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STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
FINANCIAL STATEMENTS
JUNE 30, 2001

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

FINANCIAL STATEMENTS

JUNE 30, 2001



State of New Mexico
OFFICE OF THE STATE AUDITOR

omingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

January 23, 2002

SAO Ref. No. 957

Dr. James Fries, Ph.D.
and
Members of the Board of Regents
New Mexico Highlands University
University Avenue
Las Vegas, NM 87701

SUBJECT: Audit Report—New Mexico Highlands University—2000-2001 Fiscal Year—Prepared by State Auditor's Office

The referenced report was received on January 10, 2002. In accordance with the terms of the audit contract, Section B, the contractor will deliver to your agency the specified number of copies of the audit report.

The audit report has been submitted to this office by a licensed public contractor who was required to perform the audit in accordance with generally accepted auditing standards. The audit report is being released subject to a comprehensive review by this office.

As per your written request, this office is waiving the ten (10) day waiting period and is making the report public record immediately. The audit report will be released to the Legislative Finance Committee, the Department of Finance and Administration and the Office of the State Treasurer and the Commission on Higher Education.

The independent public accountant's comments and findings are included on pages 50 - 89 of your audit report. *It is the governing authority's ultimate responsibility to take corrective action on all findings and comments.*

This letter is your authority to make final payment to the contractor.


DOMINGO P. MARTINEZ, CGFM
STATE AUDITOR

cc: Legislative Finance Committee
Department of Finance and Administration-
Office of the State Treasurer
Commission on Higher Education
State Auditor's Office



OF CONTENTS

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

	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



OF CONTENTS

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY

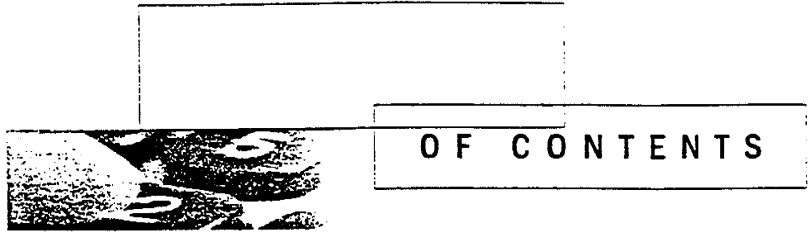
SCHEDULES (CONTINUED)

Schedule/Page

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
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	40
Schedule of Expenditures of Private Awards	12	42
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>		43



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

SINGLE AUDIT (CONTINUED)

Schedule/Page

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	45
Summary Schedule of Prior Audit Findings.....	48
Schedule of Findings and Questioned Costs	
Schedule A –Summary of Audit Results	49
Schedule B –Findings-Financial Statement Audit.....	50
Schedule C –Findings-Major Federal Award Program Audit	69
Schedule D –Other Findings.....	79
Exit Conference	90

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

Official Roster

June 30, 2001

Board of Regents

Name	Title
Elmer Salazar	Chair
S. Peter Bickley, Jr.	Vice Chair
Roger Gonzales	Secretary/Treasurer
Wayne Bingham	Member
John Loehr	Member

Administrative Officials

Selimo Rael	President
Glen Davidson	Provost
David Pacheco	VP of Finance/Comptroller



Independent Auditors' Report

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Elmer Salazar., 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, 2001, as listed in the table of contents. Our audit was to be conducted in accordance with auditing standards generally accepted in the United States of America 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. As a result, the University is unable to maintain a record of interfund loan activity on a fund by fund basis from July 1, 1999 through June 30, 2001. Payroll processing controls and procedures were inadequate during the year ended June 30, 2001. The payroll subsidiary ledgers cannot be reconciled to the payroll expenditures recorded in the general ledger. As a result, the balances reported in Federal and State payroll tax reports and form W-2s can not be reconciled to the expenditures and to the related accrued liabilities recorded as of June 30, 2001. In the restricted funds, the University was unable to provide adequate information for our testing as to the existence of receivables and deferred revenue related to certain programs. Internal controls for the recording and maintaining of accounts payable in the general ledger were not adequate to identify all outstanding payables as of any specific date including as of June 30, 2001. As a result of the inadequate internal controls over accounts payable, some expenditures are not recorded in the correct accounting period. Present management is unable to furnish us with knowledgeable written representations as to facts and circumstances relating to financial activity and other matters arising in the year ended June 30, 2001, that auditing standards generally accepted in the United States of America require us to obtain. Further, present management cannot confirm the University's ability to record, process, summarize and report financial data as of and for the year ended June 30, 2001. Available information as to historical collection data does not permit us to



Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Elmer Salazar, Chair
To The Board of Regents
New Mexico Highlands University

determine the adequacy of the allowance for doubtful accounts. It was impracticable to extend our procedures sufficiently to determine the extent to which the financial statements as of and for the year ended June 30, 2001, may have been affected by these conditions.

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, 2001.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 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 or schedules 1 through 9 and 11 through 12, in relation to the general purpose financial statements taken as a whole.

Office of the State Auditor

Office of the State Auditor
December 21, 2001

Neff + Ricci LLP

Neff + Ricci LLP
December 21, 2001

Plant Funds					
Unex- pended	Renewals & Replac- ements	Retirement of Indeb- tedness	Investment In Plant	Agency Funds	Total All Funds
\$ -	-	-	-	-	502,820
727,784	-	-	-	-	2,662,023
1,209,979	-	-	-	48,042	7,294,330
-	-	-	-	-	1,484,363
-	-	-	-	-	(1,648,826)
-	187,678	859,636	21,706	-	2,949,374
-	-	538,773	-	-	1,205,706
-	-	-	-	-	4,881
-	-	-	-	-	30,423
-	-	-	1,915,932	-	1,915,932
-	-	-	55,681,616	-	55,681,616
-	-	-	2,860,652	-	2,860,652
-	-	-	10,594,401	-	10,594,401
-	-	-	6,468,168	-	6,468,168
-	-	-	566,491	-	566,491
-	-	-	3,355,767	-	3,355,767
\$ 1,937,763	187,678	1,398,409	81,464,733	48,042	95,928,121
-	-	-	-	-	2,216,329
5,771	196,430	-	-	-	1,741,677
-	-	-	-	-	2,032,220
-	-	-	-	-	40,483
-	-	-	-	-	677,633
2,572,928	-	-	-	48,042	2,949,374
-	-	-	407,554	-	407,554
-	-	-	506,062	-	506,062
-	-	-	7,930,000	-	7,930,000
2,578,699	196,430	-	8,843,616	48,042	18,501,332
-	-	-	-	-	(1,251,322)
-	-	-	-	-	3,459,848
-	-	-	-	-	1,848,425
(640,936)	(8,752)	1,398,409	72,621,117	-	73,369,838
(640,936)	(8,752)	1,398,409	72,621,117	-	77,426,789
\$ 1,937,763	187,678	1,398,409	81,464,733	48,042	95,928,121

Plant Funds				
Unex- pended	Renewals & Replaces- ments	Retirement of Indeb- tedness	Investment In Plant	Total All Funds
\$ -	-	-	-	50,896,438
-	-	452,478	-	452,478
2,035,998	-	-	-	2,035,998
-	-	-	-	(188,824)
-	-	-	-	3,909,466
-	22,170	-	-	22,170
-	-	-	2,258,129	2,258,129
2,035,998	22,170	452,478	2,258,129	59,385,855
-	-	-	-	50,645,769
-	-	-	-	3,950,432
-	-	-	-	18,998
1,711,834	-	-	-	1,711,834
-	1,180,654	-	-	1,180,654
-	-	-	2,642,907	2,642,907
-	-	523,400	-	523,400
-	-	-	-	33,830
1,711,834	1,180,654	523,400	2,642,907	60,707,824
70,000	1,151,798	239,482	331,518	-
394,164	(6,686)	168,560	(53,260)	(1,321,969)
-	-	-	-	132,430
(1,035,100)	(2,066)	1,229,849	72,674,377	78,616,328
(1,035,100)	(2,066)	1,229,849	72,674,377	78,748,758
\$ (640,936)	(8,752)	1,398,409	72,621,117	77,426,789

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 COMBINED STATEMENT OF CURRENT FUNDS
 REVENUES, EXPENDITURES AND OTHER CHANGES
 For the Year Ended June 30, 2001

	Unrestricted	Restricted	Total All Funds
Revenues			
Instruction and general:			
Tuition and fees	\$ 4,476,814	-	4,476,814
State appropriations	18,804,400	-	18,804,400
Federal grants and contracts	578	1,873,304	1,873,882
State grants and contracts	-	2,685,084	2,685,084
Private gifts and grants	319	603,145	603,464
Land and Permanent Fund Income	231,013	-	231,013
Sales and services	128,917	-	128,917
Other	1,884,559	34,996	1,919,555
Subtotal	25,526,600	5,196,529	30,723,129
Other:			
State appropriations	2,029,500	-	2,029,500
Federal grants and contracts	-	10,681,719	10,681,719
State grants and contracts	-	2,408,598	2,408,598
Private gifts and grants	17,379	527,356	544,735
Fees	471,153	1,014,538	1,485,691
Sales and services	2,691,795	26,762	2,718,557
Other	235,328	69,181	304,509
Total revenues	30,971,755	119,924,683	50,896,438
Expenditures			
Instructional and general:			
Instruction	12,845,903	3,923,093	16,768,996
Academic support	2,223,804	224,675	2,448,479
Student services	2,330,541	569,046	2,899,587
Institutional support	3,715,888	77,462	3,793,350
Operations and maintenance	3,682,317	10,012	3,692,329
Subtotal	24,798,453	4,804,288	29,602,741

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, 2001

	Unrestricted	Restricted	Total All Funds
Other:			
Student social and cultural	293,048	5,399	298,447
Research	915,086	2,355,758	3,270,844
Public service	790,939	8,347,931	9,138,870
Internal service departments	(15,286)	15,417	131
Student aid	309,933	4,186,942	4,496,875
Auxiliary enterprises	2,406,478	55,535	2,462,013
Intercollegiate athletics	1,375,771	77	1,375,848
Total expenditures	30,874,422	19,771,347	50,645,769
Transfers:			
Mandatory transfers	-	-	-
Nonmandatory transfers	(1,792,798)	54,640	(1,738,158)
Total transfers	(1,792,798)	54,640	(1,738,158)
Net increase (decrease) in fund balance	\$ (1,695,465)	207,976	(1,487,489)

See Notes to Financial Statements.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001**

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, 2001

**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

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

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

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.

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.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

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

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 financial statements and budgetary schedules 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 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.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

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

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.

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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001**

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

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.

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.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

Depository	Insured and Collateralized	Uninsured and Uncollateralized	Total Cost	Market Value
Bank of Las Vegas	\$ (429,678)	-	(429,678)	(429,678)
First National Bank of Las Vegas	3,144	-	3,144	3,144
Wells Fargo Bank	61,803	-	61,803	61,803
	<u>\$ (364,731)</u>	<u>-</u>	<u>(364,731)</u>	<u>(364,731)</u>

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 and special investment account portfolio contains stocks, bonds, and similar investments of \$2,662,023 (cost of \$2,918,749).

A summary of the University's investments at June 30, 2001, by category of credit risk described below, is as follows:

Investments	Category 1	Category 2	Cost	Market Value
United State Treasury Bills	\$ 527,640	-	527,640	549,354
Stocks and Bonds	-	2,391,109	2,391,109	2,112,669
	<u>\$ 527,640</u>	<u>2,391,109</u>	<u>2,918,749</u>	<u>2,662,023</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001**

NOTE 3. INVESTMENTS (CONTINUED)

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.

Changes in property, plant, and equipment for the year-ended June 30, 2001 were as follows:

	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 1,915,932	-	-	1,915,932
Buildings	50,964,533	4,717,083	-	55,681,616
Land Improvements	2,860,652	-	-	2,860,652
Equipment & Furnishings	13,506,407	1,690,950	4,602,956	10,594,401
Books & Periodicals	6,273,155	448,051	253,038	6,468,168
Automotive	561,491	5,000	-	566,491
Construction in Progress	5,872,898	2,199,952	4,717,083	3,355,767
	<u>\$ 81,955,068</u>	<u>9,061,036</u>	<u>9,573,077</u>	<u>81,443,027</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001**

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 the note 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. \$ 407,554

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 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:

	Principal	Interest	Ending June 30,
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>\$ 7,930,000</u>	<u>2,112,248</u>	<u>10,042,248</u>

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001

NOTE 7. 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 liability for claims incurred as of June 30, 2001 was \$297,425. The deficiency in amounts collected from the University and its covered employees for payment of health claims as of June 30, 2001 was \$189,756. The following reconciles the activity in the liability during the year:

Liability for claims as of June 30, 2000	\$ (102,860)
Premiums collected by the University and covered participants	1,770,017
Claims paid during the year	(1,587,942)
Administrative fees paid during the year	<u>(268,971)</u>
Deficiency premiums collected as of June 30, 2001	(189,756)
Unpaid claims incurred as of June 30, 2001	<u>(297,425)</u>
Deficiency of premiums to pay current claims	<u>\$ (487,181)</u>

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001**

NOTE 7. 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 8. 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, 2001, June 30, 2000, and 1999 were \$2,846,945, \$2,659,804, and \$2,479,769, respectively, equal to the amount of the required contribution for each year.

NOTE 9. 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 \$85,450 to the ERA for the alternative plan and \$159,646 to the various carriers for the year ended June 30, 2001. Employees contributed \$214,744 to the various carriers under the alternative plan during the year ended June 30, 2001.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001**

NOTE 10. 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, 2001, the New Mexico Highlands University remitted \$197,236 in employer contributions and \$98,618 in employee contributions to the Retiree Health Care Authority.

NOTE 11. LEASES

At June 30, 2001, 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 \$395,666 for the year ended June 30, 2001.

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001

NOTE 11. LEASES (CONTINUED)

Minimum Lease Payments. The following is a schedule of future minimum lease payments for these leases at June 30, 2001:

Year Ending June 30	Capital Leases	Operating Leases
2002	\$ 267,983	\$ 395,666
2003	210,523	395,666
2004	62,992	395,666
2005	-	395,666
2006	-	395,666
Thereafter	-	2,763,598
	<u>541,498</u>	<u>\$ 4,741,928</u>
Less amount representing Interest	<u>35,436</u>	
	<u>\$ 506,062</u>	

University as Lessor

The University is lessor to various properties. For the year ended June 30, 2001, total lease income, which includes annually renewable lease agreements, was \$9,000.

The following is a schedule of future minimum future lease income as of June 30, 2001:

Year Ending June 30	Lease Income
2002	\$ 9,000

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001**

NOTE 12. 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. After year end, the former president filed a \$175,000 lawsuit against the University. The Risk Management Division will not insure against the suit. The result of this litigation cannot be determined at this time.

NOTE 13. COMMITMENTS

At June 30, 2001, 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>\$ 258,253</u>
Plant Funds	<u>\$ 1,453,362</u>

There were no significant construction contracts entered into by the University at June 30, 2001 that were not substantially done.

NOTE 14. DEFICIT FUND BALANCE

The unexpended plant fund, renewals and replacements plant fund and current unrestricted funds have an accumulated deficit fund balance through June 30, 2001 of \$640,936 and \$8,752, and 1,251,322 respectively. The deficit fund balances were a result of poor controls over budgeting due to the installation of a new accounting software.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001**

NOTE 14. DEFICIT FUND BALANCE (CONTINUED)

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

Total fund deficit	\$ 1,251,322
Less fund balance reserved for inventories	666,933
Less fund balance reserved for prepaid expenses	2,904
Less fund balance reserved for deposits	<u>20,423</u>
Fund deficit unreserved/undesignated	<u>\$ 1,941,582</u>

NOTE 15. 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 16. SUBSEQUENT EVENT

The University signed an overdraft protection agreement with The Bank of Las Vegas in June 2000. On July 31, 2001, the University changed the agreement into a one-year term note, at a rate of 6.25% per annum with interest only payments due quarterly commencing October 31, 2001. The note is secured with real estate.

NOTE 17. PRIOR PERIOD ADJUSTMENT

A prior period adjustment to the beginning fund balance for the Loan Funds in the amount of \$132,430 was recorded to correct an advance to students that was expensed in the prior year when it should have been recorded as a receivable.

**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, 2001**

**Schedule 1
 Page 1 of 2**

	Budget	Actual	Actual Over (Under) Budget
Beginning Balances			
Instruction and general	\$ 180,327	633,048	452,721
Student social and cultural	41,250	52,776	11,526
Research	172,061	163,898	(8,163)
Public service	334,754	290,472	(44,282)
Internal service departments	(91,568)	(131,050)	(39,482)
Student aid	68,192	(1,475)	(69,667)
Auxiliary enterprises	42,148	62,890	20,742
Intercollegiate athletics	(623,388)	(626,416)	(3,028)
Total beginning balances	123,776	444,143	320,367
Revenues			
Instruction and general	25,647,700	25,526,600	(121,100)
Student social and cultural	315,000	307,057	(7,943)
Research	12,000	14,958	2,958
Public service	703,900	709,226	5,326
Internal service departments	39,000	30,586	(8,414)
Student aid	65,000	7,350	(57,650)
Auxiliary enterprises	3,215,239	2,914,107	(301,132)
Intercollegiate athletics	1,476,600	1,461,871	(14,729)
Total revenues	31,474,439	30,971,755	(502,684)
Total Available			
Instructional and general	25,828,027	26,159,648	331,621
Student social and cultural	356,250	359,833	3,583
Research	184,061	178,856	(5,205)
Public service	1,038,654	999,698	(38,956)
Internal service departments	(52,568)	(100,464)	(47,896)
Student aid	133,192	5,875	(127,317)
Auxiliary enterprises	3,257,387	2,976,997	(280,390)
Intercollegiate athletics	853,212	835,455	(17,757)
Total available	31,598,215	31,415,898	(182,317)

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, 2001

Schedule 1
Page 2 of 2

	Budget	Actual	Actual Over (Under) Budget
Expenditures			
Instruction and general	\$ 23,376,451	24,798,453	1,422,002
Student social and cultural	335,380	293,048	(42,332)
Research	763,770	915,086	151,316
Public service	760,423	790,939	30,516
Internal service departments	10,512	(15,286)	(25,798)
Student aid	345,700	309,933	(35,767)
Auxiliary enterprises	2,409,796	2,406,478	(3,318)
Intercollegiate athletics	1,480,000	1,375,771	(104,229)
Total expenditures	29,482,032	30,874,422	1,392,390
Transfers (to) or From			
Instruction and general	(2,255,216)	(2,255,216)	-
Research	893,436	893,436	-
Public service	56,523	56,523	-
Student aid	283,115	283,115	-
Auxiliary enterprises	(846,256)	(846,256)	-
Intercollegiate athletics	75,600	75,600	-
Total net transfers	(1,792,798)	(1,792,798)	-
Ending Balances			
Instructional and general	196,360	(894,021)	(1,090,381)
Student social and cultural	20,870	66,785	45,915
Research	313,727	157,206	(156,521)
Public service	334,754	265,282	(69,472)
Internal service departments	(63,080)	(85,178)	(22,098)
Student aid	70,607	(20,943)	(91,550)
Auxiliary enterprises	1,335	(275,737)	(277,072)
Intercollegiate athletics	(551,188)	(464,716)	86,472
Total ending balances	\$ 323,385	(1,251,322)	(1,574,707)

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, 2001

Schedule 2

	Budget	Actual	Actual Over (Under) Budget
Beginning Balances	180,327	633,048	452,721
Revenues			
Tuition and miscellaneous	\$ 4,735,200	4,476,814	(258,386)
State appropriations	18,804,500	18,804,400	(100)
Federal grants and contracts	-	578	578
Private gifts and grants	-	319	319
Endowment, land and permanent fund	134,000	231,013	97,013
Sales and service	143,000	128,917	(14,083)
Other sources	1,831,000	1,884,559	53,559
Total revenues	25,647,700	25,526,600	(121,100)
Total Available	25,828,027	26,159,648	331,621
Expenditures			
Instruction	12,151,088	12,845,903	694,815
Academic support	2,378,978	2,223,804	(155,174)
Student services	2,441,900	2,330,541	(111,359)
Institutional support	3,273,228	3,715,888	442,660
Operation and maintenance of plant	3,131,257	3,682,317	551,060
Total expenditures	23,376,451	24,798,453	1,422,002
Transfers (to) or From			
Mandatory transfers	(62,211)	(62,211)	-
Nonmandatory transfers	(2,193,005)	(2,193,005)	-
Total net transfers	(2,255,216)	(2,255,216)	-
Ending Balance	\$ 196,360	(894,021)	(1,090,381)

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, 2001

Schedule 3

	Budget	Actual	Actual Over (Under) Budget
Revenues			
Instruction and general	3,400,000	5,196,529	(1,796,529)
Student social and cultural	32,000	5,351	26,649
Research	12,000,000	2,142,563	9,857,437
Public service	9,000,000	8,301,544	698,456
Internal service departments	20,000	15,626	4,374
Student aid	3,600,000	4,207,460	(607,460)
Auxiliary enterprises	100,000	55,533	44,467
Intercollegiate athletics	15,000	77	14,923
	<hr/>		
Total revenues	\$ 28,167,000	19,924,683	8,242,317
	<hr/> <hr/>		
Expenditures			
Instruction and general	3,400,000	4,804,288	(1,404,288)
Student social and cultural	32,000	5,399	26,601
Research	12,000,000	2,355,758	9,644,242
Public service	9,000,000	8,347,931	652,069
Internal service departments	20,000	15,417	4,583
Student aid	3,600,000	4,186,942	(586,942)
Auxiliary enterprises	100,000	55,535	44,465
Intercollegiate athletics	15,000	77	14,923
	<hr/>		
Total expenditures	\$ 28,167,000	19,771,347	8,395,653
	<hr/> <hr/>		

See Notes to Financial Statements.

**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, 2001**

Schedule 4

	Budget	Actual	Actual Over (Under) Budget
Revenues			
Federal grants and contracts	\$ 900,000	1,873,304	(973,304)
State grants and contracts	2,000,000	2,685,084	(685,084)
Private gifts and grants	500,000	603,145	(103,145)
Other	-	34,996	(34,996)
	<hr/>		
Total revenues	\$ 3,400,000	5,196,529	(1,796,529)
	<hr/>		
Expenditures			
Instruction	2,396,000	3,923,093	(1,527,093)
Academic support	300,000	224,675	75,325
Student services	600,000	569,046	30,954
Institutional support	80,000	77,462	2,538
Operation and maintenance of plant	24,000	10,012	13,988
	<hr/>		
Total expenditures	\$ 3,400,000	4,804,288	(1,404,288)
	<hr/>		

See Notes to 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, 2001

Schedule 5

	Budget	Actual	Actual Over (Under) Budget
Revenues and Transfers			
Unexpended (capital outlay)	\$ 70,000	1,997,383	1,927,383
Renewal and replacement	1,151,798	1,282,583	130,785
Retirement of indebtedness	553,000	691,960	138,960
	<hr/>	<hr/>	<hr/>
Total revenues	\$ 1,774,798	3,971,926	2,197,128
	<hr/>	<hr/>	<hr/>
Expenditures			
Unexpended (capital outlay)	10,070,000	1,711,835	(8,358,165)
Renewal and replacement	1,251,798	1,180,654	(71,144)
Retirement of indebtedness	1,051,855	523,400	(528,455)
	<hr/>	<hr/>	<hr/>
Total expenditures	\$ 12,373,653	3,415,889	(8,957,764)
	<hr/>	<hr/>	<hr/>

See Notes to Financial Statements.

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF CASH AND CASH EQUIVALENTS
 For the Year Ended June 30, 2001**

Name of Bank	Account Type	Account Number
Bank of Las Vegas		
Account payable account	Checking	79-6140-5
Payroll account	Checking	79-6010-7
University wire-transfer account	Checking	79-6154-5
Cash receipts account	Checking	79-6007-7
Cashier's credit card account	Checking	79-6115-4
Direct Lending account	Checking	79-6153-7
First National Bank in Las Vegas		
Cash receipts account	Checking	1161519
Wells Fargo Bank - Albuquerque		
Endowment pool account	Money Market	75050000
Special investment	Money Market	75050001
Business account	Checking	601-533-8863

Petty cash *Cash on hand*

Total cash and cash equivalents

Presented in the financial statements as:

Cash

Cash deficit

Total cash deficit

See Notes to Financial Statements.

Balance per Bank Statement	Reconciled Balance Per Books
\$ (626,478)	\$ (1,976,952)
(189,810)	(239,377)
292,236	292,236
80,016	104,831
14,061	26,180
297	297
3,144	3,144
36,187	36,187
15,584	15,584
10,032	10,032
14,329	14,329
<u>\$ (350,402)</u>	<u>\$ (1,713,509)</u>
	\$ 502,820
	<u>(2,216,329)</u>
	<u>\$ (1,713,509)</u>

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF INVESTMENTS
 For the Year Ended June 30, 2001**

Schedule 7

Plant Funds:

Wells Fargo Bank	
Various Corporate Bonds	\$ 323,007
Other Equities	404,777
Total investments - Plant Fund	<u>727,784</u>

Endowment Funds:

Wells Fargo Bank	
Various U.S. Treasury Notes	\$ 549,354
Various Corporate Bonds	273,162
Various Common Stock	1,111,723
Total investments - Endowment Fund	<u>1,934,239</u>

Total investments - all funds	<u>\$ 2,662,023</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, 2001

Schedule 8

	Bank of Las Vegas	First Nat'l Bank Las Vegas	Wells Fargo
Checking accounts	\$ (429,678)	3,144	-
Money market accounts	-	-	61,803
Total deposits	(429,678)	3,144	61,803
Less: FDIC/SIPC coverage	100,000	100,000	500,000
Total uninsured public funds	-	-	-
50 percent collateral requirement	-	-	-
Pledged Federal Securities	CUSIP #	Matures	
FHLB (Held in Dallas, TX)	3133M2U21	01/28/2008	1,000,000
8 3/4 Bond (Held in L.V., NM)	912810CE6	11/15/2008	-
Total Collateral			1,000,000
Over (under) collateralized	\$ 1,000,000	400,000	-

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, 2001

Schedule 9

	Pell	Grants and College Workstudy		Perkins Student Loans	Total
		SEOG	CWS		
Fund balance - June 30, 2000	\$ -	-	(8,194)	1,433,447	1,425,253
Additions:					
Federal awards	2,487,083	186,866	407,110	3,137,417	6,218,476
Interest and assignments	-	-	-	31,375	31,375
Reimbursement cancelled loans	-	-	-	772,049	772,049
Total additions	2,487,083	186,866	407,110	3,940,841	7,021,900
Deductions:					
Grants	2,487,083	186,866	407,110	2,609,632	5,690,691
Administrative costs	-	-	-	493,340	493,340
Collection costs	-	-	-	847,460	847,460
Total deductions	2,487,083	186,866	407,110	3,950,432	7,031,491
Net increase in fund balance	-	-	-	(9,591)	(9,591)
Fund balance June 30, 2001	\$ -	-	(8,194)	1,423,856	1,415,662
Reconciliation of fund balance to the financial statements					
Non-mandatory transfers out				(54,640)	
Prior period adjustment				132,430	
Fund balance of Perkins loan fund (Exhibit A)				\$ 1,501,646	

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, 2001

	Federal CFDA #	Expenditures
Research and Development Cluster		
NASA -ANO Pii Name	43.001	18,230
NASA -ANO Ronald Clark	43.001	16,151
NASA -ANO Visiting Researchers	43.001	155,300
NASA -ANO Subawards	43.001	242,543
NASA -Kennedy	43.001	642
NASA -JSC Astrobiology	43.001	76,776
NASA /Development of Polymers	43.001	46,155
NASA /Researching Out for science	43.001	15,149
NASA/Hydrocode Simulations	43.001	9,063
NASA/Study of Forest Fires	43.001	22,304
DOE/Steam Quality 10/97-9/00	81.004	33,616
NIH/Fetoprotectants 9/99-8/00	93.273	86,755
MBRS Greene 8/98- 7-99	93.375	5,801
MBRS Sammeth 8-98 7-99	93.375	3,028
MBRS Taylor 8-98 7-99	93.375	17,527
NIH/MBRS Horne 8-98 7-99	93.375	700
MBRS-Electronic Journal 8/99-7/00	93.375	27,644
MBRS-Admin 8/99-7/00	93.375	3,424
MBRS-Green 8/99-7/00	93.375	1,353
MBRS-Sammeth 8/99-7/00	93.375	11,399
MBRS-Taylor 8/99-7/00	93.375	511
MBRS-Shaw 8/99-7/00	93.375	8,445
MBRS-Meassick 8/99-7/00	93.375	12,350
MBRS-Horne 8/99-7/00	93.375	8,806
MBRS-Bridges 10/98-9/99	93.375	(157)
MBRS-Horne Carryover 2000	93.375	99,708
NIH/Bridges 4/00- 3/2003	93.375	161,163
NIH Score Admin.	93.375	63,541
NIH Score - Horne	93.375	143,148
NIH Score - Sammeth	93.375	172,926
NIH Score - Shaw	93.375	74,449
NIH Score - Shaw	93.375	76,558
Phd Bridge Program 9/98-8/00	93.906	26,446
Phd Bridge Program	93.906	28,932
CCD Photometry of Vesta	43.001	15,235
NAVY Pulse Frequency	12.300	582
AFOSR Fast Optics	12.800	(28,026)
Air Force BER Measurement	12.800	1,293
NSF PFDI Project	47.000	350
NSF - SGER/Cerro Grande	47.000	11,205
NSF CREST	47.000	231,929
Total Research and Development Cluster		1,902,954

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2001

	Federal CFDA #	Expenditures
Student Financial Aid Cluster		
Federal SEOG 1999-2000	84.007	186,866
FED W/S Instruction	84.033	99,728
FED W/S Academic Support	84.033	46,464
FED W/S Student Services	84.033	83,362
FED W/S Institutional Support	84.033	20,158
FED W/S Operation & Maint.	84.033	6,929
FED W/S Social & Cultural	84.033	5,351
FED W/S Public Service	84.033	14,592
FED W/S Internal Service	84.033	8,490
FED W/S Auxiliaries	84.033	46,743
FED W/S Off Campus	84.033	29,194
FED W/S Athletics	84.033	77
Financial Aid -Admin Allow	84.033	5,275
FED W/S Off Campus 99-00	84.033	7,469
FED W/S America Read/Counts	84.033	(353)
FED W/S Off Campus 2000-01	84.033	33,631
Federal PELL 1999-2000	84.063	2,487,083
Total Student Financial Aid Cluster		3,081,059
TRIO Programs Cluster		
Support Services 1998-99	84.042	5,632
Support Services 99-00	84.042	63,873
Support Services 00-01	84.042	343,039
Upward Bound 1998-1999	84.047	(488)
Upward Bound 6/99-5/00	84.047	15,081
Upward Bound 6/00-5/01	84.047	356,693
Upward Bound 6/01-5/02	84.047	81,887
Total TRIO Programs Cluster		865,717
U.S. Department of Labor		
GOAL Program 10/99-4/02	17.253	1,727,811
U.S. Bureau of Land Management		
BLM/Capital Projects	N/A	20,000
National Aeronautics and Space Administration		
AISTEC-Technology Ctr	43.001	178,684
AISTEC-Admin 12/99-11/00	43.001	484,814
AISTEC-Project 12/99-11/00	43.001	57,458
NASA /Educational Outreach	43.001	13,163
Total National Aeronautics and Space Administration		734,119
National Science Foundation		
UCAN-RSI Admin 98-99	47.071	16,376
UCAN-RSI Admin 12/97-11/98	47.071	28
UCAN-RSI IEEE 99-00	47.071	10,418
UCAN-RSI Part. Support 99-00	47.071	1,063,942
UCAN-RSI Admin 99-00	47.071	98,770
Total National Science Foundation		1,189,534

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2001

	Federal CFDA #	Expenditures
U.S. Department of Education		
Comp. Ctr 1998-1999	84.283	31,140
US Dept of ED/SWCC 10/98-99	84.283	16,149
US Dept of ED/SWCC 10/98-99	84.283	1,227
US Dept of ED/SWCC 10/99-9/00	84.283	553,255
US Dept of ED/SWCC 10/99-9/00	84.283	293,639
US Dept of ED/SWCC 10/00-9/01	84.283	304,624
US Dept of ED/SWCC 10/00-9/01	84.283	549,197
Dept. of Ed. - Rehab. Counseling	84.283	95,601
Dept. of Ed. - Career Ladder	84.283	274,051
Training for all Teachers	84.283	152,630
San Miguel GEAR-UP	84.283	308,276
Total U.S. Department of Education		<u><u>2,579,789</u></u>
U.S. Department of Health and Human Services - Passed through NM Department of Children Youth and Families		
CYFD FY 1999-2000	93.658	130,598
CYFD Perm. Planning 2000 - 2001	93.658	1,325,405
Total U.S. Department of Human Services		<u><u>1,456,003</u></u>
U.S. Department of the Interior		
DOI Water Resource Inst	15. Unknown	117,541
DOI/Autographo Rock 7/99-12/00	15. Unknown	1,373
DOI/NPS Litte Chicken Mine 12/00	15. Unknown	948
DOI Conservation Landscape	15. Unknown	951
Total U.S. Department of the Interior		<u><u>120,813</u></u>
Total federal awards expended		<u><u>\$ 13,677,799</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, 2001

Federal
 CFDA # Expenditures

Note 3. Subrecipients

The University disbursed federal funds to the following subrecipients:

Alabama A&M	43.001	107,115
Haskel Indain Nations University	43.001	16,364
Oklahoma State University	43.001	21,228
Salish Kootenai College	43.001	43,094
South Dakota School of Technology	43.001	48,442
University of Washington	43.001	47,574
Adams State University	47.071	116,232
Santa Fe Indian School	47.071	167,752
Southern Ute Indian Tribe	47.071	190,029
Alternatives for Science	84.283	43,384
Rio Arriba County Works	47.071	210,012
Little Big Horn College	43.001	75,000
Northern New Mexico Educational	47.071	27,650
Nebraska Indian College	43.081	20,091
Southwest Indian Polytechnic	43.001	29,896
Jemez Valley Schools	47.071	65,282
New Mexico State University	43.001	53,161
Northwest Indian College	43.001	56,930

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2001**

Program Title	Account Number	Expenditures
NMHOH/DDSEP FY 1998-99	22132	\$ 112,071
Spanish Summer Immersion 3/99-6/99	22168	750
Standard Professional Videoconference	22170	39,106
Special Ed. Quarterly Meetings	22171	41,405
Title VII Systemwide Improvement	22174	(190)
AP-NM 1/00-3/01	22175	3,000
Family & Community Involvement Mode	22176	39,116
AP-NM JPA 11-051 10/99-9/00	22178	22,440
NMSDE/JPA 00-078 2/00-12/00	22179	4,189
NMSDE/JPA 00-062	22180	600
Biennail Eval. Reports 2/00-9/00	22181	136,293
NMHU Dist. Ed. Project 07/00-10/00	22182	283,905
NM Dept. of Ed. Stardard Assess.	22183	20,518
AP-NM Incentive Program 07/00-06/01	22186	343,658
Spec. Ed. Teacher Training	22187	2,475
NM Ed. Dept. /Summer Immersion	22188	2,347
Biennial Eval. Reports 05/01-1/02	22189	347
Child Care Nutrition 99-00	22253	6,341
WORK Program 06/99-06/00	22312	1,503,455
Rio Rancho Works 2/00-5/00	22313	108,125
NYSP Nutrition 01	22355	17,996
State Work Study -Instruction	22411	60,473
State Work Study -Academic Support	22412	26,407
State Work Study -Student Services	22413	52,955
State Work Study -Inst. Support	22414	9,706
State Work Study -Public Service	22416	16,418
State Work Study -Internal Service	22417	6,902
State Work Study -Auxiliaries	22418	8,789
State Work Study -Oper. & Maint.	22420	3,083
SSIG 1999-2000	22444	369,189
CHE Graduate Fellowship Prog.	22472	42,993
CHE - New Mexico Scholars	22475	60,912
CHE/Eisenhower 12/00	22477	22,388
CHE/GEARUP End 07/01	22478	58,460
DOH/Community Mental Health	22717	8,508

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended June 30, 2001

Program Title	Account Number	Expenditures
NMDOH/Public Health 1999-2000	22718	867
Alternate Assessment 6/30/00	22719	114,787
Summer Transition Institute 7/00	22720	2,193
NMDPH/Public Health 2000-2001	22721	44,356
NM Lottery Scholarships	22733	313,058
HELP 05/00-06/00	22741	(6,901)
Law Enforcement 98-99	22760	13,668
NMSHTD Weed Management	22762	11,919
School Support Teams 1999-00	22763	480
Performance-Based Assessment	22765	36,200
NM Dept of Labor wtw 11/99-12/00	22768	23,838
ENLACE 04/00-12/00	22770	2,561
NMHU Archives	22771	815
NMSU/CETP 8/97-6/01	23113	86,987
NMSU/AMP 1/99- 12/99	23117	45,157
NMSU/Space Grant 2/99-1/00	23118	20,133
NMSU/AMP 12/99-6/00	23119	1,580
NMSU/AMP 11/00 - 06/01	23121	1,821
NNMCC/CETP Scholarships 2000-01	23122	3,750
UNM/NASA- ACE 7/98-6/99	23143	147,436
UNM/NASA Pursue	23147	23,147
NSF/UNM-CHEM-Ceramics 9/98-8/00	23148	11,364
UNM/LEND 1999-2000	23149	7,359
UNM/HiCrest Scholarship 99-00	23150	4,217
University of Washington	23151	131,090
UNM/Geriatric education 9/99-8/00	23152	282
UNM/Geriatric 200-01	23153	1,673
UNM/LEND	23154	3,420
WAESO 1998	23162	70
WAESO Fall 1999	23167	45
WAESO Spring 2000	23168	244
WASEO Summer 2000	23169	242
WASEO Fall 2000	23170	167
Southern U./Region IV 9/96-8/99	23181	685
HBCU/MI Outreach yr 5 4/95-9/99	23182	92,719
Spelman/NASA 1999-00	23184	2,492
Spelman 10/99-9/99	23186	60,948
		\$ 4,639,999

STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SCHEDULE OF EXPENDITURES OF PRIVATE AWARDS
 For the Year Ended June 30, 2001

Program Title	Account Number	Expenditures
NMSU/Ion Kinetics 2/97 - 1/98	23112	2
CETP - Scholarships 98-00	23116	15,300
ENMU Distance/On-Line Ed.	23187	2,402
Cal. Tech./JPL 8/15/00 - 8/15/01	23188	25,877
Dpelman 10-00 - 09/01	23189	28,571
Magdalena Ridge Observatory	23190	41,624
UNH Mercury Monitoring	23191	6,599
AP Institute/Other Sources	23312	26,938
Study of Local Board Members	23315	1,002
Coronado Conference	23316	1,324
Zia Pueblo Project	23317	5,618
LANL/UCDRO Mag. Ceramic 9/98-9/99	23333	90
LANL/NMRPI 12/99-12/00	23334	23,207
LANL/NMRPI Modecular Modeling	23335	6,201
LANL/MRO 05/01	23336	12,875
Prueba de Espanol	23515	45,659
NACM	23516	7,820
Indena /Mu Wang	23518	11,604
Historical Record Grant 4/99-5/00	23519	977
City of LV/Social Work /Mou	23523	9,900
SCIMAST/UCAN -RSI	23524	6,021
RETA/Regional Networks	23526	74,252
Sangre de Cristo Community & Scho	23529	54,076
HACU-Microsoft Technology 1/00-12/00	23532	5,192
NYSP Summer 2000	23533	6,371
Navajo Nation Headstart	23535	10,730
Foundation/Coronado Expedition	23536	42,410
NYSP Summer 2001	23540	42,122
Intel Grant	23541	3,635
Viles Scholarship	23542	69,400
	23543	1,706
Tribal Scholarships	23543	386,840
Misc. Scholarships	23544	144,731
		\$ 1,121,076

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD. NE SUITE #400
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
Elmer Salazar, 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, 2001, and have issued our report thereon dated December 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 01-1 through 01-14.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Elmer Salazar, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

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.

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 99-2, and 01-1 through 01-14.

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 01-3 through 01-7, 01-11, 01-12 and 01-14 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.

Office of the State Auditor

Office of the State Auditor
December 21, 2001

Neff + Ricci LLP

Neff + Ricci LLP
December 21, 2001

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD. NE SUITE #400
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
Elmer Salazar, 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, 2001. 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. As a result, the University is unable to maintain a record of interfund loan activity on a fund by fund basis from July 1, 1999 through June 30, 2001. Payroll processing controls and procedures were inadequate during the year ended June 30, 2001. The payroll subsidiary ledgers cannot be reconciled to the payroll expenditures recorded in the general ledger. As a result, the balances reported in Federal and State payroll tax reports and form W-2s can not be reconciled to the expenditures and to the related accrued liabilities recorded as of June 30, 2001. In the restricted funds, the University was unable to provide adequate information for our testing as to the existence of receivables and deferred revenue related to certain programs. Internal controls for the recording and maintaining of accounts payable in the general ledger were not adequate to identify all outstanding payables as of any specific date including as of June 30, 2001.

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Elmer Salazar, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

As a result of the inadequate internal controls over accounts payable, some expenditures are not recorded in the correct accounting period. Present management is unable to furnish us with knowledgeable written representations as to facts and circumstances relating to financial activity and other matters arising in the year ended June 30, 2001, that auditing standards generally accepted in the United States of America require us to obtain. Further, present management cannot confirm the University's ability to record, process, summarize and report financial data as of and for the year ended June 30, 2001. Available information as to historical collection data does not permit us to determine the adequacy of the allowance for doubtful accounts. It was impracticable to extend our procedures sufficiently to determine the extent to which the financial statements as of and for the year ended June 30, 2001, may have been affected by these conditions.

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, 2001. 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 01-15 through 01-20.

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

Mr. Domingo Martinez, CGFM
New Mexico State Auditor
and
Elmer Salazar, Chair
Board of Regents
New Mexico Highlands University
Las Vegas, New Mexico

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 01-15 through 01-20.

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 01-15, and 01-16 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.

Office of the State Auditor

Office of the State Auditor
December 21, 2001

Neff + Ricci LLP

Neff + Ricci LLP
December 21, 2001

**STATE OF NEW MEXICO
 NEW MEXICO HIGHLANDS UNIVERSITY
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 For the Year Ended June 30, 2001**

99-1	Endowment Investment Policy	Repeated and Updated
99-2	Student Accounts Receivable	Repeated and Updated
00-1	Fixed Assets	Repeated and Updated as 01-1
00-2	Cash Balances and Reconciliations	Repeated and Updated as 01-2
00-3	Student Accounts Receivable	Repeated and Updated as 99-2
00-4	Obsolete Inventory	Resolved
00-5	Accounts Payable	Repeated and Updated as 01-3
00-6	Correct Account Coding	Resolved
00-7	Travel Coding	Resolved
00-8	Inventory Pricing	Resolved
00-9	Restricted Fund Receivables and Deferrals	Repeated and Updated as 01-4
00-10	Payroll Controls and Procedures	Repeated and Updated as 01-5
00-11	Accrued Annual Leave	Repeated and Updated as 01-23
00-12	Inter Fund Transactions	Repeated and Updated as 01-6
00-13	Budget Overspending	Repeated and Updated as 01-7
00-14	Special Investment Account	Resolved
00-15	Software Implementation	Repeated and Updated as 01-8
00-16	Computer Policies and Procedures	Repeated and Updated as 01-9
00-17	Computer Security	Repeated and Updated as 01-24
00-18	Information Technology Plan	Repeated and Updated as 01-25
00-19	Audit Due Date	Repeated and Updated as 01-26
00-20	Trial Balances	Repeated and Updated as 01-15
00-21	Fund Deficit	Repeated and Updated as 01-10
00-22	Payroll Controls and Procedures	Repeated and Updated as 01-17
00-23	Inter Fund Transactions	Repeated and Updated as 01-18
00-24	Trial Balances	Resolved
00-25	Cell Phone Charges	Repeated and Updated as 01-31
00-26	Federal Financial Reporting	Repeated and Updated as 01-20
00-27	Federal Cash Management	Repeated and Updated as 01-21
00-28	Goal Program	Resolved

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2001**

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 15 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 6 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
• NASA	43.001
• National Science Foundation	47.071
• Department of Education	84.283
8. The threshold for distinguishing Type A and Type B programs was \$410,334.
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, 2001

B. FINDINGS – FINANCIAL STATEMENT AUDIT

99-2 Student Accounts Receivable ✓

Condition

During our test work of student accounts receivable, we noted the following:

- The aging report is produced by a sub ledger that posts to the general ledger automatically and the general ledger is approximately \$16,000 higher than the sub ledger. In subsequent periods, this difference has remained constant.
- The University estimated the allowance for doubtful accounts based upon numbers of years that the account has been outstanding. Though, this is a step in the right direction, the University has not developed a method to determine the true collectibility of their accounts.

Criteria

Good accounting practices require that the accounts receivable sub ledger should be reconciled each month to the general ledger and the determination of an allowance for collectible accounts should be based upon actual collection rates of the University.

Cause

A Rule form was set up in the program to adjust balances based upon the effective date and not the transaction date. The University's older accounts receivable are being collected by New Mexico Educational Assistance Foundation (NMEAF) and information from NMEAF has been sparse and the University has not developed a method in which to track collections on current and past due accounts.

Effect

If the student accounts receivable balance differs between the general ledger and the accounting module, the University will not know which one is correct until the two are reconciled and the allowance for doubtful account may not be properly stated.

✓ **Recommendation**

Any and all changes that affect student accounts receivable program should be processed and documented by the University's staff. The University should analyze historical collection rates to reasonably determine an allowance based upon the aging of the 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, 2001

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

99-2 Student Accounts Receivable (Continued)

Response

Audit finding 99-2 notes that the aging report produced by a sub ledger that posts to the general ledger was over \$16,000 higher than the general ledger. However, the University's TGRRCN report shows the GL is \$15,734.11 higher than the sub ledger when all appropriate accounts are included. Monthly reports throughout the current fiscal year have reconciled to the same dollar amounts each month, indicating University records are in balance for the year. Therefore, it appears that the \$15,734.11 is an artifact from the legacy computer system and it will be written off in the current fiscal year.

The University can now run aging reports (TWRAGES) on a daily or monthly basis to track all accounts. This report and reports from NMEAF will be used to track collections on both current and past due accounts. The University will analyze historical collection rates to determine a reasonable allowance for uncollectible accounts.

01-1 Fixed Assets

Condition

During our testwork on fixed assets for furniture and equipment, we noted the following:

- Five instances out of twenty-three in which asset deletions were recorded without an asset deletion form being completed by the department disposing of the asset, therefore not complying with University policies with respect to asset disposals.
- Four instances out of twenty-three where the amount recorded as a current year addition did not include full acquisition costs (i.e. freight and shipping charges).
- Three instances out of twenty-three where the amount recorded as a current year addition included the cost of service and/or maintenance contracts, and one instance where the amount recorded included the cost of supplies.
- Five out of the twenty-three fixed assets on the furniture and equipment fixed asset listing selected to test for existence could not be physically located, and one of the fixed assets observed was not in working condition.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-1 Fixed Assets (Continued)

Criteria

According to University policy, all disposals of assets are to be substantiated by the completion of an asset deletion form, which notes the asset to be disposed of, the inventory number, and the serial number. When determining the amount at which an asset should be recorded, full acquisition cost plus any and all additional costs necessary to bring the asset into an operational condition should be included in the cost of the asset for financial reporting purposes. However, it is not proper to capitalize any service or maintenance contract costs or costs of supplies, as these amounts should be expensed. Fixed asset observations should be performed on a regular basis to ensure that the assets are properly stated in the financial statements.

Cause

The departments disposing of the assets and/or the personnel responsible for recording the deletion were either not aware of the disposal policies or the asset was simply deleted without the required asset deletion form. Personnel responsible for the capitalization of fixed assets were not familiar with the appropriate standards for capitalization, therefore excluding capitalized costs from the amount recorded as fixed assets and including costs that should not be capitalized. 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.

Effect

The fixed asset deletions from the University's records for Furniture and Equipment do not provide for an adequate paper trail documenting authorization. The fixed asset addition listing is misstated, resulting in inaccurate financial statements. The overall fixed asset listing for furniture and fixtures is overstated, resulting in inaccurate financial statements.

Recommendation

✓ Proper review of Fixed Asset Deletion Forms shall be performed to ensure deletions of assets occur only as authorized. Proper recording of asset additions should be performed to ensure accurate financial statements. Although the University did perform an inventory of their fixed assets in fiscal year 2001, we recommend that the results of future inventories be promptly communicated to the accounting department so that appropriate adjustments can be made to ensure a complete and accurate fixed asset listing. We also recommend that the individual departments be monitored and held accountable for assets in their possession. The individual departments must be made aware of fixed asset policies and made to comply with those policies.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-1 Fixed Assets (Continued)

✓ **Response**

Fixed asset policies and procedures will be updated and communicated to University staff responsible for inventory of fixed assets in their department. A memo will be sent to all departments at least quarterly requesting a listing of any additions or deletions to the inventory of fixed assets. Adjustments to the fixed asset listing will be processed at least twice each year. A physical inventory of fixed assets will be performed annually to ensure accuracy.

01-2 Cash Balances and Bank Reconciliations

Condition

During our testwork on cash, we noted the following:

- The University's had two separate bank accounts that were overdrawn in excess of \$816,000 at June 30, 2001. The University established, in the fiscal year 1999-2000, an overdraft protection agreement with the bank to cover the overdrawn balances. Subsequent to June 30, 2001, the University converted the agreement into a term note.
- As part of the reconciliation process, items such as outstanding checks were added to the \$816,000 cash balance overdrawn at the bank at June 30, 2001 resulting in a deficit of over \$1,727,000.
- The University was behind in performing bank reconciliations on a timely basis until approximately January 2001.
- Over \$42,000 in stale dated checks were still in the bank reconciliation outstanding check lists at year end.
- During November 2001, the University adjusted payroll cash by approximately \$33,000. This adjustment was made to make the general ledger match the cash reconciliation for the payroll bank account. The adjustment was made to the current unrestricted fund without any supporting documentation as to why this fund was chosen except that the University did not know which funds and accounts it should have been recorded to. 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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Cash Balances and Bank Reconciliations (Continued)

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 until January 2001. 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.

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

- ✓ The University concurs with the finding and recommendation and no longer has an overdraft protection agreement with the bank. Bank reconciliations will be completed on a monthly basis and all adjustments to the cash balance will be documented.

✓ **01-2 Accounts Payable-Material Weakness**

Condition

During our search for unrecorded liabilities we noted over \$504,000 of expenditures that were recorded as fiscal year 2001-2002 expenses that should have been recorded as fiscal year 2000-2001 expenses and as accounts payable at June 30, 2001.

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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-3 Accounts Payable-Material Weakness (Continued)

Cause

The University attempted to identify all potential accounts payable as of June 30, 2001, but these items were missed.

Effect

Accounts payable as of June 30, 2001 as originally given to the auditors was understated.

Recommendation

The University has only been accruing accounts payable at fiscal year end. The University should start recording accounts payable through out the entire fiscal year on a real time basis. This will create a more accurate general ledger and give accounts payable personnel more practice in identifying and properly recording accounts payable.

Response

Accounts payable will be monitored and proper monthly and year-end procedures will be documented and followed to ensure appropriate reporting of accounts payable. Deadline (cut-off) dates of May 3, 2002 for purchase orders and August 15, 2002 for invoices have been established to insure proper year-end accruals. A/P will implement the recurring payables function in Banner by June 30, 2002 to monitor timely invoicing from major vendors. Accrual based accounting will be implemented by January 31, 2002.

01-4 Restricted Fund Receivables and Deferrals-Material Weakness

Condition

The University had approximately \$2,636,000 recorded in the general ledger as deferred revenue, but did not have sufficient cash funds available as of June 30, 2001. 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 01-19), State grants or unrestricted expenditures. Note that, for financial statement purposes, the deferred revenues have been included in fund balance.

During our testwork on restricted receivables it was noted that over \$2,000,000 of the total balance of \$2,971,174 at June 30, 2001 had not been collected as of December 2001. We were not able to determine whether those uncollected receivables are valid and collectible.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-4 Restricted Fund Receivables and Deferrals-Material Weakness (Continued)

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.

Effect

The University may have to pay back funds previously received for specific purposes from grantors that were to be spent in 2001, 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

- ✓ The University has contracted with a consultant and is reviewing and reconciling all restricted accounts to insure that receivables and deferred revenue are recorded accurately. Each account is being reconciled from July 1, 1998 forward. The targeted completion date is February 15, 2002.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-5 Payroll Controls and Procedures-Material Weakness

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, SCT consultants and consultants currently working in the payroll area, the following was noted.

The first SCT consultant reported 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 SCT consultant stated that he agreed with this assessment and began corrections when he arrived in July of 2000. For the fiscal year 2001, the staff has improved in their learning of the system, but they are still lacking the complete knowledge of system and how each area needs to be reconciled for each month.

The 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 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 SCT 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 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 December 21, 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.

In the prior year, we noted that there was a discrepancy between Federal gross wages and State gross wages for 1999 and 2000. The University has reconciled the gross wages for the State and Federal and issued W-2C's and amended 941 reports for 1999 and 2000. However, the general ledger wages have not yet been 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 SCT 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 are reconciling payroll system reports to the general ledger, but will not be able to finish until early 2002.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-5 Payroll Controls and Procedures-Material Weakness (Continued)

Condition (Continued)

It was noted in 2000, 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. In 2000, 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 in 2000 or 2001.

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. 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 in 2000 and may be incorrect for 2001.

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 and 2001 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. An additional reconciliation should be completed for 2001 to ensure corrected W-2's are not

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-5 Payroll Controls and Procedures-Material Weakness (Continued)

Recommendation (Continued)

issued at a later date. 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.

Response

✓ The University will complete a reconciliation of payroll system reports to the general ledger for fiscal years 2000 and 2001 to determine correct balances in each general ledger liability account. This process will be completed by February 28, 2002. Once all inaccuracies are identified, the University will again verify the W-2 information for calendar year 1999 and 2000 to the general ledger. The appropriate federal and state agencies are being notified, via amended reports, of any corrections or adjustments for prior years. Calendar year 2001 W-2 information will be reconciled prior to releasing the W-2 forms due by January 31, 2002.

Currently for FY02, all liability accounts are being reconciled to payroll reports through December 31, 2001, and procedures are in place effective January 1, 2002 to reconcile accounts on a monthly basis, and, in some instances, on a biweekly basis. Ongoing training for payroll staff is in place to ensure that staff is knowledgeable in reconciling each aspect of payroll processing.

In order to correct the causes of the finding and to oversee the entire payroll function more effectively, the University will centralize the following functions within the payroll department:

1. Payroll Accounting: salary distribution and re-distributions, reconciliation to the general ledger of all payroll liability accounts, wages, third party vendor billings (medical, dental, supplemental retirement, etc.) and tax reports.
2. Centralization of all paperwork and data entry required to produce the University biweekly payroll; including, but not limited to, employment contracts, W-4 forms, insurance enrollment forms, and exception hours worked.
3. Cross-training for all staff members within the payroll department.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-5 Payroll Controls and Procedures-Material Weakness (Continued)

Response (Continued)

Further, staff will be reassigned to the payroll department to support these changes and new procedures should be in place by February 1, 2002. Additional training by SCT Banner will be scheduled as needed. Processes and procedures will continue to be reviewed to ensure a stable operation. Since August 2001, on-going training for staff has been provided by a consultant.

01-6 Inter Fund Transactions-Material Weakness

Condition

During the current and prior fiscal years, the University requested its restricted grants and contracts cash draw downs on a cost reimbursement basis. This meant that cash funds to cover the restricted expenditures had to be borrowed from other funds. Normally, these cash funds are loaned to other funds by the Current Unrestricted fund. However, throughout the current fiscal year, the Current Unrestricted fund had a deficit cash balance. Therefore, the cash to pay the restricted expenditures came from other funds. Because of how the University records its cash transactions in a pooled cash fund, the University is unable to provide a schedule showing individual fund loan activity.

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.

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, 2001.

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 prior years activity, and keep track of all future inter-fund loan activity.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-6 Inter Fund Transactions-Material Weakness

Response

✓ The University will investigate how other New Mexico Universities utilizing Banner are tracking inter-fund transactions and thereby affirm or modify current procedures for tracking cash transfers between funds. Additionally, the University has maintained a positive cash balance since August, 2001. A schedule showing individual fund loan activity will be provided for June 30, 2002.

01-7 Budget Overspending and Reporting-Material Weakness

Condition

We noted that the University overspent its approved budget in the Unrestricted Instruction and General by a total of \$1,078,133 and in the Restricted Instruction and General by a total of \$1,404,288. We also noted that the University did not report to the Commission on Higher Education its estimated actuals for the year ended June 30, 2001 by August 15th. We also noted that the budgeted numbers entered into the University's general ledger software did not coincide with the budgeted numbers reported to the Commission on Higher Education. The University's software is designed to provide budget control by not allowing a purchase request to be approved unless there is available budget for that line item. The University had this software control over budget turned off. (See finding 01-8)

Criteria

Adequate internal controls to prevent budget overspending should insure that budgets are never exceeded by any amount. The point in the disbursement cycle in which the transaction should be cancelled if budget is not available is at the beginning with the purchase request.

Cause

Expenditures were approved for payment when budgeted funds were not available. Budget policies and procedures were not adequate due to difficulties with the implementation of the new general ledger software that also caused the University to turn off the software's built in budget controls.

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. As part of the strengthening process, the University should fully implement the payroll position control module, the budget module, and turn on the software's budget overspending controls.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-7 Budget Overspending and Reporting-Material Weakness (Continued)

Response

✓ All budget supervisors have on-line access with which to monitor their budgets. Additionally, purchase requisitions are checked manually by the Business Office to determine budget availability. The NSF checking feature in Banner is targeted for implementation by January 31, 2002. Once implemented, the purchasing process will be markedly streamlined and will be easier to monitor and control. Monthly budget versus actual reports will be generated by February and submitted to the BOR and CHE.

01-8 Software Implementation

Condition

Important financial related modules (Banner System) either have not been implemented or have not been fully implemented. FY2001 budget information has been loaded into the system, but the budget functionality is not used to track budget status. Instead of using the Banner budget capability, a variety of non-Banner, offline methods are used. In addition to budget functionality, other financial modules that are not implemented include investment management, cost accounting and fixed assets. Other financial modules that are not fully implemented include general ledger, research accounting, and purchasing and procurement.

Criteria

Optimal performance from the Banner System occurs when all financial functions are integrated.

Cause

It appears that top level management has not effectively mandated the use of the Banner system. Accounting inexperience may also be a factor contributing to systemic problems.

Effect

At best, personnel and resource inefficiencies by not using the Banner system capabilities are occurring; and at worst, budget accounting transactions are not accurately tracked. Budgets could be and were overspent and financial accounts may contain inaccurate information.

Recommendation

✓ Fully implement the Banner System and ensure that the system is functioning properly.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-8 Software Implementation (Continued)

Response

✓ The University concurs with the recommendations and will designate a Banner Coordinator for the campus to provide leadership and coordination of a renewed effort to achieve full implementation. This will include additional staff training and activation of various modules and submodules on a prioritized schedule to be developed. A review of module and submodule implementation will be completed by March 1, 2002.

01-9 Computer Policies and Procedures

Condition

Although the CNS group has developed draft policies and procedures, University management has yet to adopt them. Also, Banner system policies and procedures have not been developed. For example, accounts payable procedures are dated 1994 and the Banner system was installed in 1999.

Criteria

Computer related policies and Banner policies and procedures should be established to ensure the system is operated in accordance with University mandates and requirements.

Cause

The University has not adopted computer related policies and procedures.

Effect

There is the likelihood for haphazard and inconsistent use of computers.

Recommendation

✓ Develop and adopt complete information technology (IT) policies and procedures.

Response

✓ The University concurs with this finding and will implement the recommendation.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-10 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 \$1,941,582. The University also had fund deficits in the unexpended and renewals & replacement plant funds of \$640,936 and \$8,752 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, 2001 that created a fund deficit.

Effect

Funds spent on 2002 operations may have to be curtailed in order to recover the fund deficit as of June 30, 2001.

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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-10 Fund Deficit (Continued)

Response

✓ The University has reviewed and reallocated its FY02 budget and expects to complete the year with a balanced operating budget. More accurate cash flow modeling and projections are being developed by a consultant. Further programmatic and budgetary reductions will be made through the spring of 2002. The Board of Regents is actively reviewing plans to reduce prior year deficits via operating surpluses, the sale or use of existing land assets, and the amortization of the BLV loan to create an internal operating cash reserve.

01-11 Accounts Payable Reconciliation-Material Weakness

Condition

The University is unable as of the end of audit field work to provide a list of unpaid invoices from the accounts payable subsidiary ledger as of June 30, 2001 that reconciles to the accounts payable balances recorded in the general ledger. The University does not reconcile the accounts payable subsidiary ledger to the general ledger.

Criteria

The accounts payable subsidiary ledger is the control ledger that keeps track of all unpaid invoices and should be able to provide a list of either currently unpaid invoices or unpaid invoices at a specified time in the past. The list of unpaid invoices produced by the subsidiary ledger should be reconciled to the general ledger on a monthly basis.

Cause

The University's staff does not have adequate understanding of the Banner accounts payable software module nor of proper policies and procedures regarding processing of accounts payable.

Effect

The auditors were unable to perform the procedures they felt necessary to substantiate the accounts payable balances at June 30, 2001.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-11 Accounts Payable Reconciliation-Material Weakness (Continued)

Recommendation

✓ The accounts payable subsidiary ledger listing of unpaid invoices should be audited by the business office to insure that the listing is correct. The general ledger should then be adjusted to agree with the subsidiary ledger.

Response

✓ The A/P subsidiary ledger of unpaid invoices will be audited internally to assure it is correct. An accrual base accounting method in accounts payable will be implemented, allowing the accounts payable subsidiary ledger to generate a list of unpaid invoices at any time.

01-12 Accounts Payable Transactions-Material Weakness

Condition

Expenditures paid through the accounts payable subsidiary ledger are being recorded in to the general ledger as of the date the invoice was paid and not the date that the goods or services were received.

Criteria

A complete and accurate general ledger requires that transactions be recorded as of the date the goods or services were received in order insure that transactions are recorded in the proper accounting period.

Cause

The transaction date being entered in to the accounts payable subsidiary ledger with the information for a particular invoice is the date that the University intends to pay the invoice and not the date that the goods or services were received.

Effect

The University does not have a complete and accurate general ledger with respect to the expenditures paid through the accounts payable module.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-12 Accounts Payable Transactions-Material Weakness (Continued)

Recommendation

✓ The University should implement policies and procedures to insure that accounts payable transactions are recorded accurately into the general ledger especially with respect to the date that the transaction occurred.

Response

✓ Policies and procedures for recording transactions on an accrual base accounting basis will be implemented by January 31, 2002. The date on which goods or services are received will be used to establish an accounts payable record. Implementation of three-way match will be studied with a target for implementation by July 1, 2002.

✓ **01-13 Contingency Operations**

Condition

Apparently, the Banner software has been somewhat tested for contingency operations (when the University migrated from Banner version 3.x to version 4.x), but the hardware component has not been tested. The CNS group indicated that Banner is used at Eastern New Mexico University, Western New Mexico University and New Mexico Tech and that these sites could possibly provide alternate processing sites, but this has not been tested.

Criteria

Should a disaster preclude the processing capability at the University, an alternate site should be identified and the process should be tested to ensure critical functions can be accomplished.

Cause

Processing at an alternate site has not been proven.

Effect

In a disaster, the University may be unable to process critical functions.

✓ **Recommendation**

✓ Identify and test the ability to process critical functions at an alternate site.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

01-13 Contingency Operations (Continued)

Response

✓ The University will identify an alternate site and will schedule a trial test by June 30, 2002. Staff will report to the Board of Regents on the outcomes of the test and any recommendations by June 30, 2002.

✓ **01-14 Segregation of Duties – Accounts Payable and Purchasing-Material Weakness**

Condition

The Accounts Payable department that prepares checks to pay vendor invoices has the ability to set up and modify vendor information in the Banner general ledger software.

Criteria

Good accounting practices require that the personnel responsible for preparing checks to vendors not have the ability to modify or create vendor information. This prevents such individuals from having the ability to pay unauthorized or fictitious vendors.

Cause

Personnel in the accounts payable department have access rights to vendor data in the Banner software Purchasing module.

Effect

Personnel in the accounts payable department have the ability to cut checks to unauthorized or fictitious vendors and not be detected in a timely manner.

Recommendation

✓ The personnel in the accounts payable department should not have access rights to the purchasing department software module and policies and procedures should be approved by the Board of Regents that insure that only the purchasing office can set up vendors, and issue purchase orders or check requests.

✓ **Response**

Proper checks and balances will be implemented in Banner to assign read and write privileges to appropriate positions in accounts payable and purchasing. The accounts payable department will not have the ability to set up or modify vendor information in the Banner general ledger software. Security profiles for the accounts payable department will be established by February 15, 2002.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2001

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

Questioned
Costs

01-15 Payroll Controls and Procedures-Material Weakness

N/A

CFDA Number(s) – All
Program Name(s) – All
Compliance Requirement – A/B Allowable costs

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, SCT consultants and consultants currently working in the payroll area, the following was noted.

The first SCT consultant reported 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 SCT consultant stated that he agreed with this assessment and began corrections when he arrived in July of 2000. For the fiscal year 2001, the staff has improved in their learning of the system, but they are still lacking the complete knowledge of system and how each area needs to be reconciled for each month.

The 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 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 SCT 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 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 December 21, 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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2001**

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

01-15 Payroll Controls and Procedures-Material Weakness (Continued)

Condition (Continued)

In the prior year, we noted that there was a discrepancy between Federal gross wages and State gross wages for 1999 and 2000. The University has reconciled the gross wages for the State and Federal and issued W-2C's and amended 941 reports for 1999 and 2000. However, the general ledger wages have not yet been 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 SCT 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 are reconciling payroll system reports to the general ledger, but will not be able to finish until early 2002.

It was noted in 2000, 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. In 2000, 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 in 2000 or 2001.

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. 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 in 2000 and may be incorrect for 2001.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

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

01-15 Payroll Controls and Procedures-Material Weakness (Continued)

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 and 2001 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. An additional reconciliation should be completed for 2001 to ensure corrected W-2's are not issued at a later date. 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.

Response

✓ The University will complete a reconciliation of payroll system reports to the general ledger for fiscal years 2000 and 2001 to determine correct balances in each general ledger liability account. This process will be completed by February 28, 2002. Once all inaccuracies are identified, the University will again verify the W-2 information for calendar year 1999 and 2000 to the general ledger. The appropriate federal and state agencies are being notified, via amended reports, of any corrections or adjustments for prior years. Calendar year 2001 W-2 information will be reconciled prior to releasing the W-2 forms due by January 31, 2002.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

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

01-15 Payroll Controls and Procedures-Material Weakness (Continued)

Response (Continued)

Currently for FY02, all liability accounts are being reconciled to payroll reports through December 31, 2001, and procedures are in place effective January 1, 2002 to reconcile accounts on a monthly basis, and, in some instances, on a biweekly basis. Ongoing training for payroll staff is in place to ensure that staff is knowledgeable in reconciling each aspect of payroll processing.

In order to correct the causes of the finding and to oversee the entire payroll function more effectively, the University will centralize the following functions within the payroll department:

1. Payroll Accounting: salary distribution and re-distributions, reconciliation to the general ledger of all payroll liability accounts, wages, third party vendor billings (medical, dental, supplemental retirement, etc.) and tax reports.
2. Centralization of all paperwork and data entry required to produce the University biweekly payroll; including, but not limited to, employment contracts, W-4 forms, insurance enrollment forms, and exception hours worked.
3. Cross-training for all staff members within the payroll department.

Further, staff will be reassigned to the payroll department to support these changes and new procedures should be in place by February 1, 2002. Additional training by SCT Banner will be scheduled as needed. Processes and procedures will continue to be reviewed to ensure a stable operation. Since August 2001, on-going training for staff has been provided by a consultant.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

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

Questioned
Costs

01-16 Interfund Transactions-Material Weakness

N/A

CFDA Number(s) – All
Program Name(s) – All
Compliance Required – N/A

Condition

During the current and prior fiscal years, the University requested its restricted grants and contracts cash draw downs on a cost reimbursement basis. This meant that cash funds to cover the restricted expenditures had to be borrowed from other funds. Normally, these cash funds are loaned to other funds by the Current Unrestricted fund. However, throughout the current fiscal year, the Current Unrestricted fund had a deficit cash balance. Therefore, the cash to pay the restricted expenditures came from other funds. Because of how the University records its cash transactions in a pooled cash fund, the University is unable to provide a schedule showing individual fund loan activity.

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.

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, 2001.

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.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

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

**Questioned
Costs**

01-16 Inter Fund Transactions (Continued)

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 prior years activity, and keep track of all future inter-fund loan activity.

Response

- ✓ The University will investigate how other New Mexico Universities utilizing Banner are tracking inter-fund transactions and thereby affirm or modify current procedures for tracking cash transfers between funds. Additionally, the University has maintained a positive cash balance since August, 2001. A schedule showing individual fund loan activity will be provided for June 30, 2002.

01-17 Payroll Documentation – Federal Grants and Contracts

CFDA Number(s) – All
Program Name(s) – All
Compliance Requirement – Allowable Costs

N/A

Condition

During our review of the internal controls over the disbursement of federal funds for these major programs, we noted that the University does not have policies and procedures in place to perform an after the fact evaluation of the apportionment of individual employees' salaries done at the beginning of the fiscal year.

Criteria

The University is required to have policies and procedures in place to evaluate the percentages used to apportion an individual employee's salary. The methods for apportioning salaries have to be in accordance with those listed in OMB Circular A-21, *Cost Principles for Colleges and Universities*, section J.8.c.

Cause

The University does not have a system in place to document the actual time an employee spent on a specific program through out the fiscal year that can be compared to the estimated apportionment of the employee's salary made at the beginning of the fiscal year.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

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

Questioned
Costs

01-17 Payroll Documentation – Federal Grants and Contracts (Continued)

Effect

The University can not support an individual employee's apportionment percentages to federal program with some type of after the fact documentation of time actually spent on a federal program. The University is therefore not in compliance with the allowable cost compliance provision of OMB Circular A-133.

Recommendation

The University should implement a system to track the time that individuals spend on federal programs. Preferably, the Banner system time tracking should be an integral part of this system. The policies and procedures should be implemented to compare the actual time to the apportioned percentages used to allocate an employee's salary to a federal program.

Response

The University will implement time and effort reporting through either the human resources module or the grants module on Banner by June 30, 2002 to comply with OMB Circular A-21.

01-18 Federal Financial Reporting

N/A

CFDA Number(s) – All
Program Name(s) – All
Compliance Requirement – L. Reporting

Condition

During our test work on the federal financial reports we noted that material adjustments had to be made to the current fiscal year quarterly reports due to inaccuracies in the prior year reports.

Criteria

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

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

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

**Questioned
Costs**

01-18 Federal Financial Reporting (Continued)

Cause

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 inaccurate federal financial reports.

Recommendation

✓ 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

✓ As of January 8, 2002 the University has compiled a list of all grants with report due dates on Excel to ensure timely submission. Spreadsheets will be developed in Banner to reconcile individual funds in the general ledger to financial status reports. These reconciliations will incorporate prior year balances and will be implemented on or before February 28, 2002.

01-19 Federal Cash Management

N/A

CFDA Number(s) – All

Program Name(s) – All

Compliance Requirement – C. Cash Management

Condition

The University had \$1,129,791 in deferred federal revenue, representing cash receipts prior to June 30, 2001, but the University also had an overall negative cash position at June 30, 2001. We could not determine whether restricted funds were spent in other Federal programs or funds outside of their intended restricted purpose.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

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

01-19 Federal Cash Management (Continued)

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.

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

✓ The University has contracted with a consultant and is reviewing and reconciling all restricted accounts to ensure that receivables and deferred revenues are recorded accurately. Each account is being reconciled from July 1, 1998 forward. The targeted completion date is February 15, 2002. Any necessary distribution of remaining balances will be addressed at that time. Restricted funds will be monitored closely to assure their proper application.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

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

Questioned
Costs

01-20 Indirect Costs

CFDA Number(s) – All
Program Name(s) – All
Compliance Requirements – Allowable costs

Condition

One of two grants tested for indirect cost allocations had the wrong amount of indirect costs for the year.

Criteria

Indirect costs should be calculated per the grant agreements or the Colleges and Universities Rate Agreement.

Effect

The amount of indirect cost reported to the granting agency is incorrect. The cost reimbursement from the granting agency will be low because not all allocable costs were reported.

Cause

The person calculating the indirect cost allocation did not apply the indirect cost rate to the cost base. He booked the difference between the year to date indirect costs and the budgeted amount for indirect costs.

Recommendation

✓ Indirect costs should be calculated using the cost base, and a second person should review all indirect cost allocations.

Response

✓ An additional senior accountant will be hired who will be responsible for reviewing indirect cost calculations and reviewing budgets to assure that the indirect cost budget is accurate.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

D. OTHER FINDINGS

99-1 Endowment Investment Policy

Condition

The University has a corporate bond that exceeds the University's fixed income value requirement. The investment in Donaldson, Lufkin & Jenrette, Inc. corporate bond comprises 12.5% of the fixed-income portfolio. The asset allocation for the endowment fund does not comply with the guidelines established by the University.

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".

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

✓ The University concurs with and will implement this recommendation.

01-21 Accrued Annual Leave

Condition

During our testwork of compensated absences, we noted that one out of seventeen employee pay rates tested on the accrued compensated absences listing did not agree to the employee's personnel file.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

D. OTHER FINDINGS (CONTINUED)

01-21 Accrued Annual Leave (Continued)

Criteria

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

Cause

The total recorded as accrued leave for this employee was not equal to the product of the employee pay rate and the accumulated leave hours. The accrued compensated absences listing was not reviewed for accuracy with respect to employee pay rates.

Effect

The accrued leave at June 30, 2001 was understated, resulting in an understatement of both expenses and liabilities.

Recommendation

✓ All employee pay rates used in the calculation of the compensated absence liability should be reviewed to ensure that the proper rates are being applied, and all employee accrued leave balances should be reviewed on a regular basis to ensure accurate figures are recorded in the accrued leave accounts.

Response

✓ The accrued leave report on June 30, 2001 was produced manually from PA-1 pay rates and office calculations of employees annual leave records and no information from Banner was used. To correct this, Banner pay rate records and annual leave accruals will be used to accurately report the accrued leave liability for FY02.

01-22 Computer Security

Condition

Problems with the cooling system do not allow for an optimal secure environment. During our visit to the area, we found both the server cabinet door and server room door open and unlocked, a ceiling tile removed and a rusted out wastepaper can used to catch leaking air conditioner condensation. Rather than run the air conditioner, a fan is used and the server room and server cabinet doors are unlocked and open.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

D. OTHER FINDINGS (CONTINUED)

01-22 Computer Security (Continued)

Criteria

Servers must be physically secure to protect equipment and data from unauthorized access. Although the main CNS group office door is locked at lunch time and whenever someone is not at the front desk, such compensating controls do not allow for optimal physical security provided by locked doors and cabinets.

Cause

The server area has an inadequate cooling system.

Effect

Unauthorized access to production data and the servers themselves is easier with unlocked rooms and cabinets. Access to private information is possible and the servers themselves could be sabotaged by vandalism or unauthorized access.

Recommendation

Ensure the server room has adequate cooling equipment and that it is working properly so that the server room door and server cabinet can be locked. Then, establish and enforce a more stringent physical security policy and procedures to ensure this occurs.

Response

The cooling system has been recalibrated and tested and is operational. CNS has posted signs and has restricted access to authorized personnel only.

01-23 Information Technology Plan

Condition

There is no steering committee. Originally, the steering committee was supposed to drive information technology (IT) changes, but no one at the correct level was attending. Therefore, the meeting was replaced by a weekly meeting with team leaders and IT staff. However, these meetings became complaint sessions and were stopped. Now there are only weekly staff meetings.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

D. OTHER FINDINGS (CONTINUED)

01-23 Information Technology Plan (Continued)

Criteria

A steering committee should be established to drive the University's IT strategic direction.

Cause

University administration has not mandated the need for an IT steering committee.

Effect

Without a steering committee, the future direction of IT is unclear. The weekly meetings tend to become reactionary rather than visionary. IT policies also tend to be reaction-driven rather than management directed.

Recommendation

✓ Establish an IT steering committee made up of University administration, team leaders and IT management personnel. The committee should consistently oversee IT policies and future direction

Response

✓ The President will establish an information technology steering committee charged with meeting at least monthly and responsibility for reviewing and/or developing short and long-range plans for information technology as well as appropriate policies and procedures.

01-24 Audit Due Date

Condition

The University entered into a contract with an independent public accounting firm and the New Mexico State Auditor's Office to perform an audit in accordance with New Mexico Administrative Code Title 2, Chapter 2, Part 2 (2 NMAC 2.2). The audit, according to paragraph 9.1.c. in 2 NMAC 2.2 was due November 15, 2001 and the audit contract required the audit to be submitted to the State Auditor no later than December 31, 2001. The audit was submitted to the State Auditor's office on December 31, 2001.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

D. OTHER FINDINGS (CONTINUED)

01-24 Audit Due Date (Continued)

Criteria

Per 2 NMAC 2.2, state of New Mexico institutions of higher education are required to complete their audit by November 15. This would require the institution of higher education to have prepared all required information to complete the audit before that date.

Cause

The University was unable to investigate and make corrections to the general ledger in a timely manner necessary to complete the audit work by the required due dates.

Effect

The general ledger could not be relied upon to present accurate information in a timely manner to perform the audit in accordance with contract terms and State Auditor rule 2 NMAC 2.2.

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

The University will add staff and provide further staff training to assure that the general ledger is correct and the FY02 audit can be completed in compliance with State Auditor Rule 2NMAC2.2.

01-25 Electronic Security Access

Condition

Some available logical (electronic) password security features have not been implemented. For example, a password is needed for operating system access and a password is needed for Oracle (Banner) system access; however, there is no requirement that the two passwords be different. A password change history is not kept to prevent password reuse. Finally, a combination of alpha, numeric and other characters for passwords is not mandated.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

D. OTHER FINDINGS (CONTINUED)

01-25 Electronic Security Access (Continued)

Criteria

The electronic security features listed in the condition, above, would help reduce the risk of unauthorized access to operating system and Banner financial system information.

Cause

All available security features have not been implemented.

Effect

Unauthorized access to sensitive data is more likely to occur.

Recommendation

Establish and enforce a strict access control policy including more stringent password requirements.

Response

The information technology steering committee will produce a revised password policy for accessing Banner and other critical services. The revised policy will be developed and implemented by June 30, 2002.

01-26 Employee Access Rights

Condition

There are weaknesses concerning access rights of transferred and terminated employees. The CNS group is not always getting prompt notification of:

Terminated employees (sometimes the CNS group is notified six to eight months after an employee is terminated), Inter-departmental transferred employees (the CNS group is notified only approximately only 75 percent of the time), and Intra-departmental changes in duties (the CNS group is notified when employees need greater accessibility but seldom when employees need lesser accessibility). Also, according to University personnel, many employees are given more access rights than necessary to carry out their jobs (e.g., given blanket rather than specific Banner access rights). There are also users that share UserIDs and passwords.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001**

D. OTHER FINDINGS (CONTINUED)

01-26 Employee Access Rights (Continued)

Criteria

Access control is imperative to the protection of data from unauthorized access and use.

Cause

Controls over employee access to information are weak.

Effect

Unauthorized access to operating system and production data could occur. Access to private information could occur and data could be unintentionally corrupted or intentionally sabotaged by disgruntled employees.

Recommendation

✓ Invoke more stringent enforcement actions to improve access procedural compliance by ensuring that the CNS group is notified immediately of all employee transfers and terminations.

✓ **Response**

The University concurs with and will implement this recommendation during the spring.

01-27 Independent Public Accountant Contracting

Condition

The University contracted with an Independent Public Accountant without first notifying the New Mexico State Auditor.

Criteria

NMSA 2.2.2. requires that all state agencies notify the State Auditor before engaging an Independent Public Accountant to perform any services.

Cause

Management of the University was unaware of this requirement.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

D. OTHER FINDINGS (CONTINUED)

**Questioned
Costs**

01-27 Independent Public Accountant Contracting (Continued)

Effect

By not notifying the State Auditor of the work that the Independent Public Accountant is performing, the University could jeopardize that Independent Public Accountant's ability to do future attestation work by impairing the accountants independence.

Recommendation

✓ Management should become fully aware of all of the requirements in NMSA 2.2.2. before contracting with an Independent Public Accountant to perform any services.

Response

✓ Verbal approval was received from the State Auditor's Office for a contract with Kardas, Abeyta, & Weiner, P.C. The University will not rely on verbal clearance in the future.

01-28 Cell Phone Calls

\$6

CFDA Number(s) – 17.253

Program Name(s) – Goal

Compliance Requirement – B. Allowable Costs/Cost Principles

Condition

During our testwork on the Goal program, we noted one instance out of 40 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 \$6 could not be supported as being necessary and reasonable to carry out the purposes of the grant, but appear to be personal in nature.

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.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

D. OTHER FINDINGS (CONTINUED)

01-28 Cell Phone Calls (Continued)

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

The University will reimburse the amount in question and establish policies and procedures by February 15, 2002 to collect for any personal cell phone calls.

01-29 Trial Balances

Condition

During our review of the information used to prepare the University's financial statements we noted that there were incorrect footings and unbalanced funds in a report from the Banner software. These appear to be only report problems and are not reflected in the general ledger trial balances.

Criteria

All reports coming out of the Banner general ledger software should reflect accurate information out of the general ledger.

Cause

The University has not checked the accuracy of all reports out of the Banner software.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

D. OTHER FINDINGS (CONTINUED)

01-29 Trial Balances

Effect

Reports out of the Banner software system given to the auditors to trace agree to the financial statements had to be manual modified so to accurately reflect the University's general ledger balances.

Recommendation

✓ The accuracy of all Banner reports should be checked and any discrepancies corrected as soon as possible.

Response

✓ All Banner control reports will be reviewed on a timely basis and explanations and/or corrective action will be documented.

01-30 Debt Payments

Condition

The University did not record the principal payments on notes payable, capital lease payable, and bonds payable in the appropriate funds, before closing out the fiscal year. These payments were expensed instead of being posted against the outstanding liability.

Criteria

Generally accepted accounting principles for the accounting of debt payments require that payments on principle be recorded against the outstanding debt liability in a timely manner.

Cause

The University did not make the appropriate adjustment to the related liability accounts.

Effect

The outstanding debt balances recorded in the financial statements do not accurately reflect the true liability due to the fact that the current year principle payments were not posted against the appropriate liability account.

STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2001

D. OTHER FINDINGS (CONTINUED)

01-30 Debt Payments (Continued)

Recommendation

✓ The University should establish policies and procedures for business office personnel to follow when cutting checks to make debt payments. These policies and procedures should insure that the correct accounts and funds are charged so that after the payment is made the outstanding debt balance recorded on the general ledger is correct.

Response

✓ The journal entries to adjust the principal payments on notes payable, capital lease payables and bonds payable have been made. The University will establish a procedure outlining the steps to adjust liability accounts at year-end.

**STATE OF NEW MEXICO
NEW MEXICO HIGHLANDS UNIVERSITY
EXIT CONFERENCE
June 30, 2001**

Exit conferences were held on December 31, 2001 and January 3, 2002 with the following in attendance:

December 31, 2001

University

Peter Bickely, Chairman, Budget and Finance Committee
John Loehr, Regent
Dr. James Fries, Interim President
David Pacheco, VP of Finance/Comptroller

Auditors

Scott Peck, CPA Neff + Ricci, LLP
Aaron Harris, CPA NM State Auditors Office
Domingo Martinez, CGFM NM State Auditors Office
Carl Baldwin, CPA NM State Auditors Office

January 3, 2002

University

Elmer Salazar, Chairman, Board of Regents
Peter Bickely, Chairman, Budget and Finance Committee
John Loehr, Regent
Dr. James Fries, Interim President
Roger Gonzales, Regent
Vivian Santisevan, Regent
Grace Montoya, Business Office Manager
David Jenson, Business Office Contractor

Auditors

Scott Peck, CPA Neff + Ricci, LLP
Aaron Harris, CPA NM State Auditors Office