

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
October 23, 2009 – Meeting Minutes

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

Other Attendees: David Harris, Ava Lovell, Gilbert Gonzales, Michael Carr, David Sabolcik, Bruce Cherrin, Ellen Wenzel, Steve McKernan, Rodney Martinez, Ella Watt, Cynthia Reinhart (KPMG), Jaime Clark (KPMG), Therese Sears (Moss-Adams), Brandon Fryar (Moss-Adams), Wayne Brown (Moss-Adams), Jason Galloway (Moss-Adams), Helen Gonzales, Paul Krebs, Melissa O’Neill, Avedona Lucero, Lisa Wauneka, G. Christine Chavez, William Cottrell, Richard Swanson, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 8:30 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the Minutes of the Regents’ Special Audit Committee Meeting from September 18, 2009, pending 3 minor changes (Motion: Regent Koch, Second: Regent Abeita). The changes to the minutes are: adding one omitted sentence regarding no objection, on page 4, to Moss Adams as external auditor for the agreed-upon procedures. The other two changes (non-content-related) were incorrect name references.

INFORMATION ITEMS:

- Audit Director Christine Chavez asked the Regents to approve renewal of REDW’s internal audit contract with the UNM Hospital. It is an annual contract with options of yearly renewal for up to three years, and includes a three percent increase each year. This is year three of a four year contract. Ella Watt, CFO for UNM Hospitals answered questions posed by Chairman Gallegos regarding the outsourcing of the internal audit function. Ms. Watt’s informed the Committee that UNMH has staff members that focus on compliance/fraud issues; REDW performs approximately six audits per year and focuses on balance sheet-issues. They offer UNMH the benefit of industry best practices along with their expertise. Regent Koch stated that the Audit Committee previously looked at this issue and decided the cost was too prohibitive to do it in-house, due to the need to hire technical people and keep them trained. Ava Lovell, Vice President for Finance and University Controller noted that the hospital is a very different entity. The estimated contract amount is just under \$166,000 for 1,500 audit hours. Ms. Chavez noted the UNMH audits are presented to the Hospital Clinical Operations Board versus our Audit Committee, and Ms. Lovell added they are presented to the HSC Regents Committee. Ms. Watt informed the Committee that when they decide what areas to audit, they perform a risk assessment and work closely with Ms. Chavez. The Hospital Board of Trustees Audit Committee approved the renewal for 2010, pending approval from the Regents. Chairman Gallegos stated we need to take another look at using the external auditor versus using UNM Internal Audit in the future. Issues include the reporting process of the UNMH in-house audit reports, and also UNMH directing the external auditor which audits to perform. Ms. Watt stated the operational budget kicks off in February and UNMH could look at what the cost would be to bring it in-house. She could work something up on that. Ms. Chavez added to also look at the risk assessment. Chairman Gallegos asked Ms. Watt to bring back to the Committee the REDW estimates versus actual expenses for 2008 and 2009. Regent Abeita made a motion to approve this year of the REDW contract (Second: Regent Koch).
- Ava Lovell, Vice President for Finance and University Controller and Wayne Brown of Moss Adams addressed the Committee about the status of the faculty-requested agreed-upon procedures

review. Moss Adams has not started the process because they are immersed in the annual financial statements audit and preparing the financial statements. Ms. Lovell also noted the 2009 audited financials are part of the agreed-upon procedures review, so they need to be completed before beginning agreed-upon procedures work. Mr. Brown stated within the next couple of weeks, they will begin to determine what will be done in each area. This will take some time because it will be very specific. The actual work will not begin until January due to their staffing situation. Ms. Lovell also has some staffing availability issues. Chairman Gallegos noted that Ms. Chavez presented the scope to the Regents, and Moss Adams will develop the plan. We are still working with the estimate of \$50,000. Regent Koch expressed concern that this is taking so long; we need to look at how to speed this up, so as not to continue to fuel suspicion. Mr. Brown estimates it will be complete in early March. Mr. Brown further stated he would have the plan ready to begin the audit by the time of the Audit Committee meeting in January. Chairman Gallegos asked if we could move the Committee meeting date up, because Moss Adams should be ready by the 15th of January. Discussion returned to the level of involvement in the process of Mr. Fields as representative of the Faculty Senate. The Committee and invested parties discussed this at length at the last Audit Committee meeting, and that discussion can be found in the minutes of September 18, 2009. Regent Abeita asked for periodic progress reports regarding the process of the plan prior to January. Mr. Brown agreed. Ms. Lovell agreed to have her staff ready and available to pull the data in January as well. Patrick Apodaca, University Counsel, has a draft confidentiality agreement, but wants to make sure Moss Adams is satisfied with the conditions therein. Chairman Gallegos stated we will see what the plan looks like, and then go from there with the confidentiality agreement. Mr. Fields asked about the faculty involvement in developing the agreed upon procedures. Chairman Gallegos stated we know what the scope is, and we need to let the professionals come up with the plan. The faculty and administration will review the procedures after Moss Adams develops them and provide input at that time.

- Ms. Lovell reviewed the IRS Form 990 and 990T with the Audit Committee. Chairman Gallegos asked for the differences between the forms, what is required for each type of filing, and who is required to sign each form. Ms. Lovell explained that the University, as a government entity, is exempt from filing the 990 and files 990T. Several entities at UNM do file a 990 (the Alumni Department for example). KPMG in Oklahoma City reviews the filing of the 990T and backup schedules each year. Ms. Lovell reviews the document and all backup information. Elizabeth Metzger, Chief Finance and Treasury Officer, signs the form. Ms. Lovell can and has signed it as well. The chief executive of any entity that files the 990 signs that form. The purpose of the 990 is to show we are following the proper procedures as a not-for-profit. The 990T provides the IRS information regarding tax for business unrelated to our exempt status, such as food sales in the Student Union, bookstore sales, telecom, etc. Chairman Gallegos said this discussion is helpful because it is important for the Regents to understand the 990T process.
- Audit Director Chavez presented the draft of the Internal Audit Department Annual Report to the Committee members. Highlights included:
 1. Chart 1 shows Internal Audit significantly increased the amount of hours devoted to the audit plan.
 2. Chart 2 shows the status of the FY09 audit plan. The completion rate for FY09 is 26%. Ms. Chavez explained that a change in the meeting date in June allowed some reports to be presented to Committee in that meeting that would normally roll over into October. Also, the scope of some of the FY09 audits was large. Page 5 shows all audits; five audits are related to fraud and misconduct, which will required priority and significant time and will delay or replace audits on the audit plan.
 3. Performance goals are on page 7. The first one is 50% of audits originated from the risk-based plan, and that goal was achieved. The next is to complete 75% of audits within 15% of budget hours, and we exceeded that goal at 83%. Another goal: potential cost savings

will be 100% of the departments' budget. We identified \$537,000, which is 79%. These monies are related to potential fines, money not deposited, etc. We would like to revisit this measure because this is a difficult area to measure as it is hard to determine the number and collect the data. Regent Gallegos asked how often we meet this goal. Ms. Chavez replied this is probably the first time we have missed it. In the area of coordinating investigations and streamlining the process, we have been working with Human Resources and some other areas, and our department has drastically improved coordination. Where we need to improve is in notifying the complainant within 10 days of the status of their complaint. The final goal is being more proactive. We continue to participate with other departments in trainings such as Cash Management and Principal Investigator. We are working on fraud training and instituting our tip of the month on our own listserv. Due to workload and some issues obtaining the listserv, this is not complete at this time.

4. On page 11, Chart 5 shows we had 87 contacts in 2009, which is an increase from 71 in 2008. This affects our work plan.
5. Areas where Internal Audit would like to improve are:
 - Continuing to improve the investigative process and work with other departments;
 - Internal control training for UNM departments; and
 - Reduce amount of time between filed work and issuing the reports.

Ms. Chavez reported we currently have seven auditors; six are CPAs and one is a Certified Internal Auditor. Of these seven auditors, one is an Information Technology Auditor who is a Certified Information Systems Auditor, and two are Certified Fraud Examiners. The Internal Audit Manager position is currently vacant, but the job is posted and the screening process is underway. Regent Koch commented that Ms. Chavez is doing very well, especially considering the size of the staff. Regent Abeita likes the note in the annual report that five of the seven are graduates of UNM.

- Ms. Chavez provided the Audit Committee with three reports as of October 16, 2009: "Past Due Findings," "Cleared Findings," and "Not Past Due Findings." New this time is listing the recommendations by priority. Criteria for prioritizing included legal issue(s), potential fine(s), and significant effect on operations and/or revenues. The first report – Past Due – contains concerns about the act covering credit card information. The Gramm-Leach-Bliley Act requires that policies are in place relating to credit card security information. Regent Koch asked if the State Risk Management covers any related fines for UNM if found non-compliant. Ms. Lovell stated she does not believe UNM is covered. Regent Koch asked that she check on that and also the contract with card issuers. Ms. Lovell stated they overhauled the system with Bank of America. No credit card information is kept; it goes directly to Bank of America. UNM also has software that checks for any credit card information in the system and registers an error if anything is found. Policy does need updating to reflect the new system. Ms. Chavez informed Chairman Gallegos that the law requires there must be a policy in place on how the information is secured. That is what we don't have. Internal Audit's responsibility is to make recommendations that these systems need to be in place. Management establishes the policy. The policy is waiting in the Policy Office. Ms. Lovell will check on the status. Regent Koch stated enforcement of the policy, once in place, is also essential. Regent Koch asked if legal reviewed the contract with Bank of America. Mr. Apodaca stated someone in that office would have. Regent Koch asked that they really take a hard look at the contract. Regent Abeita asked if the store at the PIT is an independent contractor (in the context of credit card transactions), and Mr. Krebs (Athletics) noted it was an independent contractor until last summer; it is now part of the bookstore, and no longer independent. Other items on the past due report deal with information technology. The Banner upgrade may take care of some of the findings. Also, many of the recommendations deal with policies and procedures. Ms. Chavez informed the Committee when you have limited resources and are trying to maintain daily

operations, writing policies and procedures is time consuming, so these types of recommendations fall to a lower priority. Fraud and investigative items usually get resolved pretty quickly. Internal Audit is diligently trying to work with departments to get the findings cleared. Several audits have cleared: Art Collection Management; Enrollment Management (ENLACE); and all but one of the Ticketing recommendations cleared. Physical Plant cleared some recommendations, and others are open but not past due. The last report is the status of open recommendations that are not past due.

- Ms. Chavez told the Committee that she already covered most of what is in the Internal Audit Director's Status Report. The one thing Ms. Chavez wants to note is that Internal Audit has really been working on the compliance database. There were many pending complaints that have not been resolved or referred. Last year there were 22; at the last Audit Committee Meeting, there were 10. The number is now down to three, so there is marked improvement.

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

- a. Presentation of FY09 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 FY10 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 Sanchez, Second: Regent Eaves). Certification that only those matters described above were discussed in Executive Session.

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

- 2008-02, Accounts Payable Department Audit of Selected Accounting Processes
- 2008-05, Review of Selected Business Process Redesign
- 2009-02, UNM-Valencia Audit of Financial and Operational Efficiency

The Committee approved the FY10 Audit Plan with the addition of the University Architect. Regent Abeita made a motion to approve, with inclusion of the University Architect; Regent Koch seconded.

There being no further business, the meeting was adjourned at 12:22 p.m. (Motion: Regent Abeita, Second: Regent Koch).

Approved:



Audit Committee Chairman