

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
June 17, 2010 – Meeting Minutes

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

Other Attendees: Brandon Fryer (Moss-Adams), Wayne Brown (Moss-Adams), Cynthia Reinhart (KPMG), John Kennedy (KPMG), Jaime Clark (KPMG), David Harris, Suzanne Ortega, Ava Lovell, Gilbert Gonzales, Michael Carr, Duane Arruti, Louis Sullo, Linda Johansen, Ellen Wenzel, Lee Peifer, Liz Metzger, Susan McKinsey, Carmen Brown, Richard Wood, Helen Gonzales, Avedona Lucero, Lisa Wauneka, Christine Chavez, Lola Neudecker, Betsye Ackerman, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 8:44 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the Minutes from April 15, 2010 (Motion: Regent Koch, Second: Chairman Gallegos).
- The Committee unanimously approved the proposed FY11 Audit Committee meeting schedule (subject to change).

INFORMATION ITEMS:

- Moss Adams and KPMG presented the entrance conference materials for the external audit. This is the last year for the Moss Adams contract. KPMG is also under the same limitation for the Medical Group and the Hospital. Regent Koch asked when the RFP goes out, if it is permissible for KPMG to bid for the contract. KPMG said yes they could bid and they could subcontract the Medical Group and Hospital side if they chose to.

Mr. Fryer listed the staff involved in the external audit and summarized what they are engaged to do. There are 2 components. The first component is financial statements, including government-wide financial statements, as well as activity of the Hospital and Health Sciences. Moss Adams is responsible for the Main Campus and component units, all the Branches, and the Health Sciences Center and all its component units. KPMG is responsible for Hospitals, related clinical operations, and the UNM Medical Group. The other component is the Federal Grant Compliance audit. There are key professional requirements they must abide by. The responsibility is for Moss Adams and KPMG to form and express an opinion on the financial statements and obtain reasonable assurance that they are free of material misstatement and to communicate significant matters. They are required to consider internal control deficiencies and will report on them if they find them, but it is not the focus of the audit. They take a risk-based approach; the audit plan changes as a risk assessment is performed every year. Last year included some major construction. This year will include an independent post-employment benefits actuarial study that Moss Adams will test.

Regent Koch stated that we paid for a special procedures engagement to look into the unrestricted fund activity; he wanted to know if we can just include that information up front in this Moss Adams external audit. Wayne Brown told the committee that can be done if the University wants it done. Chairman Gallegos noted that based on Moss Adams’ previous recommendation, the Regents will now be provided a quarterly update, and asked Regent Koch if that might give him what he is looking for. Regent Koch disagreed, and said if the faculty had those issues, we should address that. Chairman Gallegos said we could include that

information in the audit, just as long as it's understood this is not another special procedure. In fact, the contracted auditors did not perform the special procedure because we wanted somebody independent that does not do the regular financials.

Richard Wood, President of the Faculty Senate, stated it would be really valuable - if we could write it into the auditing contract - to include the information looked at in the special procedures engagement as part of the regular audit going forward. He agreed that it could be done as part of the regular audit, with the contracted auditors, and therefore not spend more money on it in the future.

Chairman Gallegos asked about UNM Foundation investments on the financial statements. Mr. Fryer verified that UNM Foundation information is included in the audit process. Moss Adams has a special team who are well versed in investments.

Mr. Fryer further stated there is a great deal of testing on the Banner internal controls. They bring in their IT specialists who are very familiar with the Banner system. Regent Koch noted he has heard there are functions of the Banner system that are not being used - things that are being done manually. The planned timing of the Main Campus audit includes final testing in August, field work to be complete September 20th, and the report will be submitted to the State Auditor by October 15th. This is a month in advance of the formal deadline.

Regent Koch asked Moss Adams about auditing Regents' endowment funds. How are the funds being used, and how are they being invested? The revenue is supposed to go toward scholarships, etc. Regent Koch asked if Moss Adams can build in a schedule showing the transfer of University employees to the Foundation, salaries and salary increases, as well as investment funds and liquidity of funds. Chairman Gallegos added he feels this is the right time to be looking at the Foundation. Moss Adams can provide the Committee with additional information but additional reporting may increase the cost of the audit.

John Kennedy provided the Committee with an introduction to KPMG's portion of entrance conference materials. This information has been provided to the Hospital. Interim procedures and internal control tests are in process. IT specialists are out in the field as well. A preliminary report will be delivered to UNM in mid-September.

A new area of focus is adult infusion clinics, as well as new accounting cost centers. Other areas of audit will be similar as in the past. KPMG also uses specialists to address the specific risk areas of the audit. KPMG works with REDW and JoAnn Woolrich regarding internal audit activity.

Cynthia Reinhart reported to the Committee regarding UNM Medical Group. There are specific activities the Medical Group undertakes, such as physician-generated patient revenue from medical practice. There is also activity in relation to uncollected patient accounts and uncompensated care. Chairman Gallegos wanted to be able to look at the trends. Ava Lovell stated they do have that information available in the yearly healthcare summit report. Some areas KPMG will look at include the arrangement between entities for physician compensation, medical malpractice, and costs for the Sandoval County center. Chairman Gallegos is also interested in trends for medical malpractice costs.

- Helen Gonzales from Human Resources (HR), Lee Peifer from University Counsel, Provost Ortega and Deputy Provost Holder participated in an exchange of ideas with the Committee regarding disciplinary processes and policies. The audit process can reveal problems, discrepancies,

violations, conflicts of interest, etc. The Committee wants to know what happens when something is found – what are the consequences? Per Chairman Gallegos, the administration of any consequence should be done fairly and administered justly and evenly.

The Provost addressed the question in reference to the Faculty. She stated the actions are different than those that might apply to other areas. There are 5 or 6 different types of actions that might result in discipline for a Faculty member. Processes differ depending on offense. An example is conviction of a crime - which is grounds for dismissal. It is not automatic dismissal, but dismissal is an option. Research fraud has a clearly identified Federal process with clear steps; this falls under the Vice President for Research. Chairman Gallegos stated that process is cumbersome and lengthy. The Chairman asked if there is any give in the process. The Provost stated she could provide the Committee with more information on the timeline and process steps if the Committee requests it, but she does not have specific information at this time. Mr. Peifer noted the staff discipline policy is contractual; on the Faculty side there is a separate process for tenured Faculty that does take time but is not unclear.

Another example would be managerial ineptitude (for chairs, deans, etc.). This does not often occur, but could include failing to provide supervision or lack of professionalism in the workplace. A supervisor may decide to remove a person from that position for these types of reasons. Dereliction of duty could be a result of not fulfilling the role, i.e. not showing up for classes, etc. There is a process for “progressive discipline” through a post tenure review. Mr. Peifer noted there is a statutory requirement that we have post tenure review. Sexual harassment, racial discrimination, and conflict of interest are grounds for disciplinary action as well. Conflict of interest on the Faculty side usually applies to issues around research and intellectual property.

Chairman Gallegos asked the Provost about who is responsible for levying consequences if Internal Audit goes into a department and finds an issue (not related to research fraud) with a Faculty member. The Provost responded that it would first go to the Dean's office; the Dean would likely consult with the Provost. They would try to determine if it was intentional or inadvertent, or a lack of appropriate internal controls, etc. Below the level of termination, there is not a clearly defined process that is analogous to the staff process. Chairman Gallegos asked Mr. Peifer where the proper place for it would be if policy is developed. Mr. Peifer responded that he has not analyzed this, but possibly in the Faculty Handbook. Dr. Holder noted post tenure review can be used as a deterrent because of threat of continuation of review and possible termination. He stated that in the case of a chair, deans can remove chairs from that position, but they cannot remove tenure or fire the Faculty member without post tenure review.

Regent Koch stated the Committee has not heard from the Provost what happened in two previous cases where this was a concern. The Provost stated that action has been taken and this will be further discussed as a personnel matter in executive session. They are developing a process for monitoring compliance with the system. And, if a problem is unique to a department or college, they can insist on supervisors' participation in a clear dialog on expectations and appropriate ways to monitor the situation. Chairman Gallegos suggested that Legal work with Faculty and put a policy in place to report back to Internal Audit and for Internal Audit to report to the Committee on these matters. Word will get out; this will have an effect, and everyone will understand that the University is serious about consequences. The Provost agreed to work with Faculty Senate and Legal on this. Richard Brown from Faculty Senate stated he is confident that a policy could be developed within a year.

Helen Gonzales reported that UBP 3215 Performance Management for staff is clear on steps and philosophy. Generally, progressive discipline is implemented, unless it is an egregious offense.

The policy includes the supervisor's responsibility, and action is taken in consultation with HR. For suspension or discharge, it requires Ms. Gonzales' specific approval. HR has a good reporting relationship with Internal Audit. Sometimes coming to an agreement with the specific department on what the final action should be slows the process down. HR has a bigger picture of what has happened across the University in previous cases. They try to be consistent. HR will advise, consult and recommend, and the supervisor implements the final action. HR often advises and consults with Dr. Holder as well. Staff members who report to Faculty, but are not themselves classified as Faculty, are subject to staff policy and are possibly also covered by Union agreements.

Chairman Gallegos concluded this discussion by stating he thinks this is an important issue that speaks to the culture of the University, and that hopefully we are moving the culture in the right direction.

- Status Reports - Ms. Chavez provided the Audit Committee with three reports as of June 11, 2010: "Past Due Findings," "Cleared Findings," and "Not Past Due Findings." Ms. Chavez informed the Committee that this is the process Internal Audit uses to follow up on recommendations. This would include information on disciplinary action. The first report is the Past Due Findings. Internal Audit has made good progress on these findings. The first past due item (Gramm-Leach-Bliley Act and the Cardholder Information Security Program) will come off once the President approves the policy. Harwood Museum has had a lot of turnover. The new Director will be starting July, 2010, so it is not clear when the strategic plan will be developed. David Harris stated they are making progress on this item, but this is a lengthy process. The museum has achieved fiscal stability and has come a long way; Davis Harris stated he could provide the preliminary strategic plan. Ms. Chavez has stated the disaster recovery plan item will be cleared when the contract is finalized. Gil Gonzales, CIO, stated Legal just released the contract to his office. The finalized contract will allow for off-site storage of critical data. The remaining Physical Plant recommendation is complicated. Bill Cottrell in the Internal Audit department is working with them to clear this final item. Chairman Gallegos recommended that the responsible party at the Physical Plant be present for the next Audit Committee meeting if the recommendation is not closed. UNM Press has also gone through some transition, making the recommendation for shopping cart functionality past due. Their entire website is currently down. A new Director of UNM Press should be in place soon; they are waiting for contract signature.

The Committee reviewed the cleared and not past due items. Significant progress has been made in the cleared items. Internal Audit has closed multiple recommendations, especially in Enrollment Management and UNM Press.

Chairman Gallegos asked about the reporting relationships for financial vice presidents. The President asked for an extension to October, 2010 due to the external audit, etc. Ms. Lovell stated she will have a list of people and goals at the next Audit Committee meeting. Chairman Gallegos also asked that the status reports be printed in larger type. Ms. Chavez stated if we can remove information in some of the rows and delete rows, it will help. Chairman Gallegos noted that they only need to get the open and past due items, not the ones that are completed to the satisfaction of the Internal Audit department.

- Ms. Chavez discussed the Director's Report with the Committee. Internal Audit has filled two vacancies in the Auditor 3 positions. Betsy Ackerman started on June 1st. She has 10 years experience as a CFO, has construction auditing experience, comes highly recommended, and holds a CPA. Lola Neudecker started June 14th. She is also a CPA, comes highly recommended, has worked at UNM before, and she is a Certified Fraud Examiner. The Committee welcomed them

both. Ms. Chavez also told the Committee that we have an employee who announced her retirement in May, to be effective June 30th. That leaves 2 vacancies for the new Director to fill – one Auditor 3, and the Audit Manager.

The Audit Department had to do an equity adjustment to bring the auditors in line with the new hire salaries. This was covered by vacancy savings. Internal Audit is projecting approximately a \$25,000 carry forward balance, in lower expenses due to vacancies and also the actual vacancy savings. If the vacant Auditor 3 position can be filled at a lower level, or the structure is reorganized, the current budget may only need a slight increase. However, the Audit Manager position was not upgraded at the time of the upgrade of the Auditor 3 positions; currently they are at an equal grade level. Therefore that position will need to be upgraded, which will cause a greater shortfall. Chairman Gallegos noted that the Committee wants to beef up the Audit Department, and the University needs to look at where there might be some budget available.

Chairman Gallegos asked for the Hospital audits to be moved off the agenda for this meeting; he wants Legal to review the possibility of discussion in open session.

- Chairman Gallegos asked Lee Peifer about use of outside counsel by the Legal Department as a follow up to Regent Koch's request for budget information at the last meeting. Mr. Peifer provided the information. Regent Koch noted the \$4.5 million expense in 2006, at the time of the original consolidation of the Legal Department. There were extenuating circumstances in that year. Since that time, each year has averaged \$2.5 million. This year, it looks like it will be considerably less, perhaps \$1.5 million. The Legal Department at UNM does not do litigation in house. Regent Koch is concerned about how much money is still spent on outside counsel versus bringing in more of the work. As the legal work related to large real estate projects is contracted out, Regent Koch asked about the possibility of increasing the real estate capabilities of our own Legal Department. Mr. Peifer stated the level of that work is very complicated, and that it would be very difficult to do in house.

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

- a. 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(2 and 7), NMSA (1978)
- b. 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)
- c. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978)
- d. 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 approved the following audit for publication (Motion: Koch; Second: Gallegos):

Summary of the Regent's Audit Committee
June 17, 2010

There being no further business, the meeting was adjourned at 12:17 p.m. (Motion: Chairman Gallegos,
Second: Regent Koch).

Approved:



Audit Committee Chairman