

THE UNIVERSITY OF NEW MEXICO  
Board of Regents Audit Committee  
April 15, 2010 – Meeting Minutes

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

Other Attendees: David Harris, Gilbert Gonzales, Michael Carr, Duane Arruti, Bruce Cherrin, Ellen Wenzel, Lee Peifer, Michele Huff, Therese Sears (Moss-Adams), Brandon Valentini (Moss-Adams), Wayne Brown (Moss-Adams), Susan McKinsey, Douglas Brown, Brian Malone, Robert Valdez, Julia Fulgham, Craig White, Jeffrey Wiggins, Craig Johnson (LFC), Jacob Candelaria (LFC), JoAnn Woolrich, Norma Allen, Doug Fields, Carmen Brown, Louis Sullo, Carol Stephens, Liz Metzger, Anne Murray, Helen Gonzales, Avedona Lucero, Lisa Wauneka, G. Christine Chavez, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 8:40 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

**ACTION ITEMS:**

- The Committee approved the Minutes from January 22, 2010 (Motion: Regent Abeita, Second: Regent Koch).
- Elizabeth Metzger, Chief Finance and Treasury Officer, presented information regarding recommendation for Moss Adams as external auditor for FY10. This will be the last year per the State Audit rule that Moss Adams can be external auditor. Moss Adams will again subcontract for FY10 with KPMG for the clinical operations portion of the audit. Chairman Gallegos asked for clarification on the fee increase. Wayne Brown from Moss Adams noted it was built into the Request for Proposal (RFP) for cost of living/inflation increase. Ms. Metzger noted that the fees for a portion of the audit that will not be performed will drop off (NM Lamda Rail) and will lower the total cost. Chairman Gallegos also asked for clarification on the term "financial statement preparation." Mr. Brown stated that it refers to their time spent reviewing the financial statements. Moss Adams does not prepare the statements; they are prepared internally. According to Mr. Brown, the fees on the RFP are a cap; they will be no more than what is listed. Brandon Fryer will be the lead. An RFP will go out for the FY11 external audit. The RFP goes to HED, and the State Auditor has final approval; the contract is per their template.

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

- Brandon Valentini from Moss Adams updated the Committee regarding the process and status of the agreed upon procedures engagement. Moss Adams provided the Committee members with a draft copy and subsequently guided them through the 3 procedures included in the report. Wayne Brown noted they had excellent cooperation from everyone involved in the process.

Procedure 1. Moss Adams reviewed and discussed Unit reports, which correspond to internal accounting units and are broken down into 6 categories. Professor Fields asked Moss Adams to explain Items #1 and #2 - restricted and unrestricted funds - and why restricted funds were not broken down by category. Mr. Valentini noted the processes were followed per the engagement letter. Chairman Gallegos asked what the restricted and unrestricted funds refer to. Ms. Metzger stated that restricted I&G is very small, because most I&G funds are unrestricted. The restricted funds shown in this report are Federal and State work study funds. Each unit report was verified for mathematical accuracy, agreed the reports in total to the budget reports submitted to the State. They were also agreed to the financial statements. The category titled "Other" is anything that did not fall under categories 1-5. Mr. Brown noted that the 2005 Banner installation may affect the numbers

during that time frame. Regent Abeita asked David Harris about a line item titled "Independent Offices." Mr. Harris stated he would have to do some research on what this refers to.

Procedure 2. Discussion continued on to the next subject-- harvested funds into and out of the contingency fund. The harvested funds were reviewed for Regent verification of approval and traced to the detail of the contingency fund. For transfers out of the contingency fund, journal entries were reviewed to ensure they were properly approved within the University's approval system. Norma Allen from the Budget Office provided an example of when money could be taken from the contingency fund: if the University expends more in fringes than is budgeted in a year, money is taken from a central fund to balance the budget, and is done pursuant to Regent policy. Major sources of ending balance recovery include investment income that is realized and tuition income received that was not budgeted. Harvesting is not the only source of income into the fund. Moss Adams recommended that management report the detail of this account to the Regents on a quarterly basis versus yearly. Mr. Harris agreed with that recommendation. All initiatives funded from non-recurring revenue are brought to the Regents for approval.

Procedure 3. The discussion concluded with a discussion of Rio Rancho Campus funds. Again, the mathematical accuracy was verified, and the Rio Rancho budget information was agreed to the approved budget for the University. Mr. Fields stated he has not had the opportunity to review much of this information with his colleagues. The essence of faculty concern is the impact of Rio Rancho on the mission of Main Campus.

As this is an agreed upon procedures engagement, not an audit, there is no opinion issued. Chairman Gallegos stated the Committee recommends acceptance of the report. The State Auditor wants to see the results of the engagement, but is not reserving any right to approve. The information will be accessible to the public. A summary of the report will be sent to the full Board of Regents for approval. Professor Fields noted that from the beginning he was asking for access to this information from staff on campus and that he is not particularly happy that took a year-long process that resulted in fear for those involved. He hopes it is not the case in the future.

Regent Abeita moved to recommend acceptance to the full Board of Regents. Seconded: Regent Koch.

#### INFORMATION ITEMS:

- Jeff Wiggins and JoAnn Woolrich presented the Health Science Center overview of the compliance function. The Committee received materials from Mr. Wiggins, including: the Regents policy establishing the compliance function at HSC; the designation of a Compliance Officer; and, the compliance plan document. Mr. Wiggins began as Compliance Director in July, 2005. He also serves as the Compliance officer for the UNM Medical Group and has served in that capacity since April, 2009. One of his first tasks was completion of the lengthy compliance program document. This details the staff and the program functions, charters of the committees, and the reporting structure. He also was tasked to assist in how the program should be structured. Mr. Wiggins reports to the EVP for Health Sciences Paul Roth. Ms. Woolrich, Executive Director of Compliance and Audit, is one of the component compliance officers and is with University Hospital. According to Mr. Wiggins, there are basically 8 elements for an effective compliance program. The structures vary amongst academic health centers. The compliance function of UNM Medical Group is responsible for such things as policy and procedures, codes of conduct, effective cultures of compliance, whistle blowing, Medicare and Medicaid regulation compliance, and HIPAA compliance. Mr. Wiggins provides very thorough, detailed reports to the Health Sciences Committee; Regent Abeita sits on this Committee. They are looking to change the reporting

structure, to where they report to the full Board. Ms. Woolrich confirms they have audit staff that do detailed audit work and audit reports. They also do fraud and abuse investigation. The majority of their audits look at if they are following Medicare and Medicaid regulations. Contractors do come in to perform various governmental audits externally. There are about 17 compliance staff members separate from Main Campus Internal Audit. Main Campus does share a compliance hotline with the Health Sciences Center. It is managed by a third party contract and is anonymous. Director Chavez does attend the Hospital Board Audit Committee Meetings, and the Audit Committee is provided copies of Hospital audit reports. REDW provides the internal audit function and focuses on balance sheet/accounting functions and internal controls. Mr. Wiggins stated his program has annual training and education on the 8 elements of the compliance program and that they do risk assessments, etc. There are also several committees, including a committee on IT security. Chairman Gallegos asked about pharmaceutical control. Ms. Woolrich stated REDW does comprehensive pharmacy reviews approximately every two years. The DEA also performs audits.

- Ms. Woolrich then presented to the Committee a cost benefit analysis for outsourcing the Internal Audit function at the Hospital. The outsourcing began in 1997. The national audit firms have additional resources and specialize in health care issues; they consult with other health care divisions. They can devote more staff if needed, depending on the scope of the audit. Chairman Gallegos is unsure if the cost will actually be a little more if we do it with our own Internal Audit Department. It is all business functions and it is all University of New Mexico. When the contract expires (currently in 3<sup>rd</sup> year of a 4-year contract), we need to look at possibly taking on the function. Ms. Chavez stated we would have to do a more thorough analysis of what the staff requirement would be, and the auditors would probably need to be housed at the Hospital, as there is no room in the Internal Audit office on Main Campus. Regent Gallegos stated that would probably make sense anyway. Regent Abeita stated that they need to look at that - when it comes time - to decide whether or not to even do an RFP after this contract.
- Status Reports - Ms. Chavez provided the Audit Committee with three reports as of April 8, 2010: "Past Due Findings," "Cleared Findings," and "Not Past Due Findings." Ms. Chavez informed the Committee that a significant number of recommendations were cleared and we are very happy with the progress. The auditors really worked hard helping to follow up on items from the turnover of auditors who left UNM. There are several items on the past due list that will clear as soon as the finalized processes take place, for instance on 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 work has been done, but the implementation has not been complete. Chairman Gallegos commented that is good because some of the dates are fairly old; he then asked which remaining ones are not moving as fast as they should. Ms. Chavez stated that the Harwood Museum is experiencing high turnover and that is difficult. The disaster recovery in IT is an issue, but they are working on it. Gil Gonzales, CIO, stated they are waiting for the contract to be signed. Ms. Chavez told the Committee that Internal Audit has a meeting with Enrollment Management next week to clear up their remaining items. Human Resources is working with Enrollment Management as well.

The Committee reviewed the cleared and not past due items. Ms. Chavez noted that Biology has been very helpful in working with Internal Audit; we are very happy with their cooperation. They have cleared a lot of their findings. Staff from Internal Audit also provided internal control training to the Biology deans, chairs and directors, as well as to their administrative staff.

- Ms. Chavez stated Internal Audit still has multiple vacancies, and an added issue of extended personal leave of a Senior Auditor. She noted the Internal Auditor 3 was upgraded from 14 to 15 to

attract more applicants for the vacancies and reposted the position. Interviews are in process. The number of certified applicants is very low. The posting is open until filled. She hopes to hire at least one auditor now, and then see if we get any more applicants. There is also a possibility of hiring one Auditor 2 because there are some applicants that are not certified. The Legislative Finance Committee audit is in the fieldwork stage. There may be a preliminary status report later this month, but the final report will be in July.

The meeting went into Executive Session for the reasons stated in the agenda. (Motion to close: Regent Abeita, 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) (*Christine Chavez, Internal Audit Director*)
- b. 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) (*Lee Peifer, Interim University Counsel*)
- c. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978) (*Christine Chavez, Internal Audit Director*)
- d. 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 audit for publication (Motion: Koch; Second: Abeita):

- 2008-03 Business Contracts Audit of Contract Monitoring.

Regent Abeita moved to proceed with the Payroll Audit, working in accordance with the Controller's schedule, and to proceed with an audit of Real Estate Operations (Policy and Procedures) and Finance. Regent Koch seconded. Ms. Chavez stated a preliminary analysis on Real Estate will be conducted. On the basis of the analysis, the Committee will be asked if they want to proceed with the audit. In reference to the plan for this audit, Chairman Gallegos wants to look at policies and procedures, as well as outside consultants, engineers, lawyers, appraisers, inspectors, etc. Regent Koch stated the Real Estate Department uses outside counsel for their lease agreements/projects. Mr. Peifer confirmed they do often use outside counsel, but that may be changing due to new staffing in the legal department. Larger projects will still involve an outside firm. Mr. Peifer further stated that use of outside counsel should be recommended by the Legal Department first, and must be approved by the President, but that is not always routinely followed. Regent Koch asked Lee Peifer to check the budget on how much money is spent on outside counsel. Chairman Gallegos agreed to remove the University Architect Audit from the Audit Plan, and add the Real Estate Audit.

Summary of the Regent's Audit Committee  
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There being no further business, the meeting was adjourned at 12:40 p.m. (Motion: Regent Abeita, Second: Regent Koch).

Approved:

A handwritten signature in black ink, appearing to read "J. E. Buller", written over a horizontal line.

Audit Committee Chairman