Members Present: Chairman J.E. “Gene” Gallegos, Regent James Koch (Quorum).


Chairman Gallegos called the meeting to order at 9:03 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the Minutes, conditional upon changes on page one (an incorrect name and revised description regarding inclusion of information from special procedures engagement into external audit), from June 17, 2010 (Motion: Chairman Gallegos, Second: Regent Koch).

- The Committee noted they are still waiting on information regarding the transfer of University employees to the Foundation; the salaries and salary increases. Regent Koch stated the information has been requested several times. The Committee asked Mr. Patel to contact and obtain this information from Rod Harder, Vice President and Chief Financial Officer for UNM Foundation.

- Chairman Gallegos inquired about the status of a preliminary report due from the outside auditors by mid-September. Ava Lovell stated the audit is complete and the financial statement is being prepared; everything will be presented to the Committee at the exit conference in October.

INFORMATION ITEMS:

- Charles Sallee, Deputy Director for Program Evaluation, Legislative Finance Committee (LFC) presented the Higher Education Program Evaluation report to the Committee. The report focused on New Mexico State and the University of New Mexico.

New Mexico students need to not only attend college, but graduate with a degree at a price they and their families can afford. New Mexico students take longer to graduate, pay more, and graduate with high debt. The State’s residents contribute more personal income to higher education than any other state. However, New Mexico has the worst generational achievement gap in the country. In New Mexico, students are not achieving a greater level of education than their parents. Overall, New Mexico’s higher education institutions need improved cost-efficiency and goals, and to have funding (with accountability) tied to those goals. Specific issues for both Universities include graduation rates, justifying the likely large tuition increases, and need for cost-containment (demonstrating that higher tuition will result in higher quality services for students).

Chairman Gallegos noted that Richard Wood, Faculty Senate President, and Doug Brown, Dean of Anderson School of Management, are present at this meeting. If questions come up during the presentation, this should be an open discussion.

Regent Koch asked Mr. Sallee about a tuition credit from the legislature and whether they build in salary increases when they can. Mr. Sallee said he does not have specific information on any upcoming tuition credit, but tuition credit is a formalized way to share the cost between students and taxpayers, and the legislature has to balance the budget. David Harris stated in the past the
legislature used to set tuition for each institution. At that time, about 22-23% of the general fund 
was appropriated to higher education; now it is about 16-17%. There was general consensus in the 
legislature that tuition rates were too low in New Mexico compared to other states. That is when the 
legislature started using tuition credit to drive the Regents to raise tuition. Mr. Harris further said he 
believes last year’s tuition credit at 5% was the highest ever, and that it is in recognition of the 
State’s financial problems. Mr. Harris does not recall that it had anything to do with salaries. 
Regent Koch asked when the legislature might ask for tuition increases, and if we are looking at a 
higher tuition credit than the last one. Mr. Sallee stated he could not speculate on that. When the 
LFC releases its budget recommendations to the legislature, they may recommend raising tuition. 
Marc Saavedra, Director of Government Affairs, Government and Community Relations Office 
 stated we will most likely get the recommendations in January on tuition credit as applied to instate and out-of-state. There is concern about how the credit is split between two- and four-year institutions and that it should be equally distributed. The way it was distributed in the past, the four- year institutions got hit with 80% of the credit, so it is disproportionate.

The last major issue covered in the LFC report is faculty productivity. This includes the need to 
monitor productivity, as well as the need to recognize the contributions of faculty. It also involves 
ability to communicate this information to policy makers including the Regents. Teaching load 
should be reviewed, which is different than work load. The LFC is recommending dashboard 
reports to be available on the website and reported to the Regents.

Solvency of the lottery is threatened due to rising tuition costs. The upside is that more students are 
earning the lottery scholarship; however, we are now dipping into fund balance and that needs to be 
addressed sooner rather than later. There is current debate if the students’ scholarships will simply 
be cut across the board, or if there are other possible solutions.

This is the first phase of the LFC’s examination of higher education. Future phases will include the 
smaller institutions. Regarding financing mechanisms, there is no assessment overall of space or 
instructional capacity. The State is encouraging enrollment growth; however, the State is not 
producing more high school graduates. There are no cost-sharing goals for the State/students. The 
State does not set expectations for research at research institutions and there are no incentives for 
completion, graduation, or on-time degree attainment. We even pay for dropped courses in New 
Mexico. The State looks at student credit hours at a census date near the beginning of the semester, 
but many students do not complete courses. For UNM in FY09, there was over a $12 million dollar 
difference; $7 million dollars for NMSU. The LFC recommends funding based on course 
completions. That is more consistent with how public schools in New Mexico are funded. 
According to Richard Wood, this makes budgetary sense, but is a concern for the faculty as 
professors may feel pressure to lower standards to keep students in courses. Mr. Sallee stated the 
last thing the LFC wants is dilution of the quality of the degrees in this state.

The State does not have a master plan and the governance is decentralized. We need to look at 
whether we are running duplicative programs and make sure we are looking at outcomes. How do 
we come up with a funding formula - should a formula add value to certain programs?

We need more graduates in this state, and we need to attract students from other states. We export 
students and import workers. Out migration has increased 75% between 1994 and 2006. Should the 
State fund programs that overproduce graduates, resulting in exportation of those graduates to other 
states for employment, at the same rate as other programs? The LFC is recommending modification 
of out-of-state tuition waivers, and feels the State should develop a strategic master plan.
Encouraging students from neighboring states would be one way UNM could address the expectation of growth. Neighboring states have increasing high school graduate rates.

Chairman Gallegos asked if we have any current data on out-of-state enrollment. Provost Ortega did not have exact numbers, but stated there is an increase as a result of deliberate strategies by Enrollment Management. The Provost further noted she may be able to get the data. Carmen Brown said they visit out-of-state schools more often than they used to.

About 13% of first-time freshmen graduate within four years; although, about 75% of first-time freshmen are accepted. Remedial needs of incoming students increase the time it takes for them to graduate. Regent Koch stated the legislature needs to look at the college preparatory efforts of the State’s high schools. Student loan debt, even for those students who do not graduate with a degree, is very high. Mr. Brown noted that four year versus six year graduating students as relates to loss of wages, can often be attributed to students who raise families or for other reasons have to work; he wonders if this is taken into account in LFC calculations. Mr. Sallee replied that the University and the local community as a whole should work with students on work schedules, etc. Regent Koch said he thinks we have an agreement with CNM to assist students with possible academic deficiencies. Carmen Brown confirmed that we do, and stated that current data shows growth in the gateway program with CNM. Regent Koch feels we need to improve the communication with students on this benefit and improve our efforts to promote the program.

Chairman Gallegos asked Mr. Sallee if there will be a way for the University to provide feedback to the LFC when we make improvements. Mr. Sallee stated the LFC asked for an implementation plan, and next year the LFC will report back to the Committee on progress. Chairman Gallegos asked for a copy of the implementation plan. He wants to know what is being done.

Tuition and fees will likely need to increase “just to tread water.” That will require efforts to contain spending and overhead costs. UNM has made substantial effort on cutting spending on Central Administration. UNM took its Institutional Support Services budget back below the 2007 levels. Central Administration does not include administrative portions of the academic units.

Regent Koch asked why the budgeted FTEs for faculty do not equate to actual numbers of faculty. There was discussion about the data in this area. The Committee is concerned about the percentage of faculty employed at the University, as it seems low compared to other types of employees. Regent Koch asked that the Audit Department verify these numbers. Chairman Gallegos complimented the LFC staff on their work and for preparing the report, especially since it brought forth some interesting information for the Regents that they do not normally see. Marc Saavedra noted that the President’s response states that there are no specific peer institutions that meet all data comparisons and that needs to be considered when looking at the data. Regent Koch thanked the LFC as well. Regent Koch wondered why there is not a Regents’ response, since this report could have direct effect on funding. Mr. Sallee stated they could amend the document on the website if the Regents decide they want to add a response.

Suggestions from the LFC for cutting costs included looking at administrative salaries. Chairman Gallegos asked for detail on 159 salaries at or above grade 16 from David Harris. Another cost containment opportunity includes alumni and development offices, athletics, and other subsidized programs. The athletics program at UNM, however, is not subsidized as much as New Mexico State’s.
Adding new programs costs money; also, UNM should engage in comprehensive program review. This is based on the notion that you do not create a program to operate in perpetuity. There is a regular justification review. Between 40-44 percent of the undergraduate lecture sections at both universities have less than 20 students.

Accountability and budget models for UNM and New Mexico State could change to responsibility-centered management, making colleges responsible for their own balances and cost of operations. This method increases transparency.

UNM, New Mexico State and HED requested and received an extension on time to submit implementation plans. Regent Koch asked that the full Board of Regents review the entire report. Mr. Sallee reiterated that they would welcome a response from the Regents, and could include it in the on line report. They also stated they would accept a response from the Faculty as well. Chairman Gallegos stated the constitutional responsibility for the control and management of the University is in the hands of the Regents. This is a helpful and informative study; it is addressed to the President of the Board of Regents. Reforms have to be made by the people impacted. The University can have a response, but with assistance of the Internal Audit Director, Faculty, the Business School, etc., the Board of Regents needs to react to the recommendations and state their positions and what they think should be done. Regent Koch agreed with the Chairman.

Chairman Gallegos stated he hopes that Mr. Patel can devote some time to helping the Board of Regents with a response and implementation. Mark Saavedra stated he was asked to present this information to every executive cabinet. President Schmidly presented some information to the Regents in his President's Report about implementing some recommendations. However, as for response, they had approximately a week after receiving a rough version to point out concerns or edits. The LFC did respond to these concerns. There was not time to have a separate meeting for the Regents. Per David Harris, he believes the LFC asked Regent Sanchez to convene a group to receive the report and that Regent Sanchez invited the Audit Committee. When the report was presented, there were Regents at the meeting. Mr. Harris further believes the Administration (President) was directed to formalize a report incorporating all input. What is missing is closing the loop with the entire Board of Regents, and that is important. There was no unilateral response. We are in an unusual position right now without the President on campus. Chairman Gallegos stated that the Regents may agree with the implementation plan once they see it, but they need to see it. Regent Koch asked that they sit down with Regent President Sanchez to discuss this, because he (Regent Koch) has many questions. Regent Koch said he feels there should be a special Regents' meeting to review and formulate opinion. Chairman Gallegos said he would speak to Regent Sanchez to see if there will be a special meeting or if it will be discussed in the November meeting. Mr. Harris stated he will forward the report to all Regents today and will indicate there is an implementation plan in progress. Mr. Saavedra stated he will provide a copy of the draft plan as soon as possible.

- Ann Brooks informed the Committee that the Faculty Senate is currently working on a disciplinary policy for Faculty and they hope to have something to present to the Regents in November or January. They are also looking at the agreed-upon procedures evaluation to address inclusion in the annual audit. They hope to have this information for the October meeting. Professor Brooks will not be at the October meeting due to a conference, but Professor White and the Department Chair will make the presentation.

- Chairman Gallegos stated that the Internal Audit Department's routine mission can be subject to at least temporary expansion due to the LFC report. He stated that Mr. Patel, and perhaps other sta
members of Internal Audit, may assist the Regents with the response to this report as opposed to paying Moss Adams to do that.

The meeting went into Executive Session for the reasons stated in the agenda. (Motion: Chairman Gallegos, Second: Regent Koch).

a. Discussion of limited personnel matters pursuant to exception for matters subject to attorney-client privilege pertaining to threatened or pending litigation at Section 10-15-1.H(7), NMSA (1978) (Manu Patel, Internal Audit Director)

b. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978) (Manu Patel, Internal Audit Director)

c. Vote to re-open the meeting

The meeting returned to open session (Motion: Regent Koch; Second: Chairman Gallegos). Certification that only those matters described above were discussed in Executive Session.

There being no further business, the meeting was adjourned at 12:30 p.m. (Motion: Chairman Gallegos, Second: Regent Koch).

Approved:

[Signature]
Audit Committee Chairman