

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
October 21, 2010 – Meeting Minutes

Members Present: Chairman J.E. "Gene" Gallegos, Regent Carolyn Abeita, Regent James Koch (Quorum).

Other Attendees: Ava Lovell, Gilbert Gonzales, Michael Carr, Helen Gonzales, Paul Krebs, Ellen Wenzel, Ella Watt, Cynthia Reinhart (KPMG), Jaime Clark (KPMG), Brandon Fryar (Moss-Adams), Wayne Brown (Moss-Adams), Steve Cogan (REDW), Halie Garcia (REDW), Tina MacGregor (REDW), Jim Monteleone (Albuquerque Journal), Robert Fondino, Liz Metzger, Carol Stephens, Craig White, Mary Swanson, Larry Ryan, Chris Vallejos, Rodney Martinez, Richard Wood, Manu Patel, Avedona Lucero, Lisa Wauneka, Lola Neudecker, Betsy Ackerman, William Cottrell, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 8:35 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the Minutes of the Regents' Special Audit Committee Meeting from September 24, 2010 (Motion: Chairman Gallegos, Second: Regent Koch).
- Chairman Gallegos had some comments on an item from the minutes of the last meeting (September 24, 2010). He asked about the Regents' response for the LFC audit, and what has been done in that regard. Marc Saavedra stated Dr. Roth is directing a team to fill out a response schedule. Mr. Saavedra's office will be lead on this project and will meet with the team on November 5th to discuss the schedule prior to the LFC deadline of November 12th. The hearing will take place the week of December 5th; Dr. Roth will present implementation information for UNM. This information will be shared with the Regents. Chairman Gallegos asked that Mr. Saavedra contact Regent President Sanchez, preferably today (the date of this committee meeting), to see if it is his wish to have separate Regent response, or if he feels the Regents should participate with Mr. Saavedra's office on the response. Mr. Saavedra agreed to contact Regent Sanchez in the afternoon of October 21, 2010.
- Ella Watt stated she spoke with Manu Patel about the RFP process and the status of REDW's contract with UNM Hospital. Mr. Patel agreed that it would be best to renew this contract for the final calendar year of this RFP. It is their recommendation to the Audit Committee to renew the contract until December 31, 2011. Chairman Gallegos stated he would like to review the current, finalized audits and discuss pending audits in executive session with the auditors from REDW, and then act on the contract renewal after returning to open session. The Committee agreed.
- Faculty Senate President Richard Wood discussed whether or not information gained from the special procedures engagement should be incorporated into the regular audit. This would help Faculty and the Regents obtain a clearer picture of finance flows at UNM. Mr. Wood stated the Faculty needs to better understand the overall budget; they just didn't have the expertise in June. Therefore, Professor Craig White from Anderson Business School is assisting. Professor White stated he will report out on behalf of Ann Brooks, who is at a conference. They have met twice recently with Andrew Cullen and Kurt Porter from the Budget Office to gain better understanding of the budget. The main issue is aggregation from year-to-year and being able to drill down deeper than what is seen in the audit. The next step is to work with Ms. Lovell to see what is there in order to develop a trend and see where funds may move over time. Chairman Gallegos stated that Mr. Wood and Professor White might benefit from attending the next meeting of the Finance and Facilities Committee. At that meeting, the Regents will be examining specifics within departmental budgets. Mr. Wood stated they are in the process of gaining information and expertise in order to make a well-informed recommendation about data to include in the general audit; this process may not be completed to allow for recommendation in time for the current Moss Adams external audit, but will be for the future. Chairman Gallegos recommended that Mr. Wood study this external audit after it is finalized and approved by the State Auditor – the audit includes approximately 160 pages with a lot

of detailed information. Regent Koch stated it would also be beneficial for Mr. Wood to talk to Moss Adams about this issue as well, and find out feasibility and cost of including the information. Therefore, action on this item is deferred.

INFORMATION ITEMS:

- Audit Director Patel presented the draft of the Internal Audit Department Annual Report to the Committee members. Highlights included:
 - The Audit Department had less time to devote to the risk-based scheduled audits due to limited resources and increased demand in fraud-related activities. However, the Department was able to complete 67% of scheduled audits. The target was 50%.
 - Chairman Gallegos inquired about some individual reports on the FY11 audit plan. (As some of these are still in the investigation stage, the Department cannot comment on details regarding those audits.) The Department cleared up some confusion for the Audit Committee regarding completed audits where we are discussing open follow-up findings, versus audits in process (there may be multiple audits in various stages for the same department/campus).
 - The Department completed 8 of 12 audits. Internal Audit worked closely with Human Resources and other departments and branches to implement segregation of duties and enhance internal controls. The Department improved the follow-up process by increasing the frequency of follow-up inquiries. The Department improved timeliness of misconduct investigations by working with Human Resources and the Office of Equal Opportunity.
 - Due to limited resources, Internal Audit did not meet several goals, including: developing and posting on-line training; increased use of ACL; and, notifying all complainants within 10 days.
 - Areas where Internal Audit would like to improve are:
 - Including performance auditing in every audit;
 - Effectively using ACL audit software to increase productivity and efficiency;
 - Coordinating audit plan with external auditors to ensure coverage and reduce duplication; and
 - Working with UNMH, assessing their risk assessment and participating in their internal audits in preparation for possibly taking on their internal audits (instead of contracting the work out).
 - Chairman Gallegos asked whether it is appropriate for Internal Audit to conduct training. He feels training should fall under the Controller's Office and/or other departments. Ms. Lovell agrees, and along with HR, they are providing a majority of the training now. Richard Wood stated training is important and he hopes training does not fall through the cracks while discussing who is going to provide it. Also, Mr. Wood feels performance audits can be valuable, but we need to be very careful as there are huge risks involved as well. Focusing attention on data collection can too often take away from the core teaching mission. Regent Koch stated whoever provides the training must coordinate with Internal Audit to see what and how they will be auditing controls and procedures, etc., in order to develop and implement the training. Helen Gonzales informed the Regents that all employees have a learning plan through Learning Central with required training developed for their job description. Through work with Internal Audit, HR has adopted some universal required training for all employees, such as Ethics, Safety, and Sexual Harassment. They expect managers to ensure that employees perform appropriately, and HR works with Internal Audit to determine if findings indicate training deficiencies or if there is an issue of personal accountability. Lack of personal accountability may result in disciplinary action. Regent Koch stated that Faculty should also work with Internal Audit regarding performance auditing format and expectations prior to any performance auditing takes place. Mr. Wood noted the performance auditing relates to a department's performance overall. Workload policy is being worked on "on another channel." Faculty is working with Administration on workload policy because the last time the policy was developed was in the 1970s, when UNM was not a research institution.

- The total available hours for the Department are approximately 13,000. After deducting leave, administrative time, training for the Department's staff, and network and database administration, the net hours are approximately 7500. 80% of the hours were spent on direct audits; about 10-15% on misconduct and consulting. Very little time, approximately 5%, was spent on training that Internal Audit provided to other departments and branches.
- We had four employees who retired/resigned; three new employees were hired. The Department has two vacancies. Based on the current budget, if we filled these positions we would have enough funds for the remainder of this fiscal year, but we would not be able to support these positions in future fiscal years. Mr. Patel told the Committee he would rather wait to see if the budget will be increased before he hires anyone, because it would make no sense to hire people and then be forced to let them go. Regent Koch asked about the possibility of charging departments for audit work. The Chairman feels that is an interesting concept. Regent Abeita asked if departments would be charged for all audits, whether it was a scheduled audit or one based upon an incident of fraud or other action resulting in investigation. Regent Koch said there should be a revenue source available through the budget for audits, and that would send a message. He asked how that works for the State Auditor's Office. Mr. Patel stated the office is funded 80% by the state and the other 20% is generated by charging for audits. The Chairman noted a unit of the University would not budget for an audit because they do not know when they will be audited; he wondered if there might be some way to equitably spread the cost.
- Mr. Patel provided the Audit Committee with two reports as of October 15, 2010: "Past Due Findings," and "Not Past Due Findings. There are five overdue recommendations, two of which involve the Physical Plant Department. Chairman Gallegos was concerned about Banner processes that have been past due for a while. He asked Gil Gonzales for an update. There was a difference in opinion between IT, the Controller's Office and the Audit Department on reporting tools. The departments are working together to come up with a workable solution.

A high level review of the Banner upgrade implementation is planned, although it is delayed in part due to change in ERP group leadership. Chairman Gallegos asked if all applications that can be used in Banner are being used. Ms. Lovell stated that UNM does not use everything; even Banner personnel have said at least one application of Banner is not the optimal course for our use. Mr. Gonzales stated the review could be equated to a "health check."

There is a separate network system at UNM Gallup. They need to obtain a method of system backup and have better documentation.

Chairman Gallegos asked Lee Peifer to update the Committee regarding status of contract signature authority. Mr. Peifer told the committee that the President directed the composition of an Enterprise Risk Management team. Their first assignment relates to the findings in the Business Contracts audit. Carol Stephens reported that by the end of this year they hope to have recommendations for changes to the signature policy. By July, 2011, the Contract Review Officer training recommendation and contract monitoring recommendations should be complete.

- Mr. Patel reviewed the First Quarter Director's Status Report. The first item was the FY11 Audit Plan. There are 9 current, in-process audits and investigations, as well as 14 other audits scheduled for FY11, for a total of 23. The Department will be approximately 3280 audit hours short, which translates to the two FTE the Department lacks. Therefore, some audits on the Plan will carry forward to FY12. If any audits do not use all their allotted budget hours, or if we get fewer fraud and misconduct contacts, those hours can be transferred to other audits. Chairman Gallegos asked about three Health Science Center (HSC) audits and if Internal Audit will do them or if REDW will. Mr. Patel and Ms. Lovell explained that REDW does strictly UNM Hospital audits, not HSC.

Summary of the Regent's Audit Committee
October 21, 2010

- Mr. Patel reported out on items he was asked to follow up on from the last meeting, including a salary summary of 159 employees, and the percentage of Faculty FTEs in comparison to all other FTEs. The LFC reported this information from the FY11 approved budget. HR is in the process of preparing a UNM employment analysis for July 1, 2007 – June 30, 2010 to present in the December Board of Regents meeting. Mr. Patel also followed up for the Committee on Foundation salaries, per request of Regent Koch. Mr. Patel provided information showing employees who left UNM for the Foundation and their respective salary incentives. This will be discussed further at the Finance and Facilities meeting. The Committee wanted follow-up on the LFC evaluation. This information was already provided by Marc Saavedra at the beginning of this meeting. Finally, the Committee had requested information on Special Administrative Components (SACs). Mr. Patel provided the Committee with information on 2010-2011 adjustments. Chairman Gallegos asked the Provost to speak on how SACs originate and amounts are determined, etc. The Chairman wondered why the amounts differ greatly. The Provost stated the process generally begins with a Department Chair or the Dean's office; she wants to get back to the committee with a more comprehensive report on this issue. There are several reasons the amounts differ, including if summer salary is a factor. All SACs must be approved by the Provost. Mr. Wood agreed with the Provost's assessment, and stated that any report on this needs to be prepared carefully.

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

- a. Presentation of FY10 External Financial Audit pursuant to exceptions at Section 10-15-1H NMSA (1978) and Section 12-6-5 NMSA (1978) (*Moss Adams, KPMG, and Ava Lovell, Vice President for Finance and University Controller*).
- b. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978)
- c. Proposed FY11 Audit Workplan exceptions at Sections 10-15-H(2 and 7), NMSA (1978)
- d. Discussion of Final Internal Audit Reports, pursuant to limited personnel matters exception at Section 10-15-1.H(2) NMSA (1978) and exception for matters subject to attorney-client privilege pertaining to threatened or pending litigation at Section 10-15-1.H(7), NMSA (1978)
- e. 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.

- The Committee moved to approve REDW contract for UNM Hospital audits beginning October 31, 2010, for one more year (Motion: Regent Koch, Second: Chairman Gallegos).
- The Committee approved three University of New Mexico Hospital audits (Motion: Regent Koch, Second: Chairman Gallegos).

There being no further business, the meeting was adjourned at 12:35 p.m. (Motion: Regent Koch, Second: Chairman Gallegos).

Approved:



Audit Committee Chairman