

THE UNIVERSITY OF NEW MEXICO

Board of Regents Audit Committee

January 22, 2010 – Meeting Minutes

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

Other Attendees: David Schmidly, David Harris, Ava Lovell, Gilbert Gonzales, Michael Carr, Bruce Cherrin, Ellen Wenzel, Ella Watt, Cynthia Reinhart (KPMG), Jamie Clark (KPMG), Therese Sears (Moss-Adams), Brandon Fryar (Moss-Adams), Wayne Brown (Moss-Adams), Manu Patel (LFC), Charles Sallee (LFC), Jacob Candelaria (LFC), Craig Johnson (LFC), Susan McKinsey, Bruce Cherrin, Carmen Brown, Suzanne Ortega, Douglas Brown, Brenda Claiborne, Kathleen Sena, Brian Malone, Robert Valdez, Julia Fulgham, Richard Cripps, Helen Gonzales, Avedona Lucero, Lisa Wauneka, G. Christine Chavez, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 8:45 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the Minutes from October 23, 2009 (Motion: Regent Koch, Second: Regent Abeita). Chairman Gallegos noted there were various items in the October minutes that required certain tasks to be done, so they should be revisited.

INFORMATION ITEMS:

- The Committee discussed the 2009 financial audit performed by external auditors Moss Adams and KPMG. Ava Lovell provided the financial reports related to this item. Chairman Gallegos asked for a few minutes to review the information. Regent Koch noted there is a lot of information and he would have liked to have received this prior to the meeting; Chairman Gallegos agreed. Ms. Lovell stated that the financial statements were brought forward and reviewed in closed session in October; there are no changes since that time, and it took a while for the State Auditor’s office to approve. Brandon Fryer of Moss Adams and Cynthia Reinhart of KPMG gave the presentation of the financial audit. The Moss Adams portion relates to UNM and the KPMG portion relates to UNMH and the UNM Medical Group.

The audit was performed in accordance with generally accepted auditing standards and the New Mexico State Audit Rule. The Federal Grant compliance audit is tested against Federal regulations and is a separate report within the materials provided at this meeting. The report contains the Opinion, the Internal Control Report, and the Federal Grant Compliance audit report. All were approved by the State Auditor. Both the UNM and UNMH reports are clean (unqualified) audit opinions. There were no significant deficiencies or internal weaknesses. Some other matters were presented to management for consideration, but these were not considered internal control deficiencies. There was also one instance of noncompliance with the State Audit Rule. Mr. Fryer stated the purpose of the audit is not to consider an opinion on the internal controls, but to issue an opinion on the financial statements. During the course of the audit, they risk-assess the financial statements and identify preventative controls to mitigate the risks, and then test the operating effectiveness of those controls. If they had noted any problems during this process, they would have reported them. Ms. Reinhart stated they do the same on the hospital side. They also have Information Technology specialists that come out and test Information Technology key controls every year.

Regent Abeita asked for clarification on what would be covered during the identification of possible significant deficiencies in the Federal Grant Compliance audit. Chairman Gallegos asked

specifically if the Department of Transportation Audit is included. Brandon Fryer confirmed that this audit would have included the programs for the current years that were audited, but the scope did not include the Department of Transportation audit itself because the time period of that audit is not included in the scope. In the Federal Grant Compliance audit, Research and Development is a high-risk program because it is complicated, the rules and regulations are extremely detailed, and the testing is exhaustive and very prescriptive. Student Financial Aid is also a very large program. In the past few years, there were exceptions which put Student Financial Aid in a high-risk category; there were no exceptions found in this audit year. The Renovation Project grant came up as high-risk this year, because it is non-routine. The HUD FHA guarantee on the UNMH side required specific testing.

The audit report was delivered to the State Auditor's office on November 3, 2009 (was officially due November 15). It was approved for release on December 11, 2009. The prior year findings from the 2008 report were tested and they were all found to be resolved. Many of these findings were in the IT area. The Committee reviewed the findings for this year.

Regent Abeita noted there are ongoing issues with disposition of property and IT, as well as timely reconciliations and ledger closing process for LoboClub. They relate to following policies and procedures and are not material to the financial statements. Ms. Lovell stated they have been working with LoboClub management, but LoboClub lost their accountant and has not rehired. Ms. Lovell noted the finding regarding disposition of property only relates to sending the certification of disposal of property to the State Auditor, not how the property was disposed.

Significant or unusual transactions included post-employment benefits' funding status. No assets are set aside to fund the obligation; it is fund as you go. An actuarial study was completed for 2008-2009. This is done every two years; therefore, there will be one for 2010-2011. Each year, the obligation will continue to grow, because UNM will not pay out as much as is being amortized into the liability. The Committee discussed pros and cons of switching to the State retirement plan.

Regent Koch asked about an item in the statements titled "Gifts." He wants to know how the numbers balance out. Ms. Lovell explained some of the money is cash assets, and some is investment endowments. There is some investment loss and that is something to be aware of. Mr. Fryer from Moss Adams stated they test and follow up on the investment area. Also, Moss Adams looked at the PIT and Cancer Center renovations; there were not any issues noted. Ms. Reinhart noted for the Hospital area, they looked at how they comply with insurance coverage, providing financials on a timely basis, etc. There are financial covenants that have to be met. The Hospital was in compliance with the HUD/FHA agreement (provide backing for bonds). In 2009, the Hospital transferred \$23 million to the HSC Plant Fund for the new Westside facility. Chairman Gallegos noted that will end up being about \$45 million. The Committee discussed funding for uncompensated care for underprivileged patients/charge offs/third party payors. All of the public money for the Hospital reviewed in this audit is properly collateralized.

Regent Koch moved to approve the audit; Regent Abeita seconded.

- Brandon Valentini from Moss Adams provided information on the process and status of the agreed upon procedures engagement. Moss Adams met with Professor Doug Fields and two professors from the Anderson Schools of Management (Professors White and Oakes) in December. The procedures were agreed to by all parties. Ms. Lovell described the levels of organizations and the level of detail agreed to for the engagement. This includes 36 units of the University (including the branches, but not Health Sciences) and all of the I&G categories. Each will have a separate page

broken down by year, budget, actual and favorable/unfavorable (i.e. over/under on budget vs. actual) columns. The information will be tied back to the Regent-approved budget schedule submitted to the State, and then to the financial statements/Banner (which was already audited). If the unit reports do not tie out to the total, the auditors will report on anything left over. A list of any discrepancies found will be included in the final agreed-upon procedures report. Chairman Gallegos asked Professor Fields if he had any questions on this first portion; Mr. Fields replied he did not. Regent Koch asked Mr. Fields if he approves this engagement process; Mr. Fields answered yes.

The Committee then discussed the portion regarding harvested funds and how those funds were used. Chairman Gallegos asked Professor Fields if he had any questions on this section; Mr. Fields wanted to know if there will be a similar report detailing this portion of the engagement. Moss Adams and Ms. Lovell said there will be. Mr. Fields and Chairman Gallegos asked that a statement noting the issuance of a report of the inflows and outflows of the harvested funds be added to the engagement letter. With that addition, Mr. Fields approved this section. The Committee discussed the Rio Rancho information to be included in the engagement. Mr. Fields asked if the transfer of funds for the hospital discussed earlier in this meeting will be included. Ms. Lovell noted it would not be included, because it is not in the scope of this engagement. Mr. Fields stated that is acceptable.

Mr. Fryer discussed what the plan and timeline is for this engagement. The engagement letter must be sent to the Professional Practice Group at Moss Adams' headquarters. After their approval, Mr. Fryer will send this letter to Chairman Gallegos for his approval on behalf of the Regents and to Mr. Fields for his signature. This should take place within approximately a week from the date of this meeting. Chairman Gallegos asked Mr. Fryer if we are still within budget and the timeframe (completion date of May) for this project. Mr. Fryer stated that he believes they are within budget and the timeframe. He further stated that a draft should be complete by the April 15th Audit Committee meeting.

The Committee discussed the confidentiality agreement. According to Lee Peifer, University Counsel, it is drafted and ready for Audit Committee approval and signature by Mr. Fields. Mr. Peifer provided the document to the parties. The Committee and Mr. Fields agreed to get back to Mr. Peifer within a week. Regent Abeita noted that the confidentiality agreement extends for a time period of one year after the date of the engagement. Mr. Peifer replied that there are three (3) categories of information: records that are public domain (non confidential); confidential information developed during course of work that will cease to be confidential after Committee approval of the report; and information developed during the course of work that does not become part of the report, and this is the information covered under this agreement for one year. Chairman Gallegos questioned if, since this is not an audit, whether the normal rules apply in this situation. In response, Mr. Peifer stated that in his estimation this has been somewhat unclear since the beginning. Chairman Gallegos said we will move forward with the nondisclosure agreement, but technically the statute may not apply.

Regent Koch moved to approve; Regent Abeita seconded.

- Manu Patel, Deputy Director, Charles Sallee, Program Evaluation Manager, Jacob Candelaria, and Craig Johnson from the Legislative Finance Committee (LFC) presented their Program Evaluation Performance Audit plan to the Audit Committee as part of their higher education work plan. This year, they will include UNM and New Mexico State University (work will be simultaneous). The three main objectives are governance, spending, and outcomes. Mr. Sallee presented the Committee with detail on each of the three objectives. This type of evaluation has not been performed at this

level for these institutions but has been done on approximately six school districts. Chairman Gallegos asked Mr. Patel what departments the LFC will need to work with. Mr. Patel replied that they will set up an entrance conference – they will need access to Internal Audit staff, the External Auditors, the Vice Presidents, the Controller, the Provost, the CIO, and the Banner accounting system. The LFC will provide a list. The University has already provided five year ledgers for financial and student information. The LFC will contact the Higher Education Department for information they can provide as well. If the Regents find areas not covered in the objectives that the LFC did not highlight, they may let them know; the LFC is open to discussion on these matters. The LFC plans to make a presentation on this project in June.

- Status Reports - Ms. Chavez provided the Audit Committee with three reports as of January 15, 2010: "Past Due Findings," "Cleared Findings," and "Not Past Due Findings." Ms. Chavez noted the first past due item (Gramm-Leach-Bliley Act and the Cardholder Information Security Program) will come off once the policy (that has been drafted) is actually put into place. The same holds true for the last past due item (Bookstore Credit Memos).

The Chairman asked about disaster recovery off site storage. The CIO stated there is a location, and they are looking for others. The documentation to support that the recommendation is implemented must be provided to Internal Audit in order for this item to be completed. When Chairman Gallegos inquired as to the need to hire an employee dedicated to support security, the CIO noted there is a decentralized security system on campus; this makes supervision of the process of locking prior employees' accounts difficult. Departments sometimes have their own systems, as well as the larger University-wide systems. Chairman Gallegos stated this is a priority and needs to be resolved, despite lack of any new personnel. The College of Fine Arts has hired a security officer, but Internal Audit has not received the guidelines to enforce processes, therefore the date of completion is postponed. The Physical Plant has a plan in place to resolve findings, and they are doing a good job in their attempts to clear them, although there are some outstanding issues.

The Committee reviewed the cleared and not past due items. Regent Abeita asked about compensating controls for dual roles (timekeeping/approving). Helen Gonzales stated this is an ongoing issue University-wide and said there is now a tracking program in place. There are about seven instances of this dual function (hold the role, but also use the role). In small departments, it is necessary for employees to have both functions, but not use them on the same transaction. Regent Koch asked about the Foundation's need to set up their own bank accounts; Ms. Lovell explained the current payroll and banking processes and how she is working with the Foundation to set up their own account.

- Ms. Chavez stated Internal Audit has two additional department vacancies, due to Richard Swanson taking another job in Nevada (last day January 6th), and the retirement of Pamela Losinski effective January 14th. Ms. Chavez also reiterated that she is retiring as well.

There are two new audits on the audit plan; there are now 22. Ten are complete, six are in progress, and six are delayed or unassigned. Due to lack of staff, we may have to narrow the scope of some of the remaining audits. There are no University Hospital items to present at this time. We are down to two open complaints, three have been referred, and six have been closed.

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(7), NMSA (1978);
- b. Discussion of limited personnel matters pursuant to exception at Section 10-15-1.H(2) NMSA (1978);
- c. Discussion of limited personal 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);
- d. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1.H(2 and 7), NMSA (1978); and
- e. Vote to re-open the meeting.

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

The Committee approved the following audits for publication (Motion: Koch; Second: Abeita):

- 2009-03 Robert Wood Johnson Foundation Center for Health Policy Audit of Business Practices and Procedures;
- 2009-05 Enrollment Management Academic Reporting – Timely Grade Reporting;
- 2009-17 Gallup Campus Audit of Business Practices and Procedures;
- 2009-19 Physical Plant Department Maintenance and Planning Division Audit of Alleged Conflict of Interest;
- 2010-01 Biology Department Noncompliance with Policy; and
- 2010-02 Enrollment Management Division Review of Time Reporting

Chairman Gallegos agreed to reallocate the hours for the Cancer Center to other projects on the Audit Plan but leave the project on the plan. Chairman Gallegos addressed President Schmidly and Helen Gonzales, stating that we need to move the salary bands up for the two vacant senior auditor positions; these are crucial positions that need to be filled by qualified people. Regent Koch stated we have made such headway with these audits, and being short-staffed is a real problem because these are so important. Also, Chairman Gallegos asked that the Administration not forget that special projects will also require funding.

There being no further business, the meeting was adjourned at 2:14 p.m. (Motion: Regent Abeita, Second: Regent Koch).

Approved:


Audit Committee Chairman