

THE UNIVERSITY OF NEW MEXICO
Board of Regents Special Audit Committee
September 18, 2009 – Meeting Minutes

Members Present: Chairman Gene Gallegos, Regent Carolyn Abeita, and Regent Jamie Koch (Quorum).

Other Attendees: Raymond Sanchez, David Harris, Breda Bova, Ava Lovell, Therese Sears, Ellen Wenzel, Patrick Apodaca, Lee Peifer, Susan McKinsey, Helen Gonzales, Carolyn Thompson, Heather Clark, Patrick Lohmann, Jaime Clark, Julia Fulgham, Howard Snell, Douglas Fields, Rich Wood, Timothy Ross, Denise Fort, Ursula Shepherd, Martin Salazar, G. Christine Chavez, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 8:38 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- Confirmation of a quorum. Gene Gallegos, Chair, Audit Committee.
- Motion to adopt the agenda. (Motion: Regent Koch, Second: Regent Abeita).
- Discussion regarding Minutes of the Regents' Audit Committee (Committee) Meeting from June 25, 2009:

Chairman Gallegos noted that only Regent Koch was present at the last meeting (June 25, 2009) for the prior fiscal year. The Committee approved the Minutes of the Regents' Audit Committee Meeting from June 25, 2009 (Motion: Regent Koch, No Objection).

Chairman Gallegos delivered opening remarks to the Audit Committee and attendees of this special meeting called to address the recommendations of the New Mexico State Auditor. The recommendations resulted from the resolution of the UNM Faculty from February, 2009. Chairman Gallegos stated the committee needs to address the recommendations of the state auditor in four audit areas, as it is essential to establish a scope and defined purpose of the audit. It is not a "fishing trip" to see what you find. There will be a cost. That is critical, as funds are limited. Chairman Gallegos informed the audience that the Regents are just as concerned as Faculty about how resources are allocated, how they are used, and if they are properly allocated and used. The mission of this University is education and research; that mission deserves the highest priority. The Regents share the interest of all constituents, and want to come out with productive financial information that is useful for decision-making and will satisfy Faculty questions.

Chairman Gallegos asked Regents Abeita and Koch to offer opening observations. Regent Abeita stated she agreed with Chairman Gallegos' statements to allow for a productive exercise and that the Regents share the interest of the Faculty. She thanked the Faculty for their interest. Regent Koch reserved comments for a later time in the meeting.

Chairman Gallegos asked Christine Chavez, Internal Audit Director to provide input on the realities and practicalities of performing an audit. Ms. Chavez stated it is her understanding that this is an agreed-upon procedures audit. In an agreed-upon procedures audit, an auditor is procured, and the engaging party meets with the auditor to determine and agree upon the procedures to be performed. It does not provide an opinion, but only takes the procedures and gives the facts - a "finding." The auditor must follow all the auditing standards: general, fieldwork and reporting. This includes gaining an understanding of the system, and assessing what evidential matter is available to prepare the agreed-upon procedures. The parties must agree to those procedures. If an outside auditor that has never been at the University comes in, it will take longer because they have to gain an understanding of Banner and the processes at the University. A report is issued and restricted to only the parties that need a copy of the report.

Chairman Gallegos noted any contract that is issued over a certain dollar amount with an outside auditor is subject to approval of the Regents and the State Auditor. Additionally, the accounting systems of the University were changed to the Banner system in 2005. It is extremely difficult, therefore, to include any years prior to 2005, as this would not be practical.

Regent Koch opened discussion regarding the process of who needs to/will approve the acquisition of the external auditor. Chairman Gallegos said he does not want to get too hung up on this; the auditor's letter that sets out the recommended scope of work says UNM may proceed with the procurement of the auditor and should be pursuant to UNM's usual purchasing process and procedures, and that is probably the way to proceed.

The agenda called for Faculty comments. Mr. Douglas Fields, Senate Faculty President, opened the Faculty discussion, thanking the Regents for their comments. Mr. Fields stated that the Faculty is not out to "get anybody or any thing." The purpose is to understand how resources are allocated and ensure - or set up processes to ensure - they are allocated in the best possible way to take the mission of this University forward. The outline for the presentation gives a specific proposal of what the Faculty would like to do. He appreciates the comments of the Internal Audit Director; it helps him get an idea how to move forward. Mr. Fields provided some history for background information: The General Faculty resolution, the Senate audit task force recommendations, President Schmidly's recommendations and the State Auditor's recommendations. The reasoning behind the recommendations is also in the presentation. Mr. Fields stated he asked additional Faculty Senate members to participate as well in the discussion – ex-Presidents Snell and Shepherd. Future Faculty Senate President Wood was also present.

Mr. Fields stated he or a designee should be present at all discussions, and he wants access to all materials given to the audit firm and sent back from the audit firm – not to be published, but to look at to make sure he understands the materials and feels comfortable enough to tell the Faculty they were complete. He understands there might be laws restricting some of the information, but the open access laws should provide some leeway. One of the major purposes of the audit is that the Faculty should feel that there is trust and shared oversight.

Chairman Gallegos said some issues like this will need input from legal council because there are state statutes, and also there are principles that auditors have to follow concerning their work papers. Mr. Fields said he anticipated that.

Mr. Fields gave a background history and then communicated the scope as he understood it from the State Auditor. On February 25, 2009, Faculty voted overwhelmingly in favor for the resolution. Copy of the Resolution is on file with the minutes

The Faculty Senate Operations committee formed a Faculty Senate audit task force. Mr. Fields was the chair. The members included Howard Snell, Ann Brooks and Joni Young from the School of Management, and Melissa Bokovoy from the History department. At the time, they tried to understand the audit processes and what audit terminology means, and felt they wanted a performance audit for FY03-09. They formulated seven (7) questions (synopsis below), and in each, they wanted a comparison of budget amounts to the actuals – the expenditures and revenues.

- Question #1: A detailed analysis of all I&G funds broken down into the following categories: a) Instructional; b) Academic Support; c) Student Services; d) Institutional Support; e) Physical Plant; f) Any other units receiving I&G. And, for all categories, they want a further breakdown by college or office. The budget is extremely complicated. The Faculty felt there are Banner IDs after Banner IDs where money can be moved around. This caused mistrust amongst the Faculty, and showed a need for well-framed questions in the scope, that allow them to arrive at the answers they want.
- Question #2: A detailed analysis of the F&A revenues and allocations/expenditures sufficient to explain the OVPR debt and reduction in F&A return to the units. Mr. Fields stated he will come back and address that later.
- Question #3: A detailed analysis of how much funds were "harvested" and where the money was transferred, including details of revenues and transfers in and out of reserves.

- Question #4: Involves funding for UNM 501c3. Many members of the Faculty felt this was an important aspect of the audit; it was left off the State Auditor's proposal.
- Question #5: An analysis of Debt Services (Plant Fund) revenues and transfers with respect to the impact on unrestricted funds.
- Question #6: An analysis of how the current operations of the Rio Rancho campus are funded. There is a difference between how the task force framed the question and how the General Faculty Resolution framed it. They asked what the impact of this was going to be in the next two years, but it is difficult to predict that, so it is more relevant to understand how it is being impacted at the moment.
- Question #7: An analysis of the difference in the total expenses of athletics at UNM (including overhead) to the total revenue. This question was added after a conversation with someone who asked not to be identified. It was pointed out that money can go into and out of I&G without a transfer, as with changes to administrative tax. Question 7 is another question that was dropped from the State Auditor's proposal.

This list was sent to the State Auditor earlier this year. UNM Administration formulated a list of questions. Mr. Fields commented that although they were not diametrically opposed, the Faculty felt that the State Auditor's recommendations were more aligned with Faculty than the President's were. On August 4, State Auditor Hector Balderas sent his response and recommended scope of work. These items, taken directly from that document, are as follows below.

- Item #1: Budget comparisons of "restricted" I&G funds expenditures/revenues at the college or office level, broken down into the following categories: (a) instructional; (b) academic support; (c) student services; (d) institutional support; (e) physical plant; (f) any other units receiving I & G for FY03, FY04, FY05, FY06, FY07, FY08 and FY09.
- Item #2: A detailed analysis of F&A revenues and allocations/expenditures sufficient to explain the Office of the Vice President for Research (OVPR) debt and the reduction in the F&A return to the units for FY03, FY04, FY05, FY06, FY07, FY08 and FY09. Include a comparison of budgeted amounts to actual expenditures/revenues.
- Item #3: A detailed analysis of the amount of funds that were "harvested" (including the tax on growth in fund balances), and where the money was transferred for FY03, FY04, FY05, FY06, FY07, FY08 and FY09. This analysis should include details of revenues and transfers into and out of the Reserves (I&G contingency account or Undesignated Fund Balances). Include a comparison of budgeted amounts to actual expenditures/revenues where applicable.
- Item #4: A detailed analysis of how the current operations of the Rio Rancho campus are being funded including the impact on the I&G budgets for FY10 and FY11.

Mr. Fields noted the audit of administrative costs was motivated by the perception of Faculty and others in the UNM community in that the administration had grown at a much higher rate than had resources for the core mission. David Harris, Helen Gonzales, and others including Mr. Fields and Mr. Snell came up with a report that showed an increase of about 73% over the reviewed period of time and compared the analysis to peer institutions.

Chairman Gallegos stated that the discussion was going off to a different subject. Although interesting, maybe it should be addressed another time. Mr. Fields replied he was using it as background information, but will skip that if necessary. The document stated the facts, and is part of the reason the Faculty is not confident about transparency. Mr. Fields stated his reputation is on the line, and wants to show how this might fail.

Chairman Gallegos explained that the Regents are not the Administration; they are just as much concerned and are responsible to students, Faculty, staff, administration, and the public. Mr. Fields stated he was happy

to move on to Item 2. In 2007 and 2008, there was an audit done on the OVPR's office. Mr. Fields felt the audit was well done. But he needs to address the perception, because of the long delay in release of the audit, that there was major redaction of information from that audit.

Mr. Fields is trying to argue that if the Faculty Senate President is involved in the process as much as law and policies will allow, and the Faculty members have a complaint or a feeling that information is being withheld, they can look at him (Fields) and hold him responsible. It would be a useful tool for acceptance by Faculty and useful for the Regents and the University to have sign-off.

Items #3 and #4 as taken directly from the State Auditor's recommended scope of work were read by Mr. Fields. He reserved comment and yielded to past Faculty Senate President Snell, who spoke of past and present difficulties for the Faculty Senate in working collaboratively with Administration, Regents and other Faculty; there is a problem with trust and confidence in all directions. Mr. Snell stated that Mr. Fields wants to see collaborative work and believes progress can be made. This is a good test case for that. If Mr. Fields is excluded from the activity, they feel they will be back here again in 2 years or 3 years. Mr. Fields is willing to accept any conditions of confidentiality and will not tell Faculty the details, he will simply relay whether or not he has confidence in how the information is garnered. He may well say he doesn't – and that is exactly why they want him to be part of the process. It is not a normal audit, but one requested by the Faculty.

Chairman Gallegos stated he thinks there will be an opportunity for Mr. Fields to remain informed along the way through periodic reports. There may be confidentiality parameters. Chairman Gallegos then stated Mr. Fields should also have someone with the accounting knowledge necessary to understand standard auditing procedures. There is a trust factor, but Faculty must trust that whatever entity performs the audit is professional and independent. Mr. Fields stated he has solicited advice from some Faculty members in the Law School and Business School; he is trying to educate himself in the process and surrounding himself with people who can give him good advice on these issues. The Faculty presentation portion concluded.

Chairman Gallegos stated they would address the four areas recommended by the State Auditor, as he feels the scope was actually expanded from the resolution. These items are consistent with the Faculty resolution – Questions 4, 5 and 7 are not relevant today as they are not included in the scope of the State Auditor's recommendation. He asked Legal, Internal Audit, and Moss Adams to assist as they proceed with the discussion.

Mr. Fields stated that he thought the State Auditor did feel that the scope of the I&G transfer in Item #1 includes any items found in I&G, so it may well cover some of the things in the questions that were omitted. Professor Snell stated there was a sentence excluded in Item #1 about comparison of budget to actual, and that statement was in the other three items. He feels this should be an important part of Item #1.

Chairman Gallegos noted that David Harris, Andrew Cullen, and Ava Lovell can assist in discussion of what records would be assembled by "staff" as opposed to an accounting firm digging out records, which would cost more money and take longer. The Chairman then asked the Faculty (via Mr. Fields) if there was any objection to having Moss Adams as the external auditor for this audit. There was no objection. Moss Adams knows the Banner system and the record keeping. Regent Koch briefly explained State law on using auditors for state entities so they don't have the same auditor year after year, etc. It would disqualify some other firms from this project for that reason. It may actually be difficult to find another eligible firm that has the staff and quality to do the audit. Mr. Fields stated that he feels he has to accept the State Auditor's recommendation that they would be the appropriate firm to do this.

Past Faculty Senate President Ursula Shepherd detailed how they came to the motion for what the Faculty is requesting. She also stated concern about the excluded sentence in Item #1 (as stated above by Mr. Snell). She said without the statement, it makes no sense to her. It was certainly the intent of all the motions to get

the comparisons. Mr. Fields stated he backed that statement. Adding that back in would make it clear what Faculty is looking for. David Harris brought up that the real problem is the word "restricted." By definition, I&G funds are unrestricted, and the statement should not be at the end, but at the beginning in lieu of the word "restricted." Regent Abeita commented that the present language in Item #1 regarding "Budget comparisons of ... I&G funds expenditures/revenues," by itself, compares it anyway. She felt the issue that David Harris raised about removing "restricted" is the important one. There was discussion about taking out the word restricted, and adding the phrase "including budgeted to actual expenditures" at the end.

Ava. Lovell stated that the prior accounting system was very limited. Every department only had one account. Now, for instance, Biology has 450, and there are more than 10,000 accounts. That is why there is a comparison issue. Chairman Gallegos asked if they should remove not only the word restricted, but also FY 03 and FY 04. Ms. Lovell reported Moss Adams has not audited FY 03 and 04, so they cannot rely on that unless they go back and do testing. Chairman Gallegos said a five year look will be informative and adequate. Mr. Snell responded by saying the assumption that those two years are not important is not testable if we don't look at them, and would risk trading time and cost against trust building. Mr. Snell stated he will remain suspicious if those years are omitted. Rich Wood of the College of Arts and Sciences submitted that the FY 03 and FY 04 time frame is important, because over the last eight years, student numbers have increased dramatically and Faculty numbers have deteriorated somewhat. Simply the internal comparison of the twice-yearly data that is reported to the State of budget and expenditures would be adequate. Chairman Gallegos said existing reports would not be a problem to see, but would not be included as far as the audit is concerned. Mr. Fields asked that there be an opportunity to discuss in the agreed-upon procedures to what level those years can be included. There are things that can probably be compared prior to FY 05. This was followed by discussion of shared governance that Chairman Gallegos stated was not relevant. He moved forward to Item #2.

A report already exists concerning a deficiency in the area referred to in Item #2. Mr. Fields said it might be sufficient for the Faculty Senate to review the non-redacted data from the audit, and confirm that redacted data is limited to personal information. Ms. Chavez stated that nothing in this audit was redacted. The original findings are all in the working papers; any findings that are passed on are documented as standard practice. Chairman Gallegos stated he does not see a need for an audit regarding this item. Mr. Fields said if the working documents are available, that would be sufficient to cover Item #2. Mr. Snell agreed to that as long as it answers all the questions. He felt another audit report he saw in the past contained redacted materials that significantly changed his overall impression of the issues. It wasn't on this particular report, but that is why he is concerned in general. Chairman Gallegos stated in order to be clear, he has read the report several times and found no redactions, the Internal Auditor stated there were no redactions, and the Internal Auditor is willing to provide the documents that were used for this report; it seems to him this is off the table for external audit.

The Vice President of Research then stated she has just sent out to Faculty a year in review in the office, including a partial report on expenses for the last year. It is the only year she can claim, as she is new, but she is happy to meet with Mr. Fields and Mr. Wood to discuss the report in detail. Chairman Gallegos noted there were several recommendations, and had questions about whether those are being implemented. The Vice President of Research stated she cleared the audit last fall. A lot of changes have been made, and the entire approach to budgeting has been changed.

Discussion about the working documents followed, and the degree of confidentiality. Mr. Fields agreed he finds no problem with taking Item #2 off the table - if he has access to the working documents and finds no further issues. Ms. Chavez stated that would be no problem, as long as there is no personal, identifiable information involved that is protected by law or statute. That would be done with University Counsel. Mr. Fields' concern is if you have an entire document or large portions that are redacted, how do you verify that it is only the personal information and how do you determine what gets redacted? Ms. Chavez stated the term redacted bothers her. Findings were "passed on," and Mr. Fields will be satisfied when he looks at the

documents he will see what documentation, rationale, or auditor judgment was used to make that decision. Chairman Gallegos feels the reports were very well done, and Mr. Fields again agreed to that statement. If after the review, Mr. Fields is not satisfied, he should let the Regents know.

Chairman Gallegos moved on to Item #3. There is a report that addresses that issue also (only for FY 07), report 2008-14. Professor Fields stated that he does not have that report and would be happy to look at it, although he does not want to take this item off the table. Regent Koch stated he did not want to take it off the table either. David Harris noted that the practice of "harvesting," or reversion of a percentage of unused I&G only occurred in the fiscal years of '07, '08 and '09. They might want to look at undesignated fund balances for the earlier periods, but there would not be anything related to harvesting. Chairman Gallegos stated they should look at fund balances for 05 forward, and then within that would be the overall picture. Mr. Fields felt that the wording would include things that all parties would like to see, so we should leave the wording alone. Chairman Gallegos said this might not be as enjoyable for the Faculty as they think; it is of concern that different departments rationalize balances for different reasons, and Chairman Gallegos is not sure there is a discipline that says what you can and cannot do to retain those balances. David Harris stated he hopes that at the end of this, the Regents would adopt a policy as it relates to balance forward. Chairman Gallegos said at other institutions or companies he has been involved with, you have some parameters that state you may retain unspent budgeted funds to be used for "AB and C but not XYZ."

Andrew Cullen mentioned that his office will be gathering data for the auditors, but also the Provost's office, and the CFO in that office, which is now Curt Porter. With regard to "harvesting," dollars that were pulled back from academics – and he made the point there were dollars pulled back from Administration also – was left completely up to the Provost's office. How the dollars are allocated amongst the colleges is left up to the Provost's office. Chairman Gallegos stated the Provost's office needs to be involved in the examination.

The last item involves the Rio Rancho Campus. Chairman Gallegos asked Mr. Fields what Faculty is looking for as an end result. Mr. Fields responded, "The general concern is that the operations of the Rio Rancho Campus have an impact on Main Campus funding, the I&G and how it gets distributed - not to the units - but how it gets distributed to the Provost's office. This impact might be in the best interest of the University. That's not the question here. The question is just: what is the impact? Are there I&G funds that could be going to the Provost that instead are going to the operations of the Rio Rancho Campus? Having an understanding of this will get the Faculty either on board or off board or at least get them involved in the discussions of the efficacy of the operations of a branch campus at Rio Rancho."

Chairman Gallegos stated he doesn't understand why it calls for an external auditor to do that, as he feels the funding of Rio Rancho Campus is information that our financial people can provide. Discussion followed between Fields, Gallegos, and Harris about trust and athletics funding. Regent Koch then replied that the current discussion is outside the scope. He stated, "I think you have the right to know everything that's being budgeted in Athletics... But that's not in this resolution..." Mr. Fields agreed that it is not in the resolution, but the question was, "why can't we just ask internally how the Rio Rancho Campus is being funded?" He said the answer is that Faculty doesn't trust the answer. They would like to have an external, independent audit of those things, so that they trust the answer.

Chairman Gallegos told Professor Fields that there is no answer for him to mistrust, yet, so that is where they should start. Chairman Gallegos is confident that can be done internally and be done satisfactorily; if Mr. Fields feels that information is suspect, they will come back to it. There is no need to spend money or to have an outside accounting firm do this at this at this point. The Regents have to trust the Faculty members. The Faculty has to have some trust in the financial people. Discussion continued regarding how the Faculty members are reviewed in all aspects, and how it relates to trust.

Andrew Cullen noted the far-reaching aspect of Item #1. He stated that Question #1 will show Athletics is in essence subsidizing I&G. Discussion returned to Professor Fields being intimately involved in the process, the trust issue, and the confidentiality issue.

Chairman Gallegos summarized, "...Let's have staff provide this information, and let's have the audit firm do the audit, and let's see how things match up... Maybe that will help with your trust factor if you find out that what they came up with and what the outside auditors came up with corresponds..." Mr. Fields agreed. Chairman Gallegos told Mr. Fields they have got to lay the trust issue to rest at some point. Mr. Cullen stated that the Faculty will see a lot of information as it relates to debt service. Many of those questions will be answered, too. Chairman Gallegos told Mr. Cullen that they should have an internal report that answers this question, *and* it will be part of the audit scope. So we will come at it from two directions.

Ms. Lovell stated concerns about what is planned in FY 11 for the Rio Rancho Campus. They can show the budget for this year, what has been done and what is planned, but the auditors cannot say what is right or wrong. Regent Abeita noted that in the scope of the agreed-upon procedures detailed by Ms. Chavez. It will not express an opinion; that is what we need to be very clear about.

Regent Abeita asked for comment from Patrick Apodaca regarding the audit process and the parameters for involvement of the Faculty representative. There are stringent requirements; this will be an audit that involves the State Auditor. Mr. Apodaca addressed the committee, stating this is a unique kind of audit. Generally audits, under the State Audit Act, are confidential until within 10 days of the time they are submitted to the State Auditor (after approval from the Audit Committee). The State Auditor recommended undertaking this audit, so it does not "squarely fit within the Statute." Mr. Apodaca said that he feels the confidentiality provisions of the Act and the spirit still apply. The Regents' policy manual specifically talks about the confidentiality of internal audits until approved by the Audit Committee. Up until a report is made public, everything related to that audit is confidential. There is a need to preserve and protect the confidentiality of the audit as it progresses, including all the information used. Mr. Apodaca stated he is not sure if there are any legal restrictions, provided that there are clear obligations in participating, by way of a binding confidentiality agreement, which will likely address how the information can or cannot be disseminated beyond the authorized participant. The essence of the audit is to produce an independent, objective, professional audit, and the auditors may feel participation, direction or definition by others may not meet those standards. Once the auditor is chosen, that will need to be defined.

Chairman Gallegos stated there are two issues. The first is constructing the plan and the scope of the audit. That is what the Audit Committee will do today, subject to acceptance by the Board of Regents. The next issue relates to the course of the audit. This is an audit Faculty has requested and they should be satisfied about how it is being conducted, but we have some limitations on what could be made available. Chairman Gallegos asked for input from Ms. Chavez. Ms. Chavez replied that she would need to do some research before she provides an answer, and that whoever performs the audit would have to agree to those terms. Mr. Fields asked if it would be possible to ask the State Auditor his views on the level of participation. Chairman Gallegos said the statute is the statute; we can touch base with the State Auditor. Mr. Apodaca stated a confidentiality agreement could be drafted for each signatory that is sufficient, will be legally binding, and will restrict disclosure of information. Mr. Fields stated that he would have to ask legal counsel if a confidentiality agreement would prevent him from giving an opinion to the Faculty. Regent Koch said they have an audit done every year, and they don't get involved at the level Mr. Fields is asking. The auditor is independent, and at the completion, there will be opportunity for Faculty to review the audit. There are two different issues. When the audit is finished, and before it is released, you have the opportunity to disagree. The other issue is do we allow the Faculty the chance to review the information and documents during the process? Mr. Fields stated he does not want to participate in the audit, but wants to participate in the discussion of the agreed-upon procedures and have access to the data the auditor gets. He would also like the ability to review the final product. His intention is to be an observer.

Ms. Chavez wanted to clarify that auditing standards need to be followed in an agreed-upon procedures audit. She stated, "The practitioner should not report on an engagement when the parties do not agree upon the procedures to be performed, and do not take responsibility for the sufficiency of the procedures for their purposes. Also, the parties all have a responsibility as far as the audit goes." Ms. Chavez also stated UNM's responsibilities are for the sufficiency, nature, timing, and extent of the agreed-upon procedures because we are the best people to understand our own needs. So we assume the risk that such procedures might be insufficient for their purposes. There is risk that what the auditor does may not be what you wanted. According to Ms. Chavez, "The practitioner takes the risk that you may not interpret what they are saying the way they are saying it, or the findings they came to may be different. Everyone has a responsibility and has to accept a risk that it may not turn out they way they want it." Mr. Fields stated he understands that risk. Ms. Chavez further stated the agreed-upon procedures evolve as well, and the Audit Committee has to approve the adjustments. You have to come to some kind of agreement up front or you would be here forever changing things. She is concerned with what Mr. Fields' involvement would entail as it might interfere with the audit. Mr. Fields stated what he is suggesting is basically what was done here in this meeting. If there is a discussion where the auditors say they are having trouble getting information, Mr. Fields is also at that table to give the Faculty perspective.

Chairman Gallegos stated it is highly regulated. As a lay person, Mr. Fields is not in a position to audit the auditors. With the help of Ms. Chavez, the plan and proposed scope of this audit will be drawn up, based on the discussion here today, in the three areas of audit. Those will be shared with Mr. Fields, and he may comment. The external auditor has to have an audit plan, which will include cost and time parameters when they will expect to report. That can be made available to Mr. Fields. Once the audit begins, if the auditor comes to the Audit Committee and says they need to report progress or some problems, Mr. Fields can be present for that. Mr. Fields replied that he has learned from talking to individuals in the School of Business that you cannot interfere or even participate in their work. Ms. Lovell also noted that according to the State Audit Rule and State procurement code they cannot cut a purchase order to the auditors until the State Auditor has approved the engagement letter, which includes the agreed-upon procedures. The Regents will and have to approve it, but it does go to the State Auditor. The engagement letter is a public document and can be made available to Mr. Fields. Patrick Apodaca stated our policy says that any audit contract should be approved by the Regents. The State Auditor's letter says that if the contract is with Moss Adams, he wants to approve the contract. Deputy Counsel Lee Peifer added that if it is with any other firm, they want a copy of the engagement letter. That is because Moss Adams already has an auditing relationship with UNM.

The meeting discussion turned to a recommendation by Regent Koch. He stated he took a great deal of time in the last week to research the issue, and has a motion he feels covers everything. Regent Koch passed out a written copy of this motion, addressing the contentions of the Faculty and their requests therein. He moved that the Audit Committee recommend to the Board of Regents that the University proceed with an audit of several budget line items in the letter of February, 2009, and the August, 2009 letter of the State Auditor detailing the scope. Additionally, he moved that Moss Adams be retained under the State Auditor to perform the audit. The payment of the audit should be charged to the Administrative budget - if the audit provides support to the Faculty's claim of instructional monies used for administrative purposes. If the audit does not provide that evidence, payment will come from unrestricted balances in the colleges. Regent Koch feels the State Auditor "hit it on the head" with his letter including the four items. He moves that the motion pass.

Chairman Gallegos stated he wanted to comment on this before there is a motion. He stated this does not comport with the results of the discussion today. First, FY 2003 and 2004 are not to be included. Secondly, the F&A item is not to be included. Chairman Gallegos suggested, for the remaining three items, use of the wording that has been before the committee today, based upon the State Auditor's letter. There is the exception of Item #1, striking the word "restricted" and adding the language about budgeted versus actual expenditures. That is the consensus of what those three items should be. There has been no discussion about who be assessed the expense. He would be opposed to that. It was contracted by and will be paid by Administration. Chairman Gallegos stated he feels there are considerable problems with the wording of this

motion. Mr. Fields said the motion put forward by Regent Koch demonstrates the belief that there are "different pools of money to pay for administration costs than to pay for teaching, research or anything else."

Chairman Gallegos stated three areas for audit have been productively defined. Item #1 addresses where I&G funds are being spent. All that is needed is a motion that states the recommendation will be that an audit scope will be prepared by Internal Audit as a drafter. The scope will say we are going to conduct, through engagement of Moss Adams, the audit of the three items that have been approved. That will be a cost that Administration will bear, subject to what Moss Adams states will be necessary to conduct the audit; hopefully the cost will be within the \$50,000 range. Regent Abeita clarified that Moss Adams will respond to this, give a cost, and this will not include a punitive nature. It may be necessary to come back and further refine the agreed-upon procedures. She stated she is comfortable that it is still a work in progress.

Motion by Regent Abeita: Take the three items as discussed and refined today, taking out FY 03 and 04 information, present that to Moss Adams as a scope of engagement, and ask for the information requested from Moss Adams to be returned to us. Chairman Gallegos added that includes Internal Audit preparing the purpose and scope with these three items. Moss Adams will react to that, give a cost and time parameters and proposed engagement terms. Mr. Apodaca added that the revised proposal is critical because if it goes over \$50,000 it will not fall under what is called a small purchase under the procurement code. Chairman Gallegos reiterated it is Item #1, Item #3, and Item #4 of the State Auditor's letter – Item #2 concerning F&A has been deleted. Regent Abeita stated she would also add that in Item #4 that we are clear that it does not include the issue of FY 11. Chairman Gallegos agreed and asked for second to the motion. Regent Koch stated he would not second because he said we should look at all four items. Chairman Gallegos said that it is unnecessary, so he seconded the motion and called for a vote. Regent Abeita answered in favor. Regent Koch: "No." Chairman Gallegos is in favor.

Underlying records and source data for conducting this engagement will be provided by the University for Moss Adams. Discussion ensued between Regents and Regent Sanchez regarding timeframe. Ms. Chavez agreed to prepare the purpose and scope before the Regent meeting on the 29th.

Regent Abeita asked Mr. Apodaca to start working on the confidentiality agreement, and for Ms. Chavez to do additional research to help support that as far as the parameters of involvement. The Audit Committee may not have the ability, due to practices and standards, to decide what the availability for involvement would be.

There being no further business, the meeting was adjourned at 10:59 am. (Motion: Koch, Second: Abeita. No objections).

Approved:



Audit Committee Chairman