf course, encompasses approximately 176 acres in Las Vegas, in the northeastern portion of New Mexico.

Students at the University receive bachelor's degrees under the Bachelor of Arts, Bachelor of Science, Bachelor of Social Work or Bachelor of Science in Engineering curricula in many major fields. Graduate programs leading to the Master of Arts degree are offered in Public Affairs (with concentrations in Political and Governmental Processes, Social and Organizational Processes, Economic Processes, and Historical and Cross-Cultural Perspectives), Southwest Studies (with concentrations in Anthropology, History/Political Science, and Hispanic Language and Literature), Human Performance and Sport, and Education (with concentrations in Counseling and Guidance, School Counseling, Education Administration, Special Education, and Curriculum and Instruction). Master of Science degrees are offered in Life Science, Applied Chemistry, and Psychology; as well as the Masters of Business Administration and the Masters of Social Work graduate programs are also offered.

The University offers a two-year program of study in Elementary Education.

Pre-professional programs are available in Medicine, Dentistry, Veterinary, Pharmacy, Medical Technology, Forestry and Law for students planning to enter professional schools.

The University is controlled and managed by a Board of Regents consisting of five members appointed by the Governor, by and with the advice and consent of the New Mexico Senate, for a term of six years, except for the Student Representative which serves for a term of two years. Not more than three of the Regents shall belong to the same political party at the time of their appointment. Four of the five members of the Board must be qualified electors of the State, and the fifth member shall be a member of the student body of the institution. The Board of Regents constitutes a body politic and corporate, and has the power to sue and be sued, to contract and be contracted with, and the title to all property belonging to the University is vested in this corporate body and successors.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The Board of Regents has full and complete power and control over the University and employs a President who has the supervision and control of the University under such rules and regulations as may be provided by the Board. The Board of Regents determines and provides as to what branches of learning shall be taught, directs the number of teachers that shall be employed, and determines the compensation to be paid to the President and teachers. Such Board also prescribes upon what terms and conditions pupils shall be admitted, but no pupils shall be admitted who are not residents of this state, except on payment of a tuition fee prescribed by the Board of Regents for each term.

Fund Accounting. In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Description of Funds:

Current Funds include the economic resources of the University that are legally expendable for current operational purposes in performing the primary objectives of the University. *Unrestricted Current Funds* consist of those operating funds over which the governing board retains full control to use in achieving any of its authorized purposes. *Restricted Current Funds* represent those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. Restricted current funds are recorded as revenue in the period in which such funds are expended.

Student Loan Funds consist of loans to students and resources designated by the governing board or restricted by outside sources for loans to University students. Terms of the loan agreements usually specify that repayments of principal and interest are loaned to other eligible students. The fund balance refundable to the U.S. Government represents loans receivable which were funded by grants from the U.S. Government.

Endowment Funds are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity to be invested and that only income from investment of principal be utilized. The University has received endowments whose income is used to fund scholarships, fellowships and professorships. Endowment Funds are primarily invested in cash and cash equivalents, fixed income securities and other equities. Contributions of land, equipment, and securities are recorded at their estimated fair market value at the date of the gift.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Term-Endowment Funds are similar to endowment funds, except that after a stated period of time or a particular occurrence, all or part of the principal may be expended.

The University additionally receives income monthly from University lands under the control of the Commissioner of Public Lands and from the University's undivided interest in the State of New Mexico permanent fund. No value has been assigned and no asset recorded in the accompanying financial statements for the University lands under the control of the Commissioner of Public Lands. Income from public lands is recorded as unrestricted current funds revenue. The permanent fund was created by the New Mexico Legislature with funds from the severance taxes on the extraction of non-renewable natural resources. By Statute, permanent fund principal is to remain intact; income from investing the fund is to be used to finance public schools and public higher education.

Plant Funds are used to account for transactions relating to investment in University properties. *Unexpended Plant Funds* include funds specifically identified and formally committed for use in the construction or acquisition of long-lived capital assets and associated liabilities, but unexpended at the reporting date. *Renewal and Replacement Plant Funds* have been set aside for the renewal and replacement of physical properties. *Retirement of Debt Plant Funds* have been set aside to retire indebtedness incurred in connection with the acquisition or construction of physical assets. *Investment in Plant Funds* includes all long-lasting assets in the service of the University, including construction-in-process, and the associated liabilities.

Plant assets acquired with proceeds of federal and state grants and contracts are not recorded as assets of the University unless and until title for these assets has been transferred to the University.

The University's investment in plant is stated at acquisition cost or fair market value at date of gift. Assets disposed of are removed from the asset accounts at the time of disposition. As allowed by generally accepted accounting principles for governmental colleges and universities, depreciation of plant assets is not reflected in the accompanying financial statements.

Agency Funds are used to account for the assets held by the University as custodian or fiscal agent for individuals and organizations; therefore, the transactions of this fund do not affect the Statement of Changes in Fund Balances.

Basis of Accounting. The combined financial statements of New Mexico Highlands University have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles applicable to governmental colleges and universities as set forth in the AICPA College Guide model as defined in GASB Statement No. 15. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of operating funds related to the current reporting

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses. The combined financial statements are not comparable to a consolidated financial statement since interfund eliminations have not been made.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budget. The University follows the requirements established by the Commission on Higher Education (CHE) in formulating its budgets and in exercising budgetary control. It is through the CHE's policy that, when the appropriation has been made to the University, its Board of Regents can, in general, adopt an operating budget within the limits of available income.

Procedures for Approval of Operating Budgets

1. Each institution submits a draft of the operating budget to the CHE staff by early May.
2. The institution then submits an original typed copy that has been approved by the institution's regents to the CHE's office.
3. The CHE meets in June and acts on approval of the budgets.
4. The budgets, as approved by the CHE, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1.

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for appropriation by the University in subsequent years.

Budgetary Control. Total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary control are as follows: (1) unrestricted and restricted expenditures are considered separately; (2) total expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; and (4) within the plant funds budget, the items of budgetary control are major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service. Budget revisions must be approved by the executive secretary of the CHE and then by the Budget Division of the Department of Finance and Administration.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Investments. Investments are recorded at market value in accordance with General Accounting Board Standard 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Investments received by gifts are carried at market value at the date of acquisition.

Investments are made in accordance with the Constitution of the State of New Mexico and the policies of the Board of Regents.

Ordinary income derived from investments is accounted for in the fund owning such assets, except for unrestricted income derived from investments of endowment and similar funds and unexpended plant funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, in the unrestricted current fund. Changes in the market value of investments are accounted for in the fund which owns such assets.

Inventory. Inventories of supplies and materials held for sales or use are recorded at the lower of cost first in, first-out (FIFO) or market value.

Accounts Receivable. The University records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses.

Restricted current accounts receivable consist of unreimbursed expenditures on federal and state grants.

Investment in Plant. Physical plant and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Additionally, certain items of property and equipment are valued at the estimated replacement cost where original cost could not be determined. Depreciation on physical plant and equipment is not reflected in the accompanying financial statements.

Deferred Income. Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May are shown as deferred income in the accompanying financial statements since the session was not completed at June 30. Deferred income also includes revenues received on grants but not yet spent.

Significant Concentration of Credit Risk. The University is dependent on state funding for its operating budget as well as tuition payments from students. In addition, the University receives the majority of its restricted revenues from federal sources.

Preparation of Financial Statements. The financial statements and notes to the financial statements were prepared by our auditors.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000**

NOTE 2. CASH AND CASH EQUIVALENTS

The University maintains a cash and cash equivalent pool that is available for use by all funds.

University deposits are made in demand and time deposits at local financial institutions. State statutes require financial institutions to pledge qualifying collateral to the University to cover at least 50 percent of the uninsured deposits; however, the University requires more collateral as it considers prudent. All collateral is held in third party safekeeping.

In accordance with GASB Statement No. 3, the following table provides information concerning the level of risk assumed by the University at year-end. Actual bank balances are shown because they reflect the current relationship between the deposits and corresponding collateral.

Depository	Insured and Collateralized	Uninsured and Uncollateralized	Total Cost	Market Value
Bank of Las Vegas	\$(160,232)	-	(160,232)	(160,232)
First National Bank of Las Vegas	3,073	-	3,073	3,073
Wells Fargo Bank	414,887	-	414,887	414,887
First Security Bank	15,182	-	15,182	15,182
	<u>\$ 272,910</u>	<u>-</u>	<u>272,910</u>	<u>272,910</u>

The University's investments are categorized to give an indication of the level of risk assumed by the University at year end. Category 1 includes investments that are registered, or for which the securities are held by the University or its agent in the University's name. The University does not have any Category 1 investments. Category 2 includes uninsured or unregistered investments, or for which securities are held by the counterparty's trust department or agent in the University's name. The University had \$272,910 in Category 2 investments. Category 3 represents uninsured and unregistered investments, not held in the University's name. The University does not have any Category 3 investments.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000**

NOTE 3. INVESTMENTS

Investments. In accordance with Article 10, NMSA, 1978 Compilation, University non-endowment funds investments may only be made in U.S. Treasury Securities and repurchase agreements. Investments are made through local financial institutions and are held in safekeeping in their trust departments. Repurchase agreements are collateralized by U.S. Treasury Securities with a market value of at least 102 percent of the principal and are used for overnight investment only. The investment of University endowment funds is in accordance with the laws of 1991, Chapter 69 of the State of New Mexico.

Stocks, Bonds, and Similar Investments. In addition to sharing in the pooled cash and investments, the endowment fund portfolio contains stocks, bonds, and similar investments of \$2,623,880 (cost of \$2,454,596).

A summary of the University's investments at June 30, 2000, by category of credit risk described below, is as follows:

Investments	Category 1	Category 2	Cost	Market Value
United State Treasury				
Bills	\$ 623,781	-	623,781	625,970
Stocks and Bonds	-	1,830,815	1,830,815	1,997,910
	<u>\$ 623,781</u>	<u>1,830,815</u>	<u>2,454,596</u>	<u>2,623,880</u>

In accordance with GASB Statement No. 3, University investments have been categorized into the following two categories of credit risk:

Category 1 Investments that are insured or registered or for which the securities are held by the University of its agent in the University's name.

Category 2 Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the University's name.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Plant assets consisting of land, land improvements, buildings, equipment and furnishings, and books and periodicals are stated at cost, or if contributed, at fair market value at the date of gift. Depreciation on property, plant, and equipment is not recorded.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000**

NOTE 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Changes in property, plant, and equipment for the year-ended June 30, 2000 were as follows:

	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000
Land	\$ 1,915,932	-	-	1,915,932
Land Improvements	50,935,042	29,491	-	50,964,533
Land Improvements	2,059,784	800,868	-	2,860,652
Equipment & Furnishings	13,264,293	242,114	-	13,506,407
Books & Periodicals	5,766,374	592,321	85,540	6,273,155
Automotive	537,507	23,984	-	561,491
Construction in Progress	2,429,023	4,274,235	830,360	5,872,898
	<u>\$ 76,907,955</u>	<u>5,963,013</u>	<u>915,900</u>	<u>81,955,068</u>

NOTE 5. NOTE PAYABLE

New Mexico Highlands University obtained a \$500,000 line of credit with a bank the purpose of which is to pay off any existing real property indebtedness as well as to provide funds for any future real estate transactions.

A summary of notes payable at year end is as follows:

Line of credit with a bank, payable on November 18, 2002 with interest only payments quarterly at 4.75% per annum.	<u>\$ 428,721</u>
--	-------------------

NOTE 6. BONDS PAYABLE – REFUNDING AND CONSTRUCTION

Long-term debt consists of System Refunding Revenue Bonds, Series 1998, originally issued for \$9,150,000. The outstanding bonds are due in annual installments varying through the year 2011. The carrying interest rates range from 4.25 percent to 4.7 percent.

The bonds are payable solely from and secured by a pledge of and an irrevocable first lien on the University's pledged revenues. The pledged revenues consist primarily of revenues received from the operation of the revenue producing facilities of the University. Pledged revenues also include (i) the

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 RESTRICTED CURRENT FUNDS -
 INSTRUCTION AND GENERAL
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 For the Year Ended June 30, 2000**

Schedule 4

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Federal grants and contracts	\$ 900,000	1,137,157	237,157
State grants and contracts	2,000,000	2,444,268	444,268
Private gifts, grants and contracts	500,000	565,055	65,055
Miscellaneous	-	12,114	12,114
	<hr/>		
Total revenues	\$ 3,400,000	4,158,594	758,594
	<hr/> <hr/>		
Expenditures			
Instruction	2,396,000	2,768,845	(372,845)
Academic support	300,000	199,264	100,736
Student services	600,000	525,115	74,885
Institutional support	80,000	59,169	20,831
Operation and maintenance of plant	24,000	7,869	16,131
	<hr/>		
Total expenditures	\$ 3,400,000	3,560,262	(160,262)
	<hr/> <hr/>		

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
RESTRICTED CURRENT FUNDS -
REVENUES AND EXPENDITURES
BUDGET COMPARISONS
For the Year Ended June 30, 2000**

Schedule 3

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Instruction and general	3,400,000	4,158,594	758,594
Student social and cultural	32,000	12,096	(19,904)
Research	12,000,000	2,754,626	(9,245,374)
Public service	9,000,000	9,236,401	236,401
Internal service departments	20,000	16,550	(3,450)
Student aid	3,600,000	3,178,267	(421,733)
Auxiliary enterprises	100,000	31,699	(68,301)
Intercollegiate athletics	15,000	3,600	(11,400)
	<hr/>		
Total revenues	<u>\$ 28,167,000</u>	<u>19,391,833</u>	<u>(8,775,167)</u>
Expenditures			
Instruction and general	3,400,000	3,560,262	(160,262)
Student social and cultural	32,000	12,902	19,098
Research	12,000,000	2,535,264	9,464,736
Public service	9,000,000	9,408,471	(408,471)
Internal service departments	20,000	16,550	3,450
Student aid	3,600,000	3,224,098	375,902
Auxiliary enterprises	100,000	31,699	68,301
Intercollegiate athletics	15,000	3,600	11,400
	<hr/>		
Total expenditures	<u>\$ 28,167,000</u>	<u>18,792,846</u>	<u>9,374,154</u>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS -
INSTRUCTION AND GENERAL
REVENUES, EXPENDITURES, TRANSFERS
AND BEGINNING AND ENDING BALANCES
BUDGET COMPARISONS
For the Year Ended June 30, 2000**

Schedule 2

	Budget	Actual	Variance Favorable (Unfavorable)
Beginning Balances	526,662	526,662	-
Revenues			
Tuition and miscellaneous	\$ 4,460,207	4,601,261	141,054
State appropriations	18,132,800	18,132,800	-
Private gifts	-	1,416	1,416
Endowment, land and permanent fund	127,437	127,437	-
Sales and service	113,384	97,191	(16,193)
Other sources	1,646,859	1,783,760	136,901
Total revenues	24,480,687	24,743,865	263,178
Total Available	25,007,349	25,270,527	263,178
Expenditures			
Instruction	12,139,631	12,889,734	(750,103)
Academic support	2,240,690	2,102,580	138,110
Student services	2,172,761	2,233,007	(60,246)
Institutional support	3,394,635	3,011,562	383,073
Operation and maintenance of plant	3,277,439	3,401,147	(123,708)
Total expenditures	23,225,156	23,638,030	(412,874)
Transfers to or (From)			
Mandatory transfers	82,191	19,894	62,297
Nonmandatory transfers	1,363,803	979,555	384,248
Total net transfers	1,445,994	999,449	446,545
Ending Balance	\$ 336,199	633,048	296,849

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS -
REVENUES, EXPENDITURES, TRANSFERS
AND BEGINNING AND ENDING BALANCES
BUDGET COMPARISONS (CONTINUED)
For the Year Ended June 30, 2000**

**Schedule 1
Page 2 of 2**

	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
Instruction and general	\$ 23,225,156	23,638,030	(412,874)
Student social and cultural	314,377	315,200	(823)
Research	860,182	707,803	152,379
Public service	627,834	624,886	2,948
Internal service departments	263,836	236,396	27,440
Student aid	390,827	389,734	1,093
Auxiliary enterprises	2,147,692	2,136,142	11,550
Intercollegiate athletics	1,786,065	1,815,427	(29,362)
	<hr/>	<hr/>	<hr/>
Total expenditures	29,615,969	29,863,618	(247,649)
Transfers (to) or From			
Instruction and general	(1,445,994)	(999,449)	446,545
Research	678,049	509,158	(168,891)
Public service	56,456	6,456	(50,000)
Student aid	210,252	210,252	-
Auxiliary enterprises	(822,269)	(822,269)	-
Intercollegiate athletics	75,600	75,600	-
	<hr/>	<hr/>	<hr/>
Total net transfers	(1,247,906)	(1,020,252)	227,654
Ending Balances			
Instructional and general	336,199	633,048	296,849
Student social and cultural	53,619	52,776	(843)
Research	180,410	163,898	(16,512)
Public service	337,524	290,472	(47,052)
Internal service departments	(157,950)	(131,050)	26,900
Student aid	199	(1,475)	(1,674)
Auxiliary enterprises	217,990	62,890	(155,100)
Intercollegiate athletics	(597,054)	(626,416)	(29,362)
	<hr/>	<hr/>	<hr/>
Total ending balances	\$ 370,937	444,143	73,206

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
UNRESTRICTED CURRENT FUNDS -
REVENUES, EXPENDITURES, TRANSFERS
AND BEGINNING AND ENDING BALANCES
BUDGET COMPARISONS
For the Year Ended June 30, 2000**

**Schedule 1
Page 1 of 2**

	Budget	Actual	Variance Favorable (Unfavorable)
Beginning Balances			
Instruction and general	\$ 526,662	526,662	-
Student social and cultural	45,994	45,994	-
Research	161,476	161,476	-
Public service	203,028	203,028	-
Internal service departments	13,050	13,050	-
Student aid	127,283	127,283	-
Auxiliary enterprises	60,031	60,031	-
Intercollegiate athletics	(261,825)	(261,825)	-
	<hr/>		
Total beginning balances	875,699	875,699	-
	<hr/>		
Revenues			
Instruction and general	24,480,687	24,743,865	263,178
Student social and cultural	322,002	321,982	(20)
Research	201,067	201,067	-
Public service	705,874	705,874	-
Internal service departments	92,836	92,296	(540)
Student aid	53,491	50,724	(2,767)
Auxiliary enterprises	3,127,920	2,961,270	(166,650)
Intercollegiate athletics	1,375,236	1,375,236	-
	<hr/>		
Total revenues	30,359,113	30,452,314	93,201
	<hr/>		
Total Available			
Instructional and general	25,007,349	25,270,527	263,178
Student social and cultural	367,996	367,976	(20)
Research	362,543	362,543	-
Public service	908,902	908,902	-
Internal service departments	105,886	105,346	(540)
Student aid	180,774	178,007	(2,767)
Auxiliary enterprises	3,187,951	3,021,301	(166,650)
Intercollegiate athletics	1,113,411	1,113,411	-
	<hr/>		
Total available	31,234,812	31,328,013	93,201
	<hr/>		

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000**

NOTE 16. INTERFUND CASH

When the University implemented its new general ledger software application on July 1, 1999 it no longer recorded individual bank accounts as accounts in individual funds but combined them into a single bank fund and disbursed the cash in the bank fund to the other funds using inter-fund cash accounts. The University also had inter-fund due to/from accounts recorded as of June 30, 1999. The balances in the due to/from accounts were combined into the new inter-fund cash accounts.

NOTE 17. CHANGE IN PRESENTATION

The University changed the way it presents its financial information for the restricted deferred revenue balances as of June 30, 2000. The restricted funds deferred revenue as of June 30, 1999 was \$1,112,883. This balance is now presented in current restricted fund balance and current year change in deferred revenue is allocated to the appropriate current year revenue balance.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000**

NOTE 13. LITIGATION

There are several pending and/or threatened lawsuits in which the University is involved. These matters are insured by the Risk Management Division of the General Services Department. The University's attorney estimates that the potential claims against the University not covered by insurance resulting from such litigation would not materially affect the financial statements of the University.

NOTE 14. COMMITMENTS

At June 30, 2000, the University had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying combined balance sheet. The appropriate amount of such commitments is detailed as follows:

Unrestricted Current Funds	<u>\$ 241,532</u>
Plant Funds	<u>\$1,537,164</u>

There were no significant construction contracts entered into by the University at June 30, 2000 that were not substantially done.

NOTE 15. DEFICIT FUND BALANCE

The unexpended and renewals and replacements plant funds have an accumulated deficit fund balance through June 30, 2000 of \$1,035,100 and \$2,066. The deficit fund balance was a result of poor controls over budgeting due to the installation of a new accounting software.

The University's unrestricted current funds unreserved and undesignated fund deficit is as follows:

Total fund balance	\$ 444,413
Less fund balance reserved for inventories	721,435
Less fund balance reserved for prepaid expenses	45,601
Less fund balance reserved for deposits	<u>425</u>
Fund deficit unreserved/undesignated	<u>\$ (323,048)</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000

NOTE 12. LEASES (CONTINUED)

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2000:

Year Ending June 30	Capital Leases	Operating Leases
2001	\$ 279,475	\$ 395,666
2002	279,475	395,666
2003	211,601	395,666
2004	94,487	395,666
2005	-	395,666
Thereafter	-	<u>2,975,881</u>
	865,038	<u>\$ 4,954,211</u>
Less amount representing Interest	<u>151,412</u>	
	<u>\$ 713,626</u>	

Not included above are leases anticipated to be renewed annually in the amount of \$ 29,910.

University as Lessor

The University is lessor to various properties. For the year ended June 30, 2000, total lease income, which includes annually renewable lease agreements, was approximately \$9,000.

The following is a schedule of minimum future lease income under lease terms exceeding one year for the next five years as of June 30, 2000:

Year Ending June 30	Lease Income
2001	\$ 9,000
2002	9,000
2003	-
2004	-
2005	-
	<u>\$ 18,000</u>

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000

NOTE 11. POST EMPLOYMENT BENEFITS

The Retiree Health Care Act (ACT) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds paid into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 810 W. San Mateo Rd., Santa Fe, NM 87505.

For the fiscal year ended June 30, 2000, the New Mexico Highlands University remitted \$184,614 in employer contributions and \$92,307 in employee contributions to the Retiree Health Care Authority.

NOTE 12. LEASES

At June 30, 2000, the University had various lease arrangements summarized as follows:

University as Lessee

Capital Leases. The University leases certain telephone and computer equipment under capital lease agreements. The telephone is leased for 5 years with monthly payments of \$7,541 including interest at 13.1%. The computer equipment is leased for 5 years with monthly payments of \$15,748 including interest at 10.88%. These assets are reported as equipment on the accompanying balance sheet as follows:

Computer equipment and software	\$ 726,295
Telephone equipment	<u>330,686</u>
	<u>\$ 1,056,981</u>

Operating Leases. Rent expense for operating leases amounted to \$289,751 for the year ended June 30, 2000.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000**

NOTE 8. RISK MANAGEMENT (CONTINUED)

State Risk Management Pool - The University as a state university defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. Annual premiums are paid to the Office of Risk Management for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the University.
2. Coverage to protect the University's property and assets.

NOTE 9. ERA PENSION PLAN

Plan Description. Substantially all of the New Mexico Highlands University full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits and cost-of-living adjustments to plan members and beneficiaries. ERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERA, PO Box 26129, Santa Fe, New Mexico 87502.

Funding Policy. Plan members are required to contribute 7.6 percent of their gross salary. The New Mexico Highlands University is required to contribute 8.65 percent of the gross covered salary. The contribution requirements of plan members and the New Mexico Highlands University are established in Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The New Mexico Highlands University's contributions to ERA for the years ending June 30, 2000, 1999 and 1998 were \$2,659,804, \$2,479,769, and \$2,197,999, respectively, equal to the amount of the required contribution for each year.

NOTE 10. ALTERNATIVE RETIREMENT PLAN

Professors, coaches and top administrators who are eligible for the regular retirement plan may elect to go with an alternative retirement plan. With the alternative plan, the University contributes 3 percent of covered employee's gross salary to ERA and 5.65 percent to the carrier selected by the employee. The employee contributes 7.6 percent of his/her gross salary to the carrier they select. Contributions by the University totaled \$63,101 to the ERA for the alternative plan and \$118,841 to the various carriers for the year ended June 30, 2000. Employees contributed \$159,857 to the various carriers under the alternative plan during the year ended June 30, 2000.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000

NOTE 7. BONDS PAYABLE – REFUNDED BONDS (CONTINUED)

At June 30, 2000, \$0 of outstanding, revenue bonds are considered defeased. Details are as follows:

	Original Amount	Date Defeased	Outstanding June 30, 2000
General System Revenue Refunding Bonds Series January 15, 1978	\$2,980,000	9-22-87	\$ -

Series 1998:

In January 1998, the University issued \$9,150,000 of system refunding revenue bonds to provide resources to call all Series 1987-A and Series 1987-B bonds on February 1, 1998, and to purchase U.S. Treasury Obligations that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the Series 1991 bonds. As a result, the refunded Series 1991 bonds are considered to be defeased and the liability has been removed from the University's financial statements.

At June 30, 2000, \$0 of outstanding, revenue bonds are considered defeased. Details are as follows:

	Original Amount	Date Defeased	Outstanding June 30, 2000
System Revenue Bonds Series 1991	\$ 5,575,000	1-1-98	\$ -

NOTE 8. RISK MANAGEMENT

Self Insurance Plan - The University has a self insurance plan for employee medical coverage. They limit their risk of liability with a stop-loss policy, which continues coverage for any participant with claims from an individual occurrence in excess of \$30,000. The claims liability for claims incurred plus administrative costs due as of June 30, 2000 were \$264,995. The unused amounts collected from the University and its covered employees for payment of health claims as of June 30, 2000 were \$73,456. The following reconciles the activity in the liability during the year:

Liability for claims as of June 30, 1999	\$ (111,439)
Premiums collected by the University and covered participants	1,584,253
Claims paid during the year	(1,110,635)
Administrative fees paid during the year	<u>(288,723)</u>
Excess premiums collected as of June 30, 2000	73,456
Unpaid claims incurred as of June 30, 2000	(264,995)
Unpaid administrative fees as of June 30, 2000	<u>-</u>
Deficiency of premiums to pay current claims	<u>\$ (191,539)</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000**

NOTE 6. BONDS PAYABLE – REFUNDING AND CONSTRUCTION (CONTINUED)

gross proceeds of the collection of student tuition and fees (with certain exceptions), (ii) the gross income received by the University from the “Income from the Permanent Fund” and the “Income from the Income Fund”, (iii) the proceeds of legally available revenues received in the form of grants from the United States government or any of its agencies and proceeds of interest subsidies with respect to the Bonds received by the University, and (iv) certain other revenues derived from sources other than ad valorem taxation and appropriations.

Debt service amounts for future fiscal years is as follows:

Ending June 30,	Principal	Interest	Total
2001	\$ 610,000	379,825	989,825
2002	635,000	353,900	988,900
2003	665,000	326,913	991,913
2004	700,000	298,650	998,650
2005	735,000	268,200	1,003,200
2006	770,000	235,860	1,005,860
2007	805,000	201,980	1,006,980
2008	845,000	165,755	1,010,755
2009	885,000	127,730	1,012,730
2010	925,000	87,905	1,012,905
2011	965,000	45,355	1,010,355
	<u>\$ 8,540,000</u>	<u>2,492,073</u>	<u>11,032,073</u>

NOTE 7. BONDS PAYABLE – REFUNDED BONDS

Series 1987 – A:

In 1987, the University advance refunded a general system revenue refunding bond issue during the year. The University issued \$3,050,000 of system refunding revenue bonds to provide resources to purchase U.S. Treasury obligations that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the University’s financial statements.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 PLANT FUNDS -
 RESTRICTED AND UNRESTRICTED -
 REVENUES AND EXPENDITURES
 BUDGET COMPARISONS
 For the Year Ended June 30, 2000**

Schedule 5

	Budget	Actual	Actual Over (Under) Budget
Revenues and Transfers			
Unexpended (capital outlay)	\$ 10,085,495	3,964,963	(6,120,532)
Renewal and replacement	848,876	678,863	(170,013)
Retirement of indebtedness	2,116,741	730,749	(1,385,992)
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ 13,051,112</u>	<u>5,374,575</u>	<u>(7,676,537)</u>
Expenditures			
Unexpended (capital outlay)	10,070,000	5,370,506	4,699,494
Renewal and replacement	881,719	850,942	30,777
Retirement of indebtedness	583,862	645,893	62,031
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>\$ 11,535,581</u>	<u>6,867,341</u>	<u>4,668,240</u>

See Notes to Financial Statements.

Schedule 6

Loan Funds	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Agency	Totals
-	-	-	-	-	-	(1,173,586)
-	-	-	-	-	-	(292,660)
-	-	-	-	-	-	9,048
-	-	-	-	-	-	191,408
-	-	-	-	-	-	11,869
-	-	-	-	-	-	49,346
-	-	-	-	-	-	3,073
-	-	-	-	-	-	317,081
-	-	-	-	-	-	97,806
-	-	-	-	-	-	15,182
-	-	-	-	-	23,773	23,773
-	-	-	-	-	-	16,500
-	-	-	-	-	23,773	(731,160)

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INVESTMENTS
 For the Year Ended June 30, 2000**

Schedule 7

Plant Funds:

Wells Fargo Bank	
Various U.S. Treasury Notes	\$ 94,438
Various Corporate Bonds	234,607
Various Common Stock	403,694
Total investments - Plant Fund	<u>732,739</u>

Endowment Funds:

Wells Fargo Bank	
Various U.S. Treasury Notes	\$ 531,532
Various Corporate Bonds	253,686
Various Common Stock	1,038,027
Other Equities	67,896
Total investments - Endowment Fund	<u>1,891,141</u>

Total investments - all funds	<u><u>\$ 2,623,880</u></u>
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See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF SECURITY REQUIREMENTS
For the Year Ended June 30, 2000**

Schedule 8

	Bank of Las Vegas	First Nat'l Bank Las Vegas	First Security Bank	Wells Fargo Bank
Checking accounts	\$ (160,232)	3,073	5,182	-
Repurchase agreements		-	-	-
Endowment pool	-	-	10,000	414,887
Total deposits	(160,232)	3,073	15,182	414,887
Less: FDIC coverage	100,000	100,000	100,000	100,000
Total uninsured public funds	-	-	-	314,887
50 percent collateral requirement	-	-	-	157,444
Pledged Federal Securities		-	-	414,887
US Treasury Notes CUSIP#3133M2U21				
Federal Home Loan Bank, Dallas TX	2,700,000			
Over (under) collateralized	\$ 2,700,000	-	-	N/A

NOTE

Endowment pool funds are not considered public monies and therefore are not subject to the collateral requirements.

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINANCIAL AID PROGRAM AND
SCHEDULE OF CHANGES IN FUND BALANCE
For the Year Ended June 30, 2000**

Schedule 9

	Pell	Grants and College Workstudy		Perkins Student Loans	Total
		SEOG	CWS		
Fund balance - June 30, 1999	\$ -	-	(8,194)	1,420,028	1,411,834
Additions:					
Federal awards	2,239,358	186,359	316,055	1,598,019	4,339,791
Interest and assignments	-	-	-	44,469	44,469
Other	-	-	-	-	-
Reimbursement cancelled loans	-	-	-	1,898,909	1,898,909
Total additions	2,239,358	186,359	316,055	3,541,397	6,283,169
Deductions:					
Grants	2,239,358	186,359	314,030	3,400,534	6,140,281
Assignments	-	-	-	80,182	80,182
Administrative costs	-	-	-	-	-
Collection costs	-	-	-	28,800	28,800
Total deductions	2,239,358	186,359	314,030	3,509,516	6,249,263
Other charges increases (decreases):					
Institutional match	-	-	(2,025)	-	(2,025)
Net increase in fund balance	-	-	-	31,881	31,881
Fund balance June 30, 2000	\$ -	-	(8,194)	1,451,909	1,443,715
Reconciliation of fund balance to the financial statements					
Mandatory transfers				19,894	
Non-mandatory transfers out				(38,356)	
Fund balance of Perkins loan fund (Exhibit A)				\$ 1,433,447	

See Notes to Financial Statements.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2000

Schedule 10
 Page 1 of 5

	Federal CFDA #	Account Number	Expenditures
Research and Development Cluster			
EPA/Pecos River 9/97-9/99	15.805	21812	\$ 9,995
NASA -ANO PiI Name	43.001	21131	(2,028)
NASA -ANO PiI Name	43.001	21132	135,852
NASA -ANO Subawards	43.001	21133	95,858
NASA -ANO Ronald Clark	43.001	21134	9,193
NASA -ANO Visiting Researchers	43.001	21135	19,587
NASA -ANO Subawards	43.001	21136	20,020
NASA -Kennedy	43.001	21171	1,935
NASA -JSC Astrobiology	43.001	21173	268
NASA /Development of Polymers	43.001	21175	80,758
NASA /Researching Out for science	43.001	21177	3,848
DOE/Steam Quality 10/97-9/00	81.004	21814	34,380
NIH/Fetoprotectants 9/99-8/00	93.273	21261	78,819
MBRS Admin 8/98-7/99	93.375	21211	7,091
MBRS Greene 8/98- 7-99	93.375	21212	(10,600)
MBRS Sammeth 8-98 7-99	93.375	21213	13,981
MBRS Taylor 8-98 7-99	93.375	21214	4,669
MBRS Shaw 8-98 7-99	93.375	21215	64,142
MBRS Horne 8-98 7-99	93.375	21216	53,917
NIH/MBRS Horne 8-98 7-99	93.375	21217	28,794
MBRS-Electronic Journal 8/99-7/00	93.375	21218	78,760
MBRS-Admin 8/99-7/00	93.375	21219	59,876
MBRS-Green 8/99-7/00	93.375	21220	121,767
MBRS-Sammeth 8/99-7/00	93.375	21221	95,863
MBRS-Taylor 8/99-7/00	93.375	21222	76,976
MBRS-Shaw 8/99-7/00	93.375	21223	93,076
MBRS-Meassick 8/99-7/00	93.375	21224	119,185
MBRS-Horne 8/99-7/00	93.375	21225	45,299
MBRS-Bridges 10/98-9/99	93.375	21241	70,948
NIH/Bridges 4/00- 3/2003	93.375	21242	-
NIH/Bridges 4/00- 3/2003	93.375	21244	93,921
Phd Bridge Program 9/98-8/00	93.906	21243	43,460
CCD Photometry of Vesta	43.001	21174	71,524
NAVY Pulse Frequency	12.300	21631	1,045
AFOSR Fast Optics	12.800	20611	94,618
Air Force BER Measurement	12.800	20612	62,037
Air Force Electroop.	12.800	21613	153,248
Air Force Superconductor	12.800	21614	(581)
NSF CREST	47.000	21372	254,557
Total Research and Development Cluster			2,186,058

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2000**

**Schedule 10
Page 2 of 5**

	Federal CFDA #	Account Number	Expenditures
Student Financial Aid Cluster			
Federal SEOG 1999-2000	84.007	21432	186,359
FED W/S Instruction	84.033	21411	122,030
FED W/S Academic Support	84.033	21412	45,239
FED W/S Student Services	84.033	21413	64,965
FED W/S Institutional Support	84.033	21414	19,318
FED W/S Operation & Maint.	84.033	21415	4,854
FED W/S Social & Cultural	84.033	21416	12,096
FED W/S Organized Research	84.033	21417	649
FED W/S Public Service	84.033	21418	8,701
FED W/S Internal Service	84.033	21419	10,484
FED W/S Auxiliaries	84.033	21420	19,835
FED W/S Off Campus	84.033	21421	13,208
FED W/S Athletics	84.033	21422	2,573
Financial Aid -Admin Allow	84.033	21423	(9,106)
FED W/S Off Campus 99-00	84.033	21424	1,206
Federal PELL 1999-2000	84.063	21431	2,239,358
Total Student Financial Aid Cluster			2,741,769
TRIO Programs Cluster			
Support Services 1998-99	84.042	21461	64,737
Support Services 99-00	84.042	21462	324,007
Upward Bound 6/98-5/99	84.047	21451	952
Upward Bound 1998-1999	84.047	21452	3,774
Upward Bound 6/99-5/00	84.047	21453	387,136
Upward Bound 6/00-5/01	84.047	21455	115,056
Total TRIO Programs Cluster			895,662
U.S. Department of Labor			
GOAL Program 10/99-4/02	17.253	21817	507,096
National Aeronautics and Space Administration			
AISTEC-Admin	43.001	21111	519,623
AISTEC-Project	43.001	21112	(38,891)
AISTEC-Technology Ctr	43.001	21113	86,197
AISTEC-Admin 12/99-11/00	43.001	21114	343,592
AISTEC-Project 12/99-11/00	43.001	21115	174,386
NASA /Educational Outreach	43.001	21176	1,833
Total National Aeronautics and Space Administration			1,086,740

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2000

Schedule 10
 Page 3 of 5

	Federal CFDA #	Account Number	Expenditures
National Science Foundation			
UCAN-RSI Part. Supp. 98-99	47.071	21251	132,767
UCAN-RSI Admin 98-99	47.071	21252	903,746
UCAN-RSI TIEE 98-99	47.071	21253	41,385
UCAN-RSI Admin 12/97-11/98	47.071	21254	10,342
UCAN-RSI IIEE 99-00	47.071	21256	327
UCAN-RSI IIEE 99-00	47.071	21257	13,989
UCAN-RSI Part. Support 99-00	47.071	21258	831,488
UCAN-RSI Admin 99-00	47.071	21259	59,689
			<u>1,993,733</u>
NSF Abstract/Teaching	N/A	21374	<u>1,028</u>
Total National Science Foundation			<u>1,994,761</u>
U.S. Department of Education			
Region IX/Comp Ctr	84.283	21441	6,215
Comp. Ctr 1998-1999	84.283	21442	35,234
US Dept of ED/SWCC 10/98-99	84.283	21443	660,878
US Dept of ED/SWCC 10/98-99	84.283	21444	268,224
US Dept of ED/SWCC 10/99-9/00	84.283	21445	220,149
US Dept of ED/SWCC 10/99-9/00	84.283	21446	515,931
Dept. of Ed. -Other	84.283	21470	5,548
Dept. of Ed. - Rehab. Counseling	84.283	21471	98,342
Dept. of Ed. - Career Ladder	84.283	21472	196,347
			<u>2,006,868</u>
MSIP/Chemistry	84.120	21473	<u>1,476</u>
Total U.S. Department of Education			<u>2,008,344</u>
U.S. Department of Health and Human Services - Passed through NM Department of Children Youth and Families			
CYFD/Title IV-E 1998-99	93.658	22211	230,375
CYFD Perm. Planning 1996-97	93.658	22212	967
CYFD FY 1999-2000	93.658	22213	1,088,676
CYFD Perm. Planning 7/97-6/98	93.658	22214	(417)
Total U.S. Department of Human Services			<u>1,319,601</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2000

	Federal CFDA #	Account Number	Expenditures
U.S. Department of the Interior			
DOI Water Resource Inst	N/A	21815	<u>95,948</u>
Total federal awards expended			\$ <u><u>12,835,979</u></u>

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Accounting

The above schedule of expenditures of federal awards was prepared on the accrual basis of accounting.

Note 2. Other Disclosures

The University did not receive any non-cash assistance, there was no insurance in effect during the year, and no federal loans or loan guarantees outstanding at year end.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2000**

Federal CFDA #	Account Number	Expenditures
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Note 3. Subrecipients

The University disbursed federal funds to the following subrecipients:

	Federal CFDA #	Account Number	Expenditures
Tierra Y Montes Soil & Water	N/A		7,720
Alabama A&M	43.001	21111-76	47,353
Arizona State University	43.001, 47.071	21111-76	359,421
D-Q University	43.001	21111-76	28,705
Haskel Indain Nations University	43.001	21111-76	12,738
Oklahoma State University	43.001	21111-76	40,052
Salish Kootenai College	43.001	21111-76	100,763
South Dakota School of Technology	43.001	21111-76	92,059
Spelman College	43.001	21111-76	14,387
University of Alabama - Huntsville	43.001	21111-76	81,576
University of Puerto Rico	43.001	21111-76	24,445
University of Washington	43.001	21111-76	35,291
University of New Mexico	43.001	21111-76	105,408
Adams State University	47.071	21251-59	181,243
Bernalillo Public Schools	47.071	21251-59	245,643
Institute for Alliances	47.071	21251-59	53,098
Minnich and Associates	47.071	21251-59	103,442
Santa Fe Indian School	47.071	21251-59	166,150
Southern Ute Indian Tribe	47.071	21251-59	121,486
Alternatives for Science	84.283	21441-72	84,613
Wested Laboratory	84.283	21441-72	515,401

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2000**

**Schedule 11
Page 1 of 3**

Program Title	Account Number	Expenditures
AP/Eisenhower	22111	\$ 22
Dev Disabilities 7/94 -6/95	22131	1,407
NMHOH/DDSEP FY 1998-99	22132	161,759
NM Dept of Ed/Spec Proj fy99	22166	33,301
Biennail Eval. Reports 5/99-9/99	22167	63,763
Spanish Summer Immersion 3/99-6/99	22168	750
Standard Professional Videoconference	22170	51,797
Special Ed. Quarterly Meetings	22171	17,915
Project Performance Report	22173	2,787
Title VII Systemwide Improvement	22174	9,838
AP-NM 1/00-3/01	22175	51,106
Family & Community Involvement Mode	22176	22,034
Spanish Summer Immersion 1299-6/00	22177	2,900
NMSDE/JPA 00-078 2/00-12/00	22179	16,753
NMSDE/JPA 00-062	22180	3,613
Biennail Eval. Reports 2/00-9/00	22181	16,745
HSD/Progress 6/97-6/99	22311	77,787
WORK program	22312	2,873,630
Rio Rancho Works 2/00-5/00	22313	1,286
Day Care Nutrition 98-99	22353	6,542
NYSP Nutrition 99	22354	22,250
State Work Study -Instruction	22411	55,626
State Work Study -Academic Support	22412	25,001
State Work Study -Student Services	22413	43,418
State Work Study -Inst. Support	22414	15,436
State Work Study -Research	22415	472
State Work Study -Public Service	22416	7,096
State Work Study -Internal Service	22417	6,066
State Work Study -Auxiliaries	22418	11,864
State Work Study -Athletics	22419	1,027
State Work Study -Oper. & Maint.	22420	3,015
SSIG 1998-99	22441	506
SSIG 1999-2000	22443	318,343
CHE Graduate Fellowship Prog.	22472	74,653
CHE Advanced Placement	22473	9,582
A/P Fee Reduction FY 1999	22474	18,576
CHE/Eisenhower 12/00	22477	20,359

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2000**

**Schedule 11
 Page 2 of 3**

Program Title	Account Number	Expenditures
NMDOH/Mental Health 3/98-6/99	22711	\$ 4,145
NMDOH/Mental Health 3/98-6/99	22711	600
Alternate Assessment 4/99-9/99	22714	30,895
Summer Transition Institute	22715	15,796
DOH/Community Mental Health	22717	2,973
NMDOH/Public Health 1999-2000	22718	44,595
Alternate Assessment 6/30/00	22719	42,254
Summer Transition Institute 7/00	22720	8,074
NM Lottery Scholarships	22733	243,398
HELP 05/00-06/00	22741	4,248
RRPS Standards Primer 8/98-6/99	22752	32,828
School Support Teams 10/98- 9/99	22757	11,266
NMDOL Rio Call Center Training	22758	151,907
Child Care	22759	19,238
Law Enforcement 98-99	22760	7,189
Historic Preservation /Tecolote	22761	86
NMSHTD Weed Management	22762	8,908
School Support Teams 1999-00	22763	184,513
NM Game & Fish Gio Int. 6/00	22764	12,435
Performance-Based Assessment	22765	42,126
NM Dept of Labor wtw 11/99-12/00	22768	907
RRPS/Prof. Dev. 2/97-9/97	22769	(1,638)
NMSU/CETP 8/97-6/01	23113	71,185
CETP-Scholarships 98-00	23116	14,640
NMSU/AMP 1/99- 12/99	23117	55,341
NMSU/Space Grant 2/99-1/00	23118	6,861
NMSU/AMP 12/99-6/00	23119	4,167
UNM/Geriatric education 9/98-8/99	23141	212
UNM/HiCrest 4/98-4/01	23142	51,722
UNM/NASA- ACE 7/98-6/99	23143	65,494
NSF/UNM-CMEC 9/95-8/98	23144	2
UNM/NASA Pursue	23147	34,070
NSF/UNM-CHEM-Ceramics 9/98-8/00	23148	23,424
UNM/LEND 1999-2000	23149	11,924
UNM/HiCrest Scholarship 99-00	23150	3,850
University of Washington	23151	23,239

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2000**

Program Title	Account Number	Expenditures
UNM/Geriatric education 9/99-8/00	23152	\$ 8,479
WAESO 1997	23161	1
WAESO Summer 1999	23165	644
WAESO Spring 1999	23166	248
WAESO Fall 1999	23167	591
WAESO Spring 2000	23168	588
Southern U./Region IV 9/96-8/99	23181	5,910
HBCU/MI Outreach yr 5 4/95-9/99	23182	94,766
Spelman/NASA 1999-00	23184	65,044
Spelman 10/99-9/99	23186	<u>2,351</u>
		\$ <u><u>5,460,521</u></u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF EXPENDITURES OF PRIVATE AWARDS
For the Year Ended June 30, 2000**

Schedule 12

Program Title	Account Number	Expenditures
LM/NMHU Teacher Acad 7/97-6/98	23311	200
AP Institute/Other Sources	23312	10,243
AP Institute/Other Sources	23312	3,850
Study of Local Board Members	23315	3,078
Coronado Conference	23316	3,184
LANL/High Rersolution X-ray 9/98-9/99	23331	125
LANL/High Rersolution X-ray 9/98-9/99	23331	4,302
LANL/Survey Giardia 9/98-9/99	23332	9,277
LANL/UCDRO Mag. Ceramic 9/98-9/99	23333	6,536
LANL/NMRPI 12/99-12/00	23334	7,735
LANL/NMRPI Modecular Modeling	23335	16,313
NYSP Summer 1998	23512	51
NYSP Summer 1999	23514	14,533
Prueba de Espanol	23515	47,413
NACM	23516	2,833
CCD Photometry	23517	710
Indena /Mu Wang	23518	19,724
Historical Record Grant 4/99-5/00	23519	6,206
NASW Scholarship 1999-2000	23520	6,089
Upward Bound/Navajo Nation	23522	8,961
City of LV/Social Work /Mou	23523	11,084
SCIMAST/UCAN -RSI	23524	7,994
USENIX	23525	12,196
RETA/Regional Networks	23526	31,345
Sangre de Cristo Community & Scho	23529	24,269
Women's Health Foundation Camp	23531	154
HACU-Microsoft Technology 1/00-12/00	23532	8,122
NYSP Summer 2000	23533	72,186
		72,186
		\$ 338,713

NEFF & RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
7001 PROSPECT PLACE NE
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
S. Peter Bickley, Jr., Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

We were engaged to audit the combined financial statements of the New Mexico Highlands University, Las Vegas, New Mexico (University), as of and for the year ended June 30, 2000, and have issued our report thereon dated February 21, 2001, which disclaims an opinion on these financial statements. Our audit was to be conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 00-22 through 00-28.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
S. Peter Bickley, Jr., Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 99-1, 99-2, and 00-1 through 00-21.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider 00-10, 00-12 and 00-20 to be material weaknesses.

This report is intended solely for the information and use of management, the audit committee, the State Auditor, the cognizant audit agency and other federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Neff & Ricci LLP

Albuquerque, New Mexico
February 21, 2001

NEFF & RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
7001 PROSPECT PLACE NE
ALBUQUERQUE, NM 87110

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program And Internal Control Over Compliance in Accordance With OMB Circular A-133

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
S. Peter Bickley, Jr., Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

Compliance

We were engaged to audit the compliance of the New Mexico Highlands University, Las Vegas, New Mexico (University) with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management.

On July 1, 1999, the University began a data processing system conversion. Certain conditions affecting the University's financial statements appear to have arisen, directly or indirectly, from activities related to the conversion, including the following. Interfund payables and receivables at July 1, 1999, were combined with cash in each fund into one cash balance for all funds. Interfund activity for the year ended June 30, 2000, could not be reconciled back to the June 30, 1999 balances for each fund. Payroll processing controls and procedures were inadequate during the year ended June 30, 2000. There has not been a complete reconciliation between the general ledger, payroll system reports, W-2's, or Federal and State payroll tax and other payroll related reports since the conversion. Payroll tax reports were not always filed on the due dates and may not be correct. February 2001, adjustments made by the University to the payroll liability accounts affected June 30, 2000 cash and we were not provided sufficient information to determine the accuracy of such adjustments. The University adjusted for obvious labor distribution errors made by employees that we had noted, however, we do not know if other similar errors exist. In the restricted funds, the University was unable to provide adequate information for our testing as to the existence and collectibility of approximately \$1.8 million of receivables related to certain programs.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
S. Peter Bickley, Jr., Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico
Page 2

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the University's compliance with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2000. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB A-133 and which are described in the accompanying schedule of findings and questioned costs as items 00-22 through 00-28.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Institute's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-22 through 00-28.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 00-22, 00-23 and 00-24 to be material weaknesses.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
S. Peter Bickley, Jr., Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico
Page 3

This report is intended solely for the information and use of management, the audit committee, the State Auditor, the cognizant audit agency and other federal audit agencies and is not intended to be, and should not be used by anyone other than these specified parties.

Neff & Ricci LLP

Albuquerque, New Mexico
February 21, 2001

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2000**

99-1	Endowment Investment Policy	Repeated and Updated
99-2	Collections on Accounts Receivable	Repeated and Updated

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2000**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a disclaimer of opinion on the financial statements of New Mexico Highlands University.
2. There were 23 reportable conditions disclosed during the audit of the financial statements.
3. There were 8 instances of noncompliance material to the financial statements of New Mexico Highlands University disclosed during the audit.
4. There were 7 reportable conditions that were disclosed during the audit of major federal awards programs.
5. The auditors' report on compliance for the major federal awards programs for New Mexico Highlands University expresses a disclaimer of opinion.
6. Audit findings relative to the major federal award programs for New Mexico Highlands University are reported in Part C of this schedule.
7. The programs tested as major programs included:

	CFDA #
• Research and Development Cluster	Various
• Student Financial Aid Cluster	Various
• TRIO Program Cluster	Various
• NSF UCAN/RSI	47.071
• Goal Program	17.253
8. The threshold for distinguishing Type A and Type B programs was \$385,079.
9. New Mexico Highlands University was determined to be a high risk auditee.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

99-1 Endowment Investment Policy

Condition

The University has two corporate bonds that exceed the University's fixed income value requirement. The investment in Donaldson, Lufkin & Jenrette, Inc. corporate bonds comprise 12.2% of the fixed-income portfolio and the investment in Merrill Lynch & Co. makes up 11.4% of the fixed-income investments. The asset allocation for the endowment fund does not comply with the guidelines established by the University. Cash and cash equivalents comprise 14.3% of the assets in the endowment fund.

Criteria

The University's endowment investment policy states, "Individual issues of non-government debt are limited to a maximum of 10% of the total fixed-income value without written approval of the University" and the University considers cash and cash equivalents as separate investments. The University's endowment investment policy establishes guidelines for the asset allocation that cash and cash equivalents should not exceed a maximum of 10% of the portfolio.

Cause

University personnel and/or consultants are not complying with the investment policies of the University.

Effect

Board of Regents approved investment policies are not being complied with.

Recommendation

The University should inform personnel and/or consultants in charge of investments of the University's approved investment policies to insure that portfolio structure and asset allocation is in compliance.

Response

We concur that two corporate bonds exceeded the fixed income value requirement. According to documentation provided to the auditors, the investment managers, acting in a prudent manner to safeguard the investment of the University, temporarily kept funds in cash equivalents while market conditions improved.

We concur with the finding that the allocation of cash and cash equivalents exceeds Investment Policy guidelines. However that policy also provides the following wording, "Should market movements create asset exposure outside of those ranges, reallocation should be affected in an orderly manner." The investment manager is therefore provided flexibility in timing the movement of funds within the portfolio should immediate movements create asset risk. The policy also requires the investment manager to utilize fiduciary care in all investment decisions. Market conditions during the audit period dictated that increased investment allocations be made to cash and cash equivalents to prevent asset risk occurring on the equity side. The investment manager made the appropriate adjustments as soon as market conditions warranted.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

99-2 Student Accounts Receivable

Condition

In order to allow us to evaluate the adequacy of the allowance for uncollectible accounts receivable, we requested that the information on the collection of accounts receivable be received at the start of the audit in June 2000 and continued to ask regularly thereafter. We received certain information on January 30, 2001 and could not readily determine whether the allowance was adequate to fairly state the net receivables as of the prescribed deadline of February 2, 2001. Another extension to February 21, 2001 was given to the University and adequate information needed for us to evaluate whether the University's allowance for uncollectible accounts receivable was still not provided for approximately \$800,000 of the total balance of \$2,097,553.

Criteria

The University did not provide adequate information for the auditors to determine whether the accounts receivable allowance is adequate. We do not know if the University's adjustment to reduce the allowance by \$200,000 is appropriate.

Cause

The University's older accounts receivable are being collected by New Mexico Educational Assistance Foundation (NMEAF). Information as to historical collection rates by the University for the remaining balances (approximately \$800,000) does not appear to be available or was not provided to the auditors.

Effect

The auditors were not able to determine whether the allowance for accounts receivable was reasonable

Recommendation

The information required from NMEAF should have been requested by the University at an earlier date, so that the information could be given to the auditors in a timely manner. The University should analyze collection rates and consider current trends and conditions to reasonably determine an allowance based upon the aging of all receivables. Receivables tend to become increasingly uncollectible as they age. Accordingly, an estimated allowance is necessary for all receivables based upon historical collection rates and current conditions.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

99-2 Student Accounts Receivable (Continued)

Response

Management does not concur with this finding. We provided the requested aging accounts receivable analysis in September when requested. However, the information was misplaced by the auditors. Subsequent information including NMEAF information was again provided when requested. The information for determining the allowance was available to the auditors on January 30, 2001.

The University allocates three employees who work on the collection of Student Accounts Receivable. Collection efforts are monitored daily. According to the information provided by NMEAF, the University's collection agency, we are more than adequately covered by our allowance for uncollectable student accounts. NMEAF has identified \$436,000 in accounts as uncollectable. Our SAR allowance exceeds \$1.0 million dollars. As a result, and after discussion with the auditors, we made an adjusting entry to reduce our allowance for doubtful accounts by \$200,000.

00-1 Fixed Assets

Condition

During our testwork on fixed asset deletions for furniture and equipment we noted the following:

- Three instances out of four in which asset deletions were recorded in the year ended June 30, 2000, such deletions should have been recorded either in the year ended June 30, 1999 or in the year ended June 30, 2001.
- Two instances out of twelve where the amount recorded as a current year addition did not include full acquisition costs (i.e. freight and shipping charges).
- Ten out of the twelve fixed assets on the furniture and equipment fixed asset listing selected to test for existence could not be physically located. After several weeks of inquiries, University personnel stated that the unlocated assets were to be part of the August surplus property sale, yet information provided to identify such assets was not sufficient for us to ascertain its accuracy as of February 2, 2001. An extension was given to the University and then we received deletion forms dated January 31, 2001, 5 months after the auction. The University is therefore not performing adequate annual fixed asset observations, including needed adjustments, to maintain a completely accurate accounting of such assets

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-01 Fixed Assets (Continued)

- The University changed its capitalization policy during the year by increasing the capitalization floor from \$500 to \$1,000. The final inventory listing at June 30, 2000 could not be traced back to the amount at June 30, 1999 by taking into account additions, deletions, and removal of assets valued from \$500 to \$999. Approximately \$998,000 of assets valued from \$500 to \$1,000 were removed from the listing.

We discussed with University personnel about the problems of fixed assets when we started reviewing the information during the second week of December. The problems were brought up at several meetings with various parties (Budget and Finance Committee and The State Auditor) and with University personnel during our weekly status meetings during the months of December and January. The remaining supporting documentation to determine that the assets existed at June 30, 2000, was not received by February 2, 2001, the due date set by the State Auditor. An additional extension was given to the University and the only information provided to us was deletion forms signed and completed 5 months after the date of the auction.

Criteria

According to University policy, assets that are to be deleted must be done so in the same month in which the asset deletion form was filled out by the deleting department or when the asset was disposed. When determining the amount at which an asset should be recorded, all shipping and freight charges should be included in the cost of the asset for financial reporting purposes. Fixed asset observations should be performed on a regular basis to ensure that the assets are properly stated in the financial statements. Fixed asset detail should roll forward from year to year.

Cause

Apparently, the dates on the Asset Deletion Forms were not given sufficient attention when the deletions of the assets were made. Freight and shipping charges for these assets were not included in the capitalized amount. The University has not adequately performed fixed asset inventories. Assets that have been taken out of service and disposed of, and assets that are missing, are included in the fixed asset listing when they should not be. Fixed asset roll forwards have not been performed.

Effect

The fixed asset deletions for Furniture and Equipment were overstated for FY '00, resulting in total fixed assets for Furniture and Equipment being understated. The fixed asset addition listing is understated, resulting in inaccurate financial statements. The overall fixed asset listing for furniture and fixtures is overstated, resulting in inaccurate financial statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-01 Fixed Assets (Continued)

Recommendation

Proper review of Fixed Asset Deletion Forms shall be performed to ensure deletions of assets occur in the appropriate period. Proper recording of asset additions should be performed to ensure accurate financial statements. A fixed asset observation should be performed on at least annually and all appropriate adjustments should be made to ensure a complete and accurate fixed asset listing. Assets to be sold should have enough of an information trail to allow for their accurate identification. The detail of the fixed asset inventory should roll forward from year to year.

Response

We concur that three asset deletions totaling \$9,018 were recorded in the wrong fiscal year. It is university procedure to accumulate all deletion request forms and make a single entry at the end of the fiscal year. One deletion form was dated June 7, 1999 by the originating department, but was not received by our property group until after the end of fiscal year 1999. It was included along with other inventory adjustments on June 30, 2000. The two deletions forms dated July and August 2000 were deleted in fiscal year 2000 in order to include them in the surplus property sale scheduled in August 2000. We will review policies and procedures for fixed assets as we prepare to implement the Fixed Assets module of Banner in this fiscal year and will ensure that the process for additions and deletions is reviewed and updated for proper timing and recording of assets.

We concur that two current year additions did not include freight and shipping charges. This situation will be corrected as we implement the Fixed Asset module in Banner and this information can be matched and verified electronically.

We do not concur that ten items selected for testing were missing. Of the twelve assets selected for testing, two were physically located in a building on campus, eight items had been segregated for deletion and sale in the surplus property sale scheduled for August 2000, and only two could not be located. In addition the twelve items selected were within a stratified population of assets with purchase dates of 1991 and prior. The auditor, on paragraph 2 of the auditor opinion, states that the detailed equipment list may not be correct. We assert that an expansion of the sample size and analysis of subsequent results is needed to make the above statement.

We concur that the final inventory listing was not traced back to the June 30, 1999 balance. A complete inventory will be taken and entered into the new Banner fixed asset module.

When Banner Fixed Asset module is implemented this year, there will be total integration of entries to ensure integrity of the system and an appropriate balance forward annually.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-2 Cash Balances and Bank Reconciliations

Condition

During our testwork on cash, we noted the following:

- University was overdrawn in two separate bank accounts in excess of \$397,000 (the total overdrawn at this particular bank for all bank accounts was \$160,232) at June 30, 2000.
- The June 30, 2000 bank reconciliations were not all completed until December of 2000.
- The original bank reconciliation provided to us for the accounts payable checking account had a check omitted in the amount of \$1,772 and that amount was “plugged” into the reconciliation.
- Over \$98,000 in stale dated checks were still in the outstanding check lists.
- During February 2001, in response to auditor questions and concerns over payroll (Finding 00-10), the University adjusted payroll cash by approximately \$38,000. A new bank reconciliation could not or simply was not provided to us as of February 21, 2001 so that we could test the accuracy of the reconciliation and of the payroll adjustment itself. Accordingly, we do not know if this should have been made to cash or to other accounts.

Criteria

Public bodies, which are bound by budgeted spending amounts can only budget and spend funds currently available. Good accounting practices require that bank reconciliations be prepared as soon as possible after all information needed is available. Any unknown differences in bank reconciliations should be investigated and reconciled to avoid “plugging” any differences into the reconciliation. After checks become stale (outstanding for over a year) they should be removed from the outstanding check list and the check information along with funds in the amount of the stale checks should be submitted to the Unclaimed Property Division of the New Mexico Taxation and Revenue Department.

Cause

Bank reconciliations were not prepared timely. Adjustments made to cash after reconciliations were originally completed should be performed to help determine if such adjustments are proper. Checks over one year old were not adjusted out of the reconciliations, all differences were not properly investigated, and checks were issued when funds were not currently available.

Effect

The University entered into an agreement with a bank to provide overdraft protection on the checking accounts. Bank reconciliations were not all completed until December 2000.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-2 Cash Balances and Bank Reconciliations (Continued)

Recommendation

The University should always perform bank reconciliations in a timely and thorough manner. When cash is not available to cover expenditures, the University should request an advance on state funding or other arrangements through its oversight agency, the Commission on Higher Education. Such overdraft protection has certain aspects of a loan arrangement, which may not be proper.

Response

Management concurs that the University was overdrawn on June 30, 2000 at the Bank of Las Vegas. However, when total University cash at the Bank of Las Vegas from all accounts is considered, the overdraft total was \$160,232. An arrangement for overdraft protection was made with the bank earlier due to anticipated cash flow difficulties at year-end. All notifications considered appropriate were made including the Board of Regents, the Commission on Higher Education and the Legislative Finance Committee.

Management concurs that the bank reconciliations were not prepared on a timely basis last year due to the Banner implementation and key accounting staff turnover. All bank accounts have since been accurately reconciled for fiscal year 1999-2000. We are reconciling all bank accounts on a timely basis during the current fiscal year.

Management disagrees that any entry was ever “plugged.” However, management concurs that one check was inadvertently left out of the outstanding check list and listed as cleared check due to human error. The outstanding check list was prepared manually due to automated system difficulties. Since the check did not clear in June, it was not caught in the bank reconciliation for June. The check was caught by our staff in the July reconciliation when it cleared the bank. No entry or check amount was ever “plugged” during bank account reconciliations. All other bank accounts were accurately reconciled without exceptions.

Management concurs that the University has over \$98,000 in stale dated checks. All necessary steps to cancel the checks have been taken and the funds have been reapplied to the fund balances as appropriate. There is no requirement to return funds to the state as these funds were a part of the general appropriation to the University.

Subsequent to February 21, 2001, the University created a journal entry to correct cash and provided a copy of the journal entry and the final bank reconciliation to the auditors.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-3 Student Accounts Receivable Ledger

Condition

In testing student accounts receivable of approximately \$2,097,000, we noted the following:

- We were not provided a detailed listing of receivables as of June 30, 2000.
- Original accounts receivable aging report dated September 30, did not agree to the general ledger.
- The aging report is produced by a sub ledger that posts to the general ledger automatically and was over \$23,000 lower than the general ledger. The University adjusted that difference down to \$349.
- It appeared that accounting staff was not familiar with how the sub ledger accounts were booked into the general ledger when the module was implemented and whether prior years' balances were included in the general ledger. The University was also unclear as to what "future balances" are and how it relates to the general ledger.

Criteria

Good accounting practices require that the accounts receivable sub ledger should be reconciled each month to the general ledger and an understanding of the Student Accounts Receivable module be obtained to understand how the system posts activity and information is provided in reports.

Cause

Journal entries were made to the general ledger student accounts receivable account that did not correspond to any changes in the student accounts receivable sub ledger. The University was not familiar with the accounts receivable module and the posting and the reports available.

Effect

If there are two different balances, the University will not know which one is correct until the two are reconciled and aging of the balance could not be verified.

Recommendation

Any and all changes that need to be made to the student accounts receivable general ledger account should be processed through the student accounts receivable sub ledger rather than with a journal entry to the general ledger. Training should be provided to all personnel involved in the posting and reporting of student accounts receivable so that there is full knowledge of the module. The sub ledger should be reconciled to the general ledger monthly.

Response

Management disagrees with the assertion that the University did not provide a detailed student accounts receivable listing. A detailed listing of student account receivables which agreed to the general ledger within \$1,000 was provided in September and again on February 15, 2001.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-3 Student Accounts Receivable Ledger (continued)

We concur that a subsidiary ledger accounts receivable aging report was not prepared on June 30, 2000. This report is a snapshot at the point in time that is run and therefore may not agree to the general ledger balance on a prior date. A subsidiary ledger report was run on September 30, 2000 and reconciled to the general ledger balance as of June 30, 2000. The subsidiary ledger was reconciled within \$1,440.54 of the \$2.3 million of student receivables recorded in the general ledger. We are currently balancing the subsidiary ledger report to the general ledger on a monthly basis.

We do not concur that accounting staff was not familiar with how the sub-ledger were booked into the general ledger when the module was implemented. Some current accounting staff were involved in loading the prior year balances, were trained and loaded the beginning balances correctly. Staff understands what “future balance” represents in the subsidiary ledger report.

00-4 Obsolete Inventory

Condition

During our testing of inventory at June 30, 2000, we noted that \$8,205 of obsolete inventory was included in the final inventory count at the bookstore.

Criteria

Any inventory items that are considered obsolete or are not being used should not be counted as inventory and removed from the inventory held for sale or use.

Cause

The University did not dispose of obsolete items, but included them as part of the final bookstore inventory listing at June 30, 2000.

Effect

The inclusion of the obsolete inventory caused the bookstore inventory recorded in the general ledger at June 30, 2000 to be overstated.

Recommendation

During the taking of inventory, any items that are considered obsolete should not be included in the count and should be written-off the inventory listing. The obsolete items should be stored separately awaiting disposal per University policy.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Response

Management concurs with the auditor's finding. The obsolete inventory has been identified and will be written off and disposed of, or sold at a reduced price. This \$8,205 relates to a total Bookstore inventory value of \$441,542 at June 30, 2000.

00-5 Accounts Payable

Condition

During our search for unrecorded liabilities we noted over \$277,000 of expenditures that were recorded as fiscal year 2000-2001 expenses that should have been recorded as fiscal year 1999-2000 expenses and as accounts payable at June 30, 2000.

Criteria

Higher education institutions in New Mexico are required by the Commission on Higher Education to keep their general ledger on an accrual basis, which would require proper accrual of accounts payable.

Cause

The purchase orders that corresponded to these unrecorded accounts payables were fiscal year 2000-2001 purchase orders and not fiscal year 1999-2000 purchase orders. This was due in part to difficulties that the University had transferring certain fiscal year 1999-2000 blanket purchase orders into July 2000.

Effect

Accounts payable as of June 30, 2000 as originally given to the auditors was understated.

Recommendation

The University should insure that proper recording of expenditures in the correct period based on the accrual basis of accounting is occurring in a timely fashion.

Response

Management concurs that \$133,000 worth of utility costs \$63,000 of capital project expense, and \$81,000 of other expenses were inadvertently booked in Fiscal Year 2000-01 when in fact the services were received in fiscal year 1999-2000. The appropriate adjusting journal entry has been made to book these expenses in the correct fiscal year.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-6 Correct Account Coding

Condition

During our testwork on cash disbursements we noted one instance out of 23 in which the natural classification expense account coding used to record the transaction did not correspond with the type of services purchased.

Criteria

Good accounting policies require that all expenditures should be recorded in the general ledger using a reasonable account coding to ensure proper classification of expenditures for reporting purposes.

Cause

The University's policy of properly coding and recording expenditures was not complied with.

Effect

The expenditure was not properly classified resulting in one category of expenditures being overstated and the proper category of expenditures being understated.

Recommendation

The University should impress on the personnel who review the reasonableness of the account coding the importance of proper account coding.

Response

Management concurs that due to an oversight, a \$3.19 payment to PNM was miscoded as a supply rather than a service. Total PNM payments during the fiscal year were \$344,610.44.

00-7 Travel Coding

Condition

During our testwork of travel and per diem related expenditures we noted one instance out of 23 in which reimbursement for travel was coded as in-state travel when it should have been coded as out-of-state travel.

Criteria

Good accounting policies require that all travel reimbursement expenditures be booked to the general ledger using the proper account coding to ensure proper use of budgeted funds.

Cause

The University's policy of properly classifying travel reimbursement expenditures was not complied with.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Effect

The expenditure was not properly classified resulting in one category of expenditures being overstated and the proper category of expenditures being understated.

Recommendation

The University should impress on the personnel who review the reasonableness of the account coding the importance of proper account coding.

Response

Management concurs that an expense for approved travel was coded in-state rather than out-of-state travel. The total amount of this error was \$136.00. This error has been corrected. Total travel for the fiscal year was \$1,424,942.25 and 3930 travel requisitions were processed.

00-8 Inventory Pricing

Condition

During our testwork on inventory we noted one instance out a sample of twelve that an inventory item at the bookstore was being valued at the wrong cost per unit price.

Criteria

Generally accepted accounting principles require that inventory be valued at cost.

Cause

The inventory item should have been valued at the invoice price (cost) but was instead valued above the invoice price.

Effect

The resulting inaccurate valuation of the inventory item would result in an overstatement of the inventory balance at the bookstore.

Recommendation

The University should record all inventory items at cost to the University.

Response

Management concurs with the finding. Due to an oversight on the part of the Bookstore staff, 22 Santa Pins were valued at \$2.50 rather than \$2.00. An \$11.00 correction to inventory has been made. Total Bookstore inventory at year-end was \$441,542.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-9 Restricted Fund Receivables and Deferrals

Condition

The University had approximately \$1,750,000 recorded in the general ledger as deferred revenue, but did not have sufficient cash funds available as of June 30, 2000. The restricted cash balances that correspond to the restricted deferred revenue may have been used for a purpose other than what the funds were originally restricted for and we could not identify whether the deferred revenue was spent on Federal grants (See Finding 00-26), State grants or unrestricted expenditures. Note that, for financial statement purposes, the deferred revenues have been included in fund balance.

The schedule of restricted fund receivables and deferrals as of June 30, 2000 that rolls forward the June 30, 1999 balances using cash receipts and disbursements did not agree to the general ledger. The University had placed certain inactive or unknown balances as of June 30, 1999 into a suspense fund. The University had to go through several iterations of the roll forward schedule to come up with one that comes close to the balances in the general ledger. It was then noted that certain programs had both a receivable balance from the grantor and deferred revenue from the grantor. These amounts had to be netted out to determine a receivable or deferred revenue balance for that program.

During our testwork on restricted receivables it was noted that over \$1,800,000 of the total balance of \$3,500,000 at June 30, 2000 had not been collected as of January 2001. We were not able to determine whether those uncollected receivables are valid and collectible.

Criteria

Restricted deferred revenue balances relate to a specific restricted grant or contract. The funds received in advance for the specific restricted grant or contract that are unspent cannot be loaned out for purposes outside of the grantor or donor's restriction.

An update system integrated with and reconciled to the general ledger should be used to keep real time track of restricted receivables and deferrals. This would allow advances to be spent within a short time and receivables to be billed and collected as soon as possible.

Cause

The University was in a cash deficit at year end causing the University to spend all funds in pooled cash, including the restricted cash.

The University incurred turnover in the grants and contracts area and new personnel were not adequately trained.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-9 Restricted Fund Receivables and Deferrals (Continued)

Effect

The University may have to pay back funds previously received for specific purposes from grantors that were to be spent in 2000, for general costs.

The University is short of unrestricted funds advanced to restricted programs because reimbursement from the grantor has not been received due to slow billing of receivables.

Recommendation

The University should develop a plan to replenish the funds back to the restricted grants and contracts and insure that reimbursements of unrestricted funds takes place as soon as it is allowed under the grant or contract.

Response

We disagree with the finding that restricted deferred revenue were used for a purpose other than the funds were restricted for. Restricted funds have always been used for the purpose intended as outlined by the provisions of each grant or contract. At no time has the University not expended funds on a continuing basis to meet the provisions of any grant or contract.

We concur that the University is still reviewing restricted receivables and are unable to determine collectibility of all restricted receivables at this time. A plan has been implemented to rebuild all University fund balances and ensure that all receivables are invoiced on a timely basis.

00-10 Payroll Controls and Procedures

Condition

The University converted its payroll and general ledger systems to Banner software as of July 1, 1999. Based upon our observations, discussions with University personnel, and upon written documents and discussions with SCT (Banner software provider) consultants, the following was noted.

The first SCT consultant reports that upon his arrival in April 2000, personnel were lacking in knowledge as to system processes, reports and controls as well as internal processes and reconciliations. Rule forms that are used to set up pay classifications and deductions were incorrect as well as holiday pay and leave accruals. The current consultant stated that he agreed with this assessment and began corrections when he arrived in July.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-10 Payroll Controls and Procedures (Continued)

Condition

The current SCT consultant reports that training was very much needed for University personnel which was also the conclusion of the previous SCT consultant who served the University in the latter part of fiscal year 1999-2000. The current SCT consultant states that, while improvement has occurred since July 2000, training of current employees is still needed. Payroll personnel at July 1, 1999 who received training from SCT consultants all left University employment in early 2000. The consultant states he began correcting information in the system in July 2000 and believes that corrections were significantly completed by September 2000. We received some information by February 21, 2001 as to these corrections but it was not quantified as to the effects on the general ledger or other records. However, an important regular internal reconciliation process has not been initiated. As of February 2, 2001, the general ledger had not been reconciled to W-2s for 1999 or 2000, nor had it been reconciled to payroll system reports, payroll tax or other payroll related vendor reports since the conversion, according to University personnel and the current consultant.

Another extension of time was given to the University, but the W-2 reconciliation to the general ledger for 1999 and 2000 was not completed and some of the information that was available could not be completely reviewed by February 21, 2001. We did note that there was a discrepancy between Federal gross wages and State gross wages for 1999 and 2000. Payrolls for 1999 had either Federal wages being under reported or State gross wages being over reported for July by \$25,029 and State gross wages being under reported or Federal gross wages being over reported by \$18,080 for the months of September through December. For 2000, State gross wages were either being under reported or Federal gross wages being over reported by \$26,248 for the months of January through June and Federal wages were being either under reported or State gross wages being over reported for June by \$3,164. These observations came from reviewing information of the payroll module, as the general ledger wages were not reconciled to the W-2 information submitted to the government.

The first SCT consultant stated in his June 6, 2000 report that the payroll related liability accounts in the general ledger should be balanced immediately and payroll related vendor payments need a full audit back to the beginning of the fiscal year. The current consultant stated he believes that certain payroll system reports, not the general ledger, were utilized to reconcile payroll tax reports in the latter part of the fiscal year. University personnel and the current consultant do not know what, if any, reconciliation of payroll system reports were made from July 1999 until payroll personnel left the University in early 2000.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-10 Payroll Controls and Procedures (Continued)

Condition

Federal quarterly payroll tax reports for June 1999, September 1999, March 2000, and June 2000 were filed late. While penalties were abated, unpaid federal taxes and interest of approximately \$15,000 are due. Form CRS-1 for New Mexico withholding was filed late 5 of the 12 months in fiscal year 1999-2000 leading to penalties and interest of approximately \$11,000.

The consultants found that faculty members who worked over 20 pay periods, but receive 26 biweekly paychecks were not properly accrued and expensed by approximately \$169,000.

We also noted during our testing of the payroll transactions for the year, 287 payroll checks that had a different check number assigned by the system than the actual check number. We also noted 49 instances where the system assigned the same check number to different employees.

We discussed with University personnel prior to June 30, 2000 about the apparent misstatement of payroll liability accounts. When we arrived at NMHU in the first week in December, we noted again that the related accrued payroll liability accounts appeared incorrect at year's end and we conveyed that information immediately to management. The topic was brought up at several meetings with other parties (Budget and Finance Committee, State Auditor, Legislative Finance Committee and others) and with University personnel during our weekly status meetings during the months of December and January. The reconciliation and other information to properly state the June 30, 2000 general ledger was not received by February 2, 2001, the due date set by the State Auditor. The University was able to reconcile withholdings (not wages) for payroll tax and other related vendor liabilities reports to the general ledger after an additional extension was granted. This process led to an adjustment of approximately \$38,000 to payroll cash as of June 30, 2000 that had been reconciled to the bank in December without such an adjustment. See Finding 00-2.

It was noted that in a review of a trial balance that the University had in the restricted fund 24 payroll related expense accounts that have credit balances totaling \$386,035 prior to February 2, 2001. These accounts should normally have a debit balance. During the year, University employees had made adjustments to these accounts. The University was able to make an adjustment to correct the credit balances. Unusual balances such as this are easily detectable. However, we do not know if there are other labor distribution errors created by employees that are not noticeable.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-10 Payroll Controls and Procedures (Continued)

Criteria

The payroll system should have adequate controls and processes in place to prevent errors from occurring and supply timely information for regulatory reporting and withholding depositing requirements.

Cause

The University experienced substantial payroll employee turnover during the fiscal year. The University implemented a new general ledger software package during the year without enough time for planning and testing the system. Reports from the payroll module were not reconciled to the general ledger. The University staff did not have a complete understanding of how payroll was being posted to the general ledger. Training and the use of sound control processes were insufficient for the situation. Labor expense distributions were not done properly.

Effect

Numerous errors occurred in the processing of payroll that took large amounts of overtime by University personnel to correct. State and federal reporting and withholding deposit deadlines were not met resulting in penalties and interest and reports filed were not reconciled to the general ledger.

Recommendation

The University should ascertain that the effects on year ended June 30, 2000 from corrections to the payroll system made by the consultant performed in July-September 2000 are quantified and appropriate adjustments made to the general ledger and other records. We were unable to do this based upon the information provided to us and the timing thereof. W-2's for 1999 and 2000 should also be reconciled and any corrections either to W-2 information supplied to the government or to the general ledger. The University needs to review what employees had State or Federal gross wages incorrectly reported in their payroll system and document what steps were taken to correct the information and how the employees' withholdings were corrected. The objective to this process is to ensure that all payroll system information is correct since the conversion along with the general ledger, payroll system reports, Federal, State and other payroll reports, and 1999 and 2000 W-2's being in agreement and correct. Labor expense distribution should be thoroughly reviewed and corrected as necessary to properly state the labor expense accounts in individual funds. Training recommended by the consultant should be conducted and all necessary control processes and reconcilements should be consistently followed in the future.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-10 Payroll Controls and Procedures (Continued)

Response

We agree with only portions of this finding. The University experienced problems with the implementation of the Human Resource module of Banner, due to the short implementation period which was forced on the University by its previous financial system provider when they notified the University their system would not be Y2K compliant, and by the complete turnover in the Payroll staff during the implementation period. However these problems were addressed and resolved by the University and SCT. The auditors have failed to fully recognize and acknowledge that progress.

Full training was provided to staff which were here at the beginning of the implementation and adequate training to run the payroll system was provided to the current staff; however, we agree that more intense training is required for the new payroll staff and a training plan is being developed.

We agree that required payroll reports were filed late and that full reconciliation from the general ledger to payroll system reports and external reports was not performed timely. However, all Payroll Liability accounts have been reconciled to payroll system reports and other external reports and procedures have been implemented to ensure reconciliation is done on a timely basis. Those reconciliations are being performed this year.

We also agree that the check numbers assigned by the system did not agree to the actual check number for 287 payroll checks. This was allowed to happen for one payroll run in the interest of not affecting payment of salaries to employees because of limited check stock, which had been depleted during the conversion. The payroll was very carefully monitored and documented. No major irregularities were detected during the production run.

The Deferred Pay liability account was incorrectly set up during the year by the SCT consultant and not caught until after the end of the fiscal year, however the proper adjustment has been made.

Twenty-four restricted fund payroll related expense accounts had credit balances totaling \$386,035. The University has historically created new accounts for the change in fiscal years, however this was not done during FY 99-2000. The appropriate accounts were created during the audit process, adjusting journal entries were processed in error, and this created a credit expense balance. This was corrected, no mis-reporting occurred on the University's financial statements, and we are not aware of any other irregularities.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-10 Payroll Controls and Procedures (Continued)

In the second paragraph of the independent auditor's report, the auditor states that, "Payroll processing controls and procedures were inadequate during the year ended June 30, 2000. There has not been a complete reconciliation between the general ledger, payroll system reports, W-2's, or Federal and State payroll tax and other payroll related reports since the conversion. Payroll tax reports were not always filed on the due dates and may not be correct. February 2001 adjustments made by the University to the payroll liability accounts affected June 30, 2000 cash and we were not provided sufficient information to determine the accuracy of such adjustments. The University adjusted for obvious labor distribution errors made by employees that we had noted, however, we do not know if other similar errors exist."

We agree that payroll processing controls and procedures were inadequate and payroll related reports were filed late. The language in the paragraph above implies that the payroll system is unreliable and payroll processing errors may have resulted in financial statement reporting misstatements. We disagree. The Banner payroll module works and is reliable. The University has reconciled payroll liability accounts and payroll related errors have been corrected; there were no system labor distribution errors noted in the audit; and, therefore, distributed labor expense is correctly reported in the financial statements.

00-11 Accrued Annual Leave

Condition

During our testwork of accrued annual leave we noted two instances out of 23 in which the total expense for the employees accrual was understated by approximately \$1,000. This may be related to the incorrect information in leave accruals noted by the SCT Consultants.

Criteria

The amount of accrued leave reported for an employee should equal the employee's pay rate at fiscal year end times the amount of leave hours accrued in their leave bank.

Cause

The total recorded an accrued leave expense for these employees was not equal to the product of the employee pay rate and the accumulated leave hours.

Effect

The accrued leave at June 30, 2000 was understated, resulting in an understatement of both expenses and liabilities.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Recommendation

Considering the above error rate, all employee accrued leave balances should be reviewed on a regular basis to ensure accurate figures are recorded in the accrued leave accounts.

Response

Management concurs with the auditor's finding. However, we disagree with their reference to the SCT consultant statement on leave accruals. After research, it was determined that two of the University's 600 employees' leave accruals were calculated at full-time rather than part-time in error. This was a simple error in calculation and is not related to incorrect information in leave accruals. The \$997.25 adjustment to leave accrual will be made. Employee leave accruals at year-end totaled \$565,064.03.

00-12 Inter Fund Transactions

Condition

When the University implemented its new general ledger software application on July 1, 1999 it no longer recorded individual bank accounts as accounts in individual funds but combined them into a bank fund and allocated the cash in the bank fund to the other funds using inter-fund cash accounts. The University also had inter-fund due to/from accounts recorded as of June 30, 1999. The balances in the due to/from accounts were combined into the new inter-fund cash accounts. During our testwork, we noted a journal entry that was entered into the system that was not balanced by individual fund and the new software automatically created a due to/from entry to make the funds balance and ran it through the inter-fund cash account. The University has both actual cash transactions using the bank fund and inter-fund due to/from activity running through the same account and the University did not break out the cash from the non-cash inter fund transactions until seven months after the end of the fiscal year. This break out was only done at the fund type level and not at the individual inter-fund level. Therefore, the University does not know which fund owes or is owed by another fund on an inter-fund level.

The inter-fund cash problem was realized during the first week in December, when the trial balances did not balance and we conveyed that information immediately to management. The topic was brought up at several meetings with various parties (Budget and Finance Committee and State Auditor) and with the University during our weekly status meetings during the month of December and January. The inter-fund accounts were not reconciled as of February 2, 2001. As of February 20, 2001, the University had decided to record all cash balances in the Current Unrestricted fund. This is a change in presentation from the prior year which does not reconcile the appropriate change to inter-fund due to/froms.

Criteria

Inter-fund loans should be specifically identified as to which specific fund owes another fund. There should also be a formal process approving the inter-fund loan.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-12 Inter Fund Transactions (Continued)

Cause

The University combined the cash accounts and the due to/from accounts into one account as of July 1, 1999 and did not keep track of the due to/from activity on an individual fund basis from July 1, 1999 through June 30, 2000.

Effect

Cash balances and due to/from account balances on an individual fund basis can not be determined until the activity pertaining to these accounts is identified and pulled out of the inter-fund cash accounts.

Recommendation

The University will need to identify the inter-fund due to/from activity in the inter-fund cash accounts and create new due to/from accounts in which to post all transactions for 2000, and keep track of all future inter-fund loan activity.

Response

We do not agree that there is an Interfund Cash problem, or that the trial balance was out of balance. At the time the Banner system was implemented the University selected the multiple cash interfund account convention, or Pooled Cash Option, of accounting for cash transactions. With this feature, each fund accounts for their claim on the total cash pool and the total of the Interfund Cash is what is used to balance to the total cash in banks. The auditors were unable to produce a GASB prohibition against the use of the method.

00-13 Budget Overspending and Reporting

Condition

We noted that the University overspent its approved budget in the unrestricted public service, internal service, student aid, athletics, plant fund renewals and replacements, and restricted capital outlay by a total of \$1,519,850. This amount from the budget and actual report submitted to the Commission on Higher Education on September 15, 2000. We also noted that the University was unable to report actual expenditures for all current restricted fund categories except capital outlay. Accordingly, the University reported estimated actual amounts to CHE that were exactly equal to the budget amount.

Criteria

Controls should be sufficient to prevent overspending of budgeted amounts. The general ledger system should be able to provide accurate and timely information for management and oversight agencies to review the status of actual expenditures compared to budget.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-13 Budget Overspending and Reporting (Continued)

Cause

Expenditures were approved for payment when budgeted funds were not available. Budget policies and procedures were not being followed due to difficulties with the implementation of the new general ledger software.

Effect

Overspending of the budget could result in a shortfall of cash funds.

Recommendation

University budget controls and processes should be strengthened to insure that budgeted amounts are never overspent by any amount.

Response

Management concurs that due to Banner implementation difficulties, the University ran a budget deficit last year. This was the first budget deficit for the University in over ten years. All necessary notifications were made to the appropriate state agencies in a timely fashion. A fund balance recovery plan has been reviewed by the Board of Regents and the Commission of Higher Education and implemented. Budget monitoring and execution controls are in place and fully functional this year. All management reports indicate that we are in compliance with our budget parameters and our deficit recovery plan.

The figures reported to the CHE in September were based on estimated rather than actual amounts because the University's books had not yet been closed at the time that the report was due. The audited actuals reflect a significantly lower deficit.

00-14 Special Investment Account

Condition

The University has created a Special Investment account in November of 1999. The comptroller withdrew funds from the account on two occasions without notifying the Budget and Finance Committee, per the Chairman of the committee.

Criteria

Good accounting controls require that management of the University should notify the board of withdrawals from the Special Investment account.

Cause

It appears that the Budget and Finance Committee was not notified of the withdrawals of money from the account.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-14 Special Investment Account (continued)

Effect

The Budget and Finance Committee was not aware of the withdrawals.

Recommendation

The University should notify the Budget and Finance Committee of the withdrawals of those funds.

Response

After review of the minutes of the Board of Regents relevant to action on issuance of the 1998 Refunding Bond Issue, it was noted that the Board requested they be notified of expenditures from the Special Investment account. We agree that the Board of Regents was not notified at the time of the second disbursement.

The first disbursement from these funds was \$20,073.93 on June 30, 1998 to pay for the AMBAC bond insurance. This was approved by the Regents at the time of refinancing so it did not require additional notification.

The second disbursement from this fund was \$150,000.00 on December 22, 1998. These funds were converted from investments to cash (via transfer to our operating bank account) to pay for capital expenditures in accordance with bond provisions and provisions established by the Board when it established the fund.

00-15 Software Implementation

Condition

The implementation of the new financial software has created a large amount of problems during the year June 30, 2000. Some of the problems are:

- Payroll module has significant problems, late deposits and filing of Federal and State tax reports, fields in individual personnel files were incorrectly input
- Petty cash needed to be adjusted at the end of the year by \$128,000 because of setup problems.
- Payroll liabilities accounts and wages were not reconciled

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-15 Software Implementation (Continued)

Criteria

The implementation of financial software for as large an entity as New Mexico Highlands required that the University should create a timeline to determine when certain modules needed to be up and running and the information that is needed for that module to run correctly. As the information is gathered, those files and fields that are created during the implementation must be documented. As the system is running, the University should run parallel systems to ensure that all transactions are being recorded correctly and that trial balances are correct and balance at all times.

Cause

The University old software was not year 2000 compliant. In December of 1998, the vendor contacted the University and said that they were not going to make the software 2000 compliant. During the implementation of the new software, there was little documentation of why files and fields were created when the individual modules were brought on line. The University also experienced significant turnover in key areas during the implementation stage and parallel systems were not run while the software was being implemented.

Effect

Trial balance did not balance, postings of entries by the computer were incorrect, and reconciling of accounts is difficult. The accounting staff had to spend significant amounts of time to correct balances as of June 30th.

Recommendation

The University's staff should have planned and determined the information needed to start the new software and receive extensive training prior to their modules being implemented. As the information was input into fields and as files were created, the University's staff should have been documenting the purpose of that information. The University should have been running parallel systems to ensure that information generated by the new software was accurate.

Response

The University concurs that under ideal conditions it is best to run parallel systems during a major system conversion. Theoretically, this is standard practice in computer conversions. However the University received notification from the manufacturer that the Aldrich system would be unusable as of July 1, 1999 when the new fiscal year began. For the University to run parallel, the University would have had to upgrade the Aldrich system as well as continue with the implementation of the SCT Banner. This very significant workload would have created more significant problems and therefore was impractical.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-15 Software Implementation (Continued)

The University did have a training plan as well as a schedule for implementing the various modules. The plan was arrived at jointly by SCT and the University, and although considerable problems were experienced because the University “cutover” of modules, significant progress has been made in the conversion. The trial balance has always been in balance. Corrections had to be made between funds; however, all individual funds were also in balance. A new plan for completion of the implementation will be developed before March 4, 2001.

00-16 Computer Policies and Procedures

Condition

The effective day-to-day operations of the Computer Network Services Area (CNS) are dependent on the uninterrupted flow of information, and effective use of time, throughout the area. CNS has no excess staff, and in fact, most staff are cross trained to cover ordinary absences by other staff. This means that checks and balances are imperative to ensure prudent changes are made, and that procedures are adhered to. Logs are kept of changes, and two or three people serve in every capacity. However, the policy and procedures are scattered in separate documents, some dated over a year ago and some buried within large documents which address other items. In addition, there is no clear cut plan for disaster recovery, although the measures listed are in order.

Criteria

To ensure a successful operation and general IT conformity for all IT staff and end users, the information contained in the CNS handbook should be formalized to include references to the SCT Banner Technical Reference Manual. The CNS Handbook should be published as a separate document from the Development and Implementation Plan, and should be reviewed and updated yearly at a minimum. Specific policies for end users, such as email, internet usage, software piracy and licensing should be discussed during initial training and given to new employees of the University to ensure each employee is aware of and can adhere to the policies.

Cause

CNS has not updated the policies, nor implemented a regular plan for review and update of the same. CNS has not ensured that all users of the University Computer System are aware of and following the policies.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-16 Computer Policies and Procedures (Continued)

Effect

The IT Department (CNS) and the University at large could incur substantial losses in both time and money, if adverse programming practices were used or certain policies that restrict harassing activities are not enforced, to prevent potential legal ramifications.

Recommendation

We encourage management to build a comprehensive procedures and policies handbook that includes sections for software use, network use, email, internet access, and computer usage for all users of the system. We further encourage management to refer to specific sections of the SCT technical guide for use in programming and change management, to add problem management procedures, and to formalize a business recovery plan that includes each area within IT. We further recommend CNS test the business continuity plan at least annually to ensure uninterrupted data processing services in the event of a disaster or other unforeseen emergency, and provide for annual review and update of the policies and procedures.

Response

A comprehensive policy and procedures handbook will be developed by bringing together existing CNS policies and procedures within 8 months. These will include sections for software use, network use, email, internet access, and computer usage for all users of the system. The University will review its current policies and procedures, include the documentation from the new software, and review best practices to produce its policies and procedures handbook. The University does have a computer center disaster recovery plan. This plan will be updated to reflect current system upgrades.

00-17 Computer Security

Condition

The computer room heating and cooling system is not sufficient. The room overheats.

Criteria

Servers must be kept at a temperature low enough to prevent hard disk crashes. In order to keep the room at such a temperature, the door is left open and a fan is left on.

Cause

The University is under constant budgetary stress, but protection of university data and funds (should tampering be done to the financial aid or the finance systems) is imperative.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-17 Computer Security (Continued)

Effect

The servers are accessible to any one. Changes to production data and the servers themselves is possible. Access to private information is available, and the servers themselves could be sabotaged by vandalism or hacking. This could result in loss of the systems, as well as financial damage caused by replacement of servers.

Recommendation

We recommend that management get the heating and cooling system fixed in the computer room so access is restricted to the room.

Response

The University has been aware of the temperature control problem in the hardware room. The machine room is located in the center of the CNS organization and there is no public access to the room. However, a mitigating factor is that CNS has worked with Facilities Management to rectify the problem through the central HVAC system that manages temperatures throughout the building. The University will move an HVAC duct and control panel into the machine room thereby allowing control of the temperature by April 30, 2001. This procedure will allow for the doors to the machine room to be locked and secured.

00-18 Information Technology Plan

Condition

The IT Plan completed in June 1999 was a good first step in identifying the many problems the University IT area had to overcome. Much progress has been made, and it is time to complete the next step of planning from this point on. In addition, a more formalized business recovery plan should be done (this is addressed in the policies and procedures finding above).

Criteria

In order to continue effectively and efficiently running the IT resources of the University, and to attract students and staff who are increasingly computer savvy, the IT plan must be updated to reflect the strategies of the University and the IT department itself.

Cause

The University is under constant budgetary stress. Planning in advance for the strategies and touting that very plan will help higher management understand the IT goals. In addition, IT management can use the plan to help provide higher management with the information needed to successfully achieve budget for those goals.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-18 Information Technology Plan (Continued)

Effect

Without an updated plan, it is possible the University budgeting process would forego critical IT system enhancements or plans that should be put in place to serve the strategies of the University. In addition, without a plan, the IT staffs themselves may become complacent in continuing the great efforts that have been made within the past year.

Recommendation

We recommend that management revise the last plan from June 1999 to show the tremendous progress that has been made, and to outline the next steps of the department.

Response

Management does not agree with this finding. Each year since the development of the IT plan, NMHU has shared with the CHE and other state agencies its plans for information technology. The Office of Research Planning and Institutional Development combines information from CNS and Distance Education and submits it to the CHE and LFC as requested. A portion of the IT plan is the basis for recommendations from the CHE, LFC, and the governor's Office of Information Technology to the legislature for funding the University's efforts in this area. In fiscal year 1999-2000 NMHU was recommended by the CHE for additional funding for the information systems.

The Information Technology Plan was produced in 1996 and has been updated periodically as warranted by system developments. Substantial progress has been made in implementing the SCT Banner System. CNS will revise the IT plan when the administrative and academic portions of SCT Banner implementation have been completed. Because of the critical nature of the implementation, other parts of the IT plan have been rescheduled. A revised schedule to finish implementation of Banner will be published after a January 29, 2001 meeting of the vice presidents and group leaders.

CNS will utilize its previous procedure for formal approval of the IT plan. This procedure calls for an Ad Hoc Information Technology Committee to review CNS drafts of the IT plan. The plan will then be submitted to the ORPID for review. ORPID will solicit input and comments from the University community before discussion with the Presidents Cabinet. The plan will project a three-year strategic plan with goals, objectives and timeframes. A separate document will contain policies and guidelines concerning information technology. The plan is expected to take from eight months to one year to complete.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-19 Audit Due Date (Continued)

Recommendation

All efforts should be focused on ensuring that the general ledger is always correct. This includes having adequate and knowledgeable staff in the business office, sufficient training in the use of the new software with proper accounting controls and reconciliation processes.

Response

We concur that the University was unable to meet the November 15 deadline as set out in the audit contract due to software implementation problem. We do not agree that missing the deadline was entirely the University's fault. It is also not true that the contract was between the University, the state auditor and the audit firm. It is only between the audit firm and the University. These difficulties have now been resolved and financial transactions are recorded and reported accurately. Office staff is continuing to receive system training.

00-20 Trial Balances

Condition

The trial balances provided to the auditors as late as the first week in December 2000 did not balance by fund. The University was not aware that the funds were out of balance throughout the fiscal year and up until the auditors requested an explanation as to why the funds were out of balance. The University did not understand how the system was out of balance by fund until after the auditors reviewed the information, determined that an adjustment was needed to the beginning balance of the books and the University needed to include the current year income or loss into the trial balance.

Criteria

A trial balance that balances is an integral part of having accurate information so that management can act during the year.

Cause

The University did not perform a sufficient review of the trial balances through out the fiscal year and up until the information was requested by the auditors to note and correct the funds that were out of balance.

Effect

Information that was given to upper management, regulatory agencies and the board may not have been accurate.

Recommendation

Fund trial balances should be regularly produced and appropriate adjustments made.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

00-20 Trial Balances (Continued)

Response

Management does not agree with this finding. We requested the trial balance, which we had provided, that was not in balance but it was never provided by the auditors. As far as we know, the trial balance has always been in balance. Corrections had to be made between funds; however, all individual funds were also in balance. That trial balance was provided to the auditor in a timely fashion.

00-21 Fund Deficit

Condition

After the University removes the fund balances designated for inventories, prepaids, and deposits from the Current Funds Unrestricted Fund Balance there is an unreserved/undesignated fund deficit of \$323,318. The University also had fund deficits in the unexpended and renewals & replacement plant funds of \$1,035,100 and \$2,066 respectively.

The University will have to use current year revenues and appropriations to recover the prior year's fund deficit.

Criteria

With adequate internal controls mainly concerning budgeting and cash management, the Current Funds Unrestricted unreserved/undesignated fund balance should not be in a deficit.

Appropriations made to the University are intended by the legislature to cover current year operations, not to recover prior years deficit.

Cause

The University incurred both a cash deficit and budget overspending for the year ended June 30, 2000 that created a fund deficit.

Effect

Funds spent on 2001 operations may have to be curtailed in order to recover the fund deficit as of June 30, 2000.

Recommendation

The University will have to execute its plan to make the fund deficit a fund balance as soon as possible and insure that future budgeting and cash management is done properly so that another fund deficit will not be created.

Response

We concur that corrective action is required. The University developed a fund balance restoration plan, which was reviewed and accepted by the Board of Regents and the Commission on Higher Education.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

**Questioned
Costs**

00-22 Payroll Controls and Procedures

N/A

CFDA Number(s) – All
Program Name(s) – All

Condition

The first SCT consultant stated in his June 6, 2000 report that the payroll related liability accounts in the general ledger should be balanced immediately and payroll related vendor payments need a full audit back to the beginning of the fiscal year. The current consultant stated he believes that certain payroll system reports, not the general ledger, were utilized to reconcile payroll tax reports in the latter part of the fiscal year. University personnel and the current consultant do not know what, if any, reconciliation of payroll system reports were made from July 1999 until payroll personnel left the University in early 2000.

Federal quarterly payroll tax reports for June 1999, September 1999, March 2000, and June 2000 were filed late. While penalties were abated, unpaid federal taxes and interest of approximately \$15,000 are due. Form CRS-1 for New Mexico withholding was filed late 5 of the 12 months in fiscal year 1999-2000 leading to penalties and interest of approximately \$11,000.

The consultants found that faculty members who worked over 20 pay periods, but receive 26 biweekly paychecks were not properly accrued and expensed by approximately \$169,000.

We also noted during our testing of the payroll transactions for the year, 287 payroll checks that had a different check number assigned by the system than the actual check number. We also noted 49 instances where the system assigned the same check number to different employees.

We discussed with University personnel prior to June 30, 2000 about the apparent misstatement of payroll liability accounts. When we arrived at NMHU in the first week in December, we noted again that the related accrued payroll liability accounts appeared incorrect at year's end and we conveyed that information immediately to management. The topic was brought up at several meetings with other parties (Budget and Finance Committee, State Auditor, Legislative Finance Committee and others) and with University personnel during our weekly status meetings during the months of December and January. The reconciliation and other information to properly state the June 30, 2000 general ledger was not received by February 2, 2001, the due date set by the State

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

Questioned
Costs

00-22 Payroll Controls and Procedures (Continued)

Auditor. The University was able to reconcile withholdings (not wages) for payroll tax and other related vendor liabilities reports to the general ledger after an additional extension was granted. This process led to an adjustment of approximately \$38,000 to payroll cash as of June 30, 2000 that had been reconciled to the bank in December without such an adjustment. See Finding 00-2.

It was noted that in a review of a trial balance that the University had in the restricted fund 24 payroll-related expense accounts that have credit balances totaling \$386,035 prior to February 2, 2001. These accounts should normally have a debit balance. During the year, University employees had made adjustments to these accounts. The University was able to make an adjustment to correct the credit balances. Unusual balances such as this are easily detectable. However, we do not know if there are other labor distribution errors created by employees that are not noticeable.

Criteria

The payroll system should have adequate controls and processes in place to prevent errors from occurring and supply timely information for regulatory reporting and withholding depositing requirements.

Cause

The University experienced substantial payroll employee turnover during the fiscal year. The University implemented a new general ledger software package during the year without enough time for planning and testing the system. Reports from the payroll module were not reconciled to the general ledger. The University staff did not have a complete understanding of how payroll was being posted to the general ledger. Training and the use of sound control processes were insufficient for the situation. Labor expense distributions were not done properly.

Effect

Numerous errors occurred in the processing of payroll that took large amounts of overtime by University personnel to correct. State and federal reporting and withholding deposit deadlines were not met resulting in penalties and interest and reports filed were not reconciled to the general ledger.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

**Questioned
Costs**

00-22 Payroll Controls and Procedures (Continued)

Recommendation

The University should ascertain that the effects on year ended June 30, 2000 from corrections to the payroll system made by the consultant performed in July-September 2000 are quantified and appropriate adjustments made to the general ledger and other records. We were unable to do this based upon the information provided to us and the timing thereof. W-2's for 1999 and 2000 should also be reconciled and any corrections either to W-2 information supplied to the government or to the general ledger. The University needs to review what employees had State or Federal gross wages incorrectly reported in their payroll system and document what steps were taken to correct the information and how the employee's withholdings were corrected. The objective to this process is to ensure that all payroll system information is correct since the conversion along with the general ledger, payroll system reports, Federal, State and other payroll reports, and 1999 and 2000 W-2's being in agreement and correct. Labor expense distribution should be thoroughly reviewed and corrected as necessary to properly state the labor expense accounts in individual funds. Training recommended by the consultant should be conducted and all necessary control processes and reconcilements should be consistently followed in the future.

Response

We agree with only portions of this finding. The University experienced problems with the implementation of the Human Resource module of Banner, due to the short implementation period which was forced on the University by its previous financial system provider when they notified the University their system would not be Y2K compliant, and by the complete turnover in the Payroll staff during the implementation period. However these problems were addressed and resolved by the University and SCT. The auditors have failed to fully recognize and acknowledge that progress.

Full training was provided to staff which were here at the beginning of the implementation and adequate training to run the payroll system was provided to the current staff; however, we agree that more intense training is required for the new payroll staff and a training plan is being developed.

We agree that required payroll reports were filed late and that full reconciliation from the general ledger to payroll system reports and external reports was not performed timely. However, all Payroll Liability accounts have been reconciled to payroll system reports and other external reports and procedures have been implemented to ensure reconciliation is done on a timely basis. Those reconciliations are being performed this year.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

**Questioned
Costs**

00-22 Payroll Controls and Procedures (Continued)

Response (Continued)

We also agree that the check numbers assigned by the system did not agree to the actual check number for 287 payroll checks. This was allowed to happen for one payroll run in the interest of not affecting payment of salaries to employees because of limited check stock, which had been depleted during the conversion. The payroll was very carefully monitored and documented. No major irregularities were detected during the production run.

The Deferred Pay liability account was incorrectly set up during the year by the SCT consultant and not caught until after the end of the fiscal year, however the proper adjustment has been made.

Twenty-four restricted fund payroll related expense accounts had credit balances totaling \$386,035. The University has historically created new accounts for the change in fiscal years, however this was not done during FY 99-2000. The appropriate accounts were created during the audit process, adjusting journal entries were processed in error, and this created a credit expense balance. This was corrected, no mis-reporting occurred on the University's financial statements, and we are not aware of any other irregularities.

In the second paragraph of the independent auditor's report, the auditor states that, "Payroll processing controls and procedures were inadequate during the year ended June 30, 2000. There has not been a complete reconciliation between the general ledger, payroll system reports, W-2's, or Federal and State payroll tax and other payroll related reports since the conversion. Payroll tax reports were not always filed on the due dates and may not be correct. February 2001 adjustments made by the University to the payroll liability accounts affected June 30, 2000 cash and we were not provided sufficient information to determine the accuracy of such adjustments. The University adjusted for obvious labor distribution errors made by employees that we had noted, however, we do not know if other similar errors exist."

We agree that payroll processing controls and procedures were inadequate and payroll related reports were filed late. The language in the paragraph above implies that the payroll system is unreliable and payroll processing errors may have resulted in financial statement reporting misstatements. We disagree. The Banner payroll module works and is reliable. The University has reconciled payroll liability accounts and payroll related errors have been corrected; there were no system labor distribution errors noted in the audit; and, therefore, distributed labor expense is correctly reported in the financial statements.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

	Questioned Costs
00-23 Inter Fund Transactions	N/A

CFDA Number(s) – All
Program Name(s) – All

Condition

When the University implemented its new general ledger software application on July 1, 1999 it no longer recorded individual bank accounts as accounts in individual funds but combined them into a bank fund and allocated the cash in the bank fund to the other funds using inter-fund cash accounts. The University also had inter-fund due to/from accounts recorded as of June 30, 1999. The balances in the due to/from accounts were combined into the new inter-fund cash accounts. During our testwork, we noted a journal entry that was entered into the system that was not balanced by individual fund and the new software automatically created a due to/from entry to make the funds balance and ran it through the inter-fund cash account. The University has both actual cash transactions using the bank fund and inter fund due to/from activity running through the same account and the University did not break out the cash from the non-cash inter fund transactions until seven months after the end of the fiscal year. This break out was only done at the fund type level and not at the individual inter-fund level. Therefore, the University does not know which fund owes or is owed by another fund on an inter-fund level.

The inter fund cash problem was realized during the first week in December, when the trial balances did not balance and we conveyed that information immediately to management. The topic was brought up at several meetings with various parties (Budget and Finance Committee and State Auditor) and with the client during our weekly status meetings during the month of December and January. The inter fund accounts were not reconciled as of February 2, 2001. As of February 20, 2001, the University had decided to record all cash balances in the Current Unrestricted fund. This is a change in presentation from the prior year which does not reconcile the appropriate change to inter fund due to/from.

Criteria

Inter fund loans should be specifically identified as to which specific fund owes another fund. There should also be a formal process approving the inter-fund loan.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

Questioned
Costs

00-23 Inter Fund Transactions (Continued)

Cause

The University combined the cash accounts and the due to/from accounts into one account as of July 1, 1999 and did not keep track of the due to/from activity on an individual fund basis from July 1, 1999 through June 30, 2000.

Effect

Cash balances and due to/from account balances on an individual fund basis can not be determined until the activity pertaining to these accounts is identified and pulled out of the inter-fund cash accounts.

Recommendation

The University will need to identify the inter-fund due to/from activity in the inter-fund cash accounts and create a new due to/from accounts in which to post all transactions for 2000, and keep track of all future inter-fund loan activity.

Response

We do not agree that there is an Interfund Cash problem, or that the trial balance was out of balance. At the time the Banner system was implemented the University selected the multiple cash interfund account convention, or Pooled Cash Option, of accounting for cash transactions. With this feature, each fund accounts for their claim on the total cash pool and the total of the Interfund Cash is what is used to balance to the total cash in banks. The auditors were unable to produce a GASB prohibition against the use of the method.

00-24 Trial Balances

Condition

The trial balances provided to the auditors as late as the first week in December 2000 did not balance by fund. The University was not aware that the funds were out of balance throughout the fiscal year and up until the auditors requested an explanation as to why the funds were out of balance. The University did not understand how the system was out of balance by fund until after the auditors reviewed the information, determined that an adjustment was needed to the beginning balance of the books and the University needed to include the current year income or loss into the trial balance.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

Questioned
Costs

00-24 Trial Balances (Continued)

Criteria

A trial balance that balances is an integral part of having accurate information that management can act during the year.

Cause

The University did not perform a sufficient review of the trial balances through out the fiscal year and up until the information was requested by the auditors to note and correct the funds that were out of balance.

Effect

Information that was given to upper management, regulatory agencies and the board may not have been accurate.

Recommendation

Fund trial balances should be regularly produced and appropriate adjustments made.

Response

Management does not agree with this finding. We requested the trial balance which we had provided that was not in balance but it was never provided by the auditors. As far as we know, the trial balance has always been in balance. Corrections had to be made between funds; however, all individual funds were also in balance. That trial balance was provided to the auditor in a timely fashion.

00-25 Cell Phone Calls

\$114

CFDA Number(s) – 47.071

Program Name(s) – UCAN-RSI

Compliance Requirement – B. Allowable Costs/Cost Principles

Condition

During our testwork on the UCAN-RSI program we noted one instance out of 23 in which an expenditure charged to the program was not necessary or reasonable to carry out the purpose of the grant. Certain charges on a cell phone bill totaling \$114 could not be supported as being necessary and reasonable to carry out the purposes of the grant, but appear to be personnel in nature.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

**Questioned
Costs**

00-25 Cell Phone Calls (Continued)

Criteria

OMB Circular A-110 requires that expenditures charged to a federally funded program be both necessary and reasonable to carry out the purpose of the program.

Cause

The University allows personal calls on University cell phones but must be reimbursed by the employee and no reimbursement could be located for the calls in question.

Effect

Unallowable costs were charged to the federal program.

Recommendation

The University needs to reimburse the federal program for the amount in question and set up policies and procedures where an employee independent of the federal programs checks the cell phone bills for personnel usage and insures that reimbursement is made.

Response

Management concurs with the auditor's finding. The University has a policy that governs the use of cell phones. This instance was an oversight of this policy and the full amount reimbursed for personnel calls has been recovered. University policy will be reinforced with all cell phone owners.

00-26 Federal Financial Reporting

N/A

CFDA Number(s) – R&D Cluster, 47.071, 81.004, 43.001, 43.001,
43.001, 43.001

Program Name(s) –R&D Cluster, UCAN-RSI, DOE Steam Quality,
NASA -JSC Astrobiology, NASA /Development of Polymers,
CCD Photometry of Vesta, and AISTEC-Project

Compliance Requirement – L. Reporting

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

Questioned
Costs

00-26 Federal Financial Reporting (Continued)

Condition

During our work on federal cash transaction reports, we noted a letter from a granting agency stating that there was a late SF 272 report filed during the fiscal year. We conducted additional testing of eight SF 272s filed during the year, which revealed that all eight were filed late. This constitutes the majority of SF 272s filed. University personnel stated that one grantor was withholding funds until reports were filed and that the reports currently due for the quarter ended December 31, 2000 have not been filed.

We also noted six programs required to file separate SF 272 reports that had expenditures reported to the granting agencies that could not be agreed to the general ledger. These reports represent more than half of the SF 272 reports required to be filed during the year.

Criteria

Federal reports required by specific grants should be filed timely and with accurate information from the general ledger.

Cause

The granting agency did not receive the report by the specified due date and the information contained in the reports could not be reconciled by the University to its general ledger.

Effect

There could be possible repercussions on the amount of federal funding received due to untimely and inaccurate federal financial reports.

Recommendation

A check list containing all of the reports due by grant with due dates on the list should be compiled and used to insure that all reports are submitted timely. The University should develop a system that provides a documentation trail showing how the expenditures on the federal financial reports reconcile to those recorded on the University's general ledger.

Response

Management concurs that due to difficulties with the Banner implementation, 272s were filed late and that reconciliations were not done on a timely basis last year. A plan has been implemented to reconcile all active accounts and 272s are being submitted on a timely basis. The 272 reports did not agree to the general ledger due to corrections to labor distribution, which were posted in June, but the system posted retroactively in the months where the error occurred.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

	Questioned Costs
00-27 Federal Cash Management	N/A

CFDA Number(s) – All
Program Name(s) – All
Questioned costs – Not Applicable
Compliance Requirement – C. Cash Management

Condition

The University could not specifically identify approximately \$33,000 of federal deferred revenue that was recorded as of June 30, 1999 to any programs in the general ledger for the year ended June 30, 2000. We were therefore unable to identify the programs that received cash advances that created the deferred revenue balances for testing compliance with federal cash management requirements. The University also had approximately \$461,000 in deferred federal revenue, representing cash receipts prior to June 30, 2000, but the University also had an overall negative cash position at June 30, 2000. We could not determine whether restricted funds were spent in other Federal programs or funds outside of their intended restricted purpose (See Finding 00-9).

Criteria

All federal cash advances that have not been spent and are recorded as deferred federal revenue should be traced to the specific federal grant or contract that was the source of the funds. According to federal regulations, cash advances received for specific restricted purposes can only be spent on that specific restricted purpose.

Cause

Deferred federal revenue balances from prior years were not brought forward into current year programs or the funds were not remitted back to the grantor or the deferred revenue balance is incorrect. Overall poor cash management controls caused the University to spend restricted cash on purposes outside of their original intended purpose.

Effect

Federal cash management regulations are not being complied with.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

Questioned
Costs

00-27 Federal Cash Management (Continued)

Recommendation

All old deferred federal revenue balances should be investigated to determine if there is still cash on hand relating to the deferral and if so, what should be done with the funds. They should be remitted back to the grantor, spent on the program, or transferred to the unrestricted fund. Controls should be placed into operation to insure that restricted cash is only spent for its restricted purpose.

Response

Management disagrees with this finding. The University identified all deferred revenue recorded as of June 30, 1999.

The University pools all cash receipts and uses this cash on current accounts payable. We are not aware of any incidents where research account activity was curtailed due to cash position nor were payments of expenditures unduly delayed.

00-28 Goal Program

N/A

CFDA Number(s) – 17.253
Program Name(s) – GOAL Program
Questioned Costs – Undeterminable
Compliance Requirement – E. Eligibility

Condition

During our eligibility testwork of the GOAL Program we noted one instance in which a participant in the program did not initially have the correct information in their file to determine if the eligibility requirements to be enrolled in the program were met.

Criteria

According to Department of Labor's GOAL Program Policies and Procedures adequate documentation to determine participants eligibility should be available.

Cause

The participant initial information that was reviewed by the auditor was incomplete.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2000**

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED)

**Questioned
Costs**

00-28 Goal Program (Continued)

Effect

The Department of Labor's GOAL Program Policies and Procedures effective at the time the participant entered the program were not complied with.

Recommendation

Participants' eligibility information is reviewed and verified before admission into the GOAL Program.

Response

The client who was deemed not eligible for the GOAL Program was, in fact, eligible. This client was under her mother's caseload from January 30, 1996 to October 1998; therefore, she was a client for 33 months for TANF assistance, thus making her eligible for the GOAL as a 70% (30 month) participant, in compliance with Section 100-120 of the Department of Labor's GOAL Program Policies and Procedures.

The oversight was caused by her not being including her mother's "P" screen in her referral packet. A copy has since been placed in her file.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2000**

An exit conference was held on April 19, 2001 with the following in attendance:

Elmer Salazar, Chairman, Board of Regents
Peter Bickely, Chairman, Budget and Finance Committee
Roger Gonzales, Secretary-Treasurer, Board of Regents
John Loehr, Regent
David Pacheco, VP of Finance/Comptroller
Darlene Chavez, Interim Business Director
Wayne Brown, Neff & Ricci, LLP
Scott Peck, Neff & Ricci, LLP
Aaron Harris, NM State Auditors Office
Steve Archibeque, NM State Auditors Office