

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
June 16, 2011 –Meeting Minutes

Members Present: Chairman J.E. "Gene" Gallegos, Regent Lt. Gen. Bradley Hosmer, Regent James Koch (Quorum).

Other Attendees: Ava Lovell, Gilbert Gonzales, Helen Gonzales, Ellen Wenzel, Ella Watt, Brandon Fryar (Moss-Adams), Wayne Brown (Moss-Adams), Adam Cavin (Moss Adams), Cynthia Reinhart (KPMG), John Kennedy (KPMG), Suzette Longfellow (KPMG), Greg Monk (KPMG), Jaime Clark (KPMG), Halie Garcia (REDW), Richard Holder, Susan McKinsey, Duane Arruti, Mary Clark, Charles Sallee (LFC), Pamela Galbraith (LFC), Olivier Uytterbrouck (Albuquerque Journal), Liz Metzger, Carol Stephens, Bruce Cherrin, Chris Vallejos, Lisa Marbury, Richard Wood, Katie Richardson (GPSA), Manu Patel, Lisa Wauneka, Lola Neudecker, Betsye Ackerman, William Cottrell, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 8:32 a.m. in ROBERTS ROOM, Scholes Hall, UNM; All three Committee members present (quorum).

ACTION ITEMS:

- The Committee approved the Minutes of the Regents' Special Audit Committee Meeting from April 11, 2011 and Quarterly Meeting April 14, 2011 (Motion: Koch, Second: Hosmer). The Committee unanimously adopted the minutes.
- The Committee approved dates for the FY12 Audit Committee meetings. The dates are: August 18, 2011, October 20, 2011, February 16, 2011, and April 19, 2011.
- Moss Adams, KPMG and Ava Lovell, Vice President for Finance and University Controller, presented Entrance Conference materials for the FY11 external audit. Per Ms. Lovell, UNM completed the RFP process for the external audit. UNM accepted a proposal for a 3 year contract from Moss Adams in conjunction with KPMG. Although the proposal is for 3 years, per the State Audit Rule, you can accept a 3 year proposal and then do a 3 way contract that includes the State Auditor, the external auditor, and UNM. Each year you can go back out to bid or accept the second year or third year of the proposal. After one more year, Moss Adams will rotate off of the Main Campus audit and KPMG rotates on. Moss Adams will handle the component units in the second and third years.

Chairman Gallegos noted that the information gathered in the special procedure performed previously at the request of faculty will now be included as part of the official presentation in the yearly external audit.

Moss Adams is responsible for the financial statement audits of the University and covers Main Campus, Branches, Health Sciences Center, Hospitals and other clinical operations and the UNM Foundation. The UNM Hospital and other clinical operations include a separate audit report. Moss Adams also performs the Federal Single Compliance Audit at the government-wide level, consistent with previous years. KPMG is covering the UNM Medical Group and other component units.

Moss Adams detailed their professional requirements: governmental auditing standards issued by the Comptroller General of the United States, OMB Circular A-133, and the New Mexico State Auditor Rule. Communication throughout the audit process will include pre- and post-audit communication directly to the Audit Committee, meetings with the Controller's office, planned scope and timing and notification of any significant issues and findings. Moss Adams will form and express an opinion on UNM Management's financial statements to obtain reasonable assurance the statements are free from material misstatement. The audit does not relieve UNM Management from their responsibilities

nor does it express an opinion on the effectiveness of internal controls over financial reporting. It is a risk-based approach. Brandon Fryar, Partner, Moss Adams, LLC, noted that the more familiar an audit firm or auditors are with the entity being audited the easier it is for that agency to identify risk. They are more familiar with where the risk lies in an organization, and can tailor their work towards those risks. The scope of the audit includes 3 phases – testing on proper design and implementation of controls, compliance with Federal grant requirements, and final audit testing and reporting of June 30, 2011 balances and financial statement disclosures. Moss Adams will look at cash receipts, payroll expenditures and non-payroll expenditures, grants and other funding. They include IT specialists for IT testing according to the risks identified by Moss Adams. For the Hospital, they will look at patient revenue cycle, estimated third party payor settlements (Medicare, Medicaid, etc.), payroll, general expenditures, IT and other items. Other areas of focus include valuation of patient receivables, other post-employment benefits, bonds, loan covenants, etc. For the government-wide audit, testing will include compliance, alternative investments, accounts receivable and patient revenues. Final testing will conclude at the end of September. UNM will receive draft reports mid-September and the audit reports will deliver to the State Auditor mid-to-late October. It is due to the State Auditor on November 15th, but Moss Adams is always early. Ms. Lovell pointed out if it is submitted too close to the deadline it really delays the review process. The State Auditor will have a draft prior to that and they may suggest changes.

KPMG will also provide UNM with draft reports mid-September on the following units: UNM Medical Group, Anderson Schools, Alumni Association, Lobo Club, Lobo Development, Lobo Energy, STC, KUNM and KNME. For the Medical Group, the key areas of focus include in part: revenue recognition, contributions, SCI income from the State, transactions with UNM, uncompensated care/uncollectible patient receivables, operating expenses, shared physicians services, medical malpractice, and financial reporting. Areas of focus for other component units include contributions, royalties and other revenue sources, expenditures, transactions with UNM and financial reporting. The timing allows for the component unit financial statements to fold into the government-wide financial statements.

Chairman Gallegos asked if the ACC payments flow through Lobo Development. The answer to that question is yes. Regent Koch stated he wants to discuss the scope of the audit related to the UNM Foundation. Chairman Gallegos asked Moss Adams how they test the investments. Moss Adams responded they have a group specializing in banking audits as well as a group in Seattle specializing in investments that will review consultants' reports, internal controls, and valuation testing. According to the Chairman, approximately 40% of investments are questionable value, high-expense, non-liquid funds. This includes hedge funds, real assets and private equities. Regent Koch asked about I&G funds to the Foundation. For FY 11, the Foundation received I&G funds. For FY12 the funds come from the auxiliary balance, not directly from I&G. All the expenses and revenue will be audited, including basis points. Moss Adams agreed to go into more detail/drill deeper into this issue. Regent Koch stated he is concerned about liquidity for Regents' endowments, especially as relates to scholarships. Regent Hosmer asked if the auditors can review the terms of land sales and the Regents' intent. Are there conditions the Foundation is obliged to honor? What do the private donors feel the stewardship of the donated funds entails? Ms. Lovell stated she would pull all the information together for Mesa del Sol and Winrock and provide it to the auditors.

Regent Koch asked Andrew Cullen, Associate Vice President for Budget, about money transfers between Health Sciences Center and Main Campus. Mr. Cullen noted that is under the direction of the Audit Department working with Paul Roth, Chancellor for Health Sciences. Ms. Lovell stated that is all under one column for the auditors. Regent Hosmer asked how intellectual property is dealt with under the STC audit. Cynthia Reinhart of KPMG stated they will look at the agreement between parties, terms, payment up front, royalties, and whether the amounts agree with what is recorded in the financial statements. There are current issues with patent infringement, so Chairman Gallegos

noted this is a big issue. Regardless of size, any material findings or anything that constitutes fraud will be reported to UNM in writing.

- Charles Sallee, Deputy Director for Program Evaluation for NMLFC, presented information on the Health Sciences Center program evaluation. Last year, the LFC excluded the Health Sciences Center from the scope of the UNM evaluation to come back to at a later date. This is that evaluation. Pam Galbraith, Program Evaluator, LFC, reviewed the objectives and the high level planning memo. The process started back in February with an engagement letter to (at that time) Regent President Sanchez. The entrance conference included HSC, UNM and Hospital administrative staff. The evaluation plan includes looking at HSC funding, the State's role in financing, and assessment of program value for programs receiving state funding within the I&G appropriation to see if there is room for improvement. They have nearly completed fieldwork. They anticipate evaluation presentation to the LFC in August. Prior to that, UNM will have the draft report in hand for response. An exit conference will occur during that time. They are open to providing updates just like they did with the project last year. Staff will receive an outline of a draft report. Ms. Galbraith stated UNM will receive the draft in early August and will have 7 days to respond. On the issue of how money flows into the Health Sciences Center and specifically transfers from the Main Campus, they are finishing up with field work in this area and they are waiting on a report from Manu Patel, Director of Internal Audit. Mr. Sallee reported that in an effort to avoid duplicate work, they are waiting for Internal Audit's report. They are looking into the governance as well. It is both a performance (looking at benchmarks, etc.), and financial audit. Chairman Gallegos noted this process is moving along pretty fast to have a report this summer.
- Carol Stephens, Director, UNM Policy Office, filled the Committee in on updates related to follow-up issues. The first item relates to the LFC evaluation and what is being done to implement improvements. Last November, UNM developed 20 implementation plans to address recommendations from the LFC. These plans include dates for implementation. Areas of progress, discrepancies with the recommendations, as well as State funding issues that have an impact are noted. In instances where they were able to close a recommendation, backup documentation was requested and included. For example, Ms. Stephens spoke about research goals, objectives, and metrics, as well as graduation rates. She provided the Committee with reports detailing the information gathered thus far. The LFC received a report as well.
- The Committee discussed Regents' Policy 7.7 Travel Reimbursement and Per Diem and Business Policy 4030. Lee Peifer, University Counsel, briefly provided historical and legal background information. Mr. Peifer noted NMSU believes the Regents' constitutional autonomy precludes the legislature from imposing per diem rates. Regents' Policy 7.7 appears to reflect that same line of thinking. Policy 4030 addresses per diem in two places. Section 10-8-4B allows the Regents to increase the rates, but they have not done so. The Chairman stated he believes we should respect State law. Per Mr. Peifer, historically, 80% of travel was on Federal funds, so the University would lose out on monies by paying at the State rate. Regent Koch stated he would like to know what the discussion was in the Regents' meeting in 2003 in reference to adopting Policy 7.7. Ms. Lovell stated 80% of travel is done under Contracts and Grants and so the University administers the policy the same regardless of the fund for the travel. There are many components – mileage, lodging, etc. The amount of meals for I&G travel is very low. Chairman Gallegos stated the dollar amount does not matter; we should respect the law.

Ms. Lovell noted there are other funds as well as Federal funds and State appropriations. These include funds from a contract with IBM or Presbyterian Hospital for field work, etc. The Chairman stated he does not know that those are not public funds - whether it comes from a State appropriation or not. He does not know what the number of excess payment was, but if it is only \$100 or a great deal more, the point is there are implications. Mr. Peifer stated he respectfully disagrees and he

believes it is not apparent that the policy is unlawful on its face. The law gave the Regents authority in a public meeting to conclude there are extraordinary circumstances to justify resorting to actual expenses rather than State per diem rates and evidently there were extraordinary circumstances. According to the Chairman, the only extraordinary circumstance is that the State rate is lower than the Federal rate. Faculty Senate President Wood stated approximately 85% of University travel is done by faculty related to grants, etc. He continued to say that if we are violating State law we need to change course, but he urges conversation with faculty before proceeding. If we accept this, we accept the legislature determining down to line item budgets. Regent Koch said that the Legislature appropriates money to the University. They have the power of the budget and we should not be fighting with them. They could deduct the amount from appropriated funds. Regent Hosmer stated that perhaps it is not unlawful but may be imprudent. The imprudence lies in the cavalier construction of extraordinary circumstances. It may be that the way to rectify it is to formally review the policy and ask for a reasonable explanation of extraordinary circumstance that does not flaunt the authority of State law, but rather makes use of it. Chairman Gallegos stated extraordinary circumstances should be on a case-by-case basis. He believes we are bound by the law on how to use travel funds, and there is a penalty provision. We should not expose people to that.

Chairman Gallegos also questioned the personal use of frequent flyer miles. Ms. Lovell noted 99% of airfare is paid by the University. In the few circumstances people pay for their travel with a personal credit card, it is not possible to track the miles. Discussion detailed that those miles are not transferable; they stay with the person. Per Regent Hosmer, the Department of Defense went through the same issue in the 1990s and concluded retrieving any possible frequent flyer benefits is virtually impossible. Chairman Gallegos stated perhaps we should not allow flight purchase with personal credit card. Dr. Wood stated that would be catastrophic because sometimes it needs to happen quickly. Ms. O'Donnell from Internal Audit stated that also, in some instances, departments may not have PCard access for various reasons and they may not have a choice. According to Chairman Gallegos, Policy 4030 basically adopts the Federal rate, so that policy needs some work. Regent Koch again stated we should honor and respect the legislation.

Chairman Gallegos asked for a motion to the Full Board that says the Committee recommends amendment to Regents' Policy 7.7 to state that the University shall follow the State Mileage and Per Diem Act. Regent Koch made the motion and Regent Homser seconded the motion. Regent Hosmer added perhaps they should consider providing a mechanism for case-by-case exception to allow for justifiable circumstances. Chairman Gallegos stated he feels that is exactly what Section 5E of the Act contemplates; that there will be instances that are extraordinary circumstances and that they can work on the wording that says that when amending 7.7. Regent Hosmer made an amended motion to include the provision (in lieu of the current wording) of a process for case-by-case consideration. Regent Koch seconded. All committee members stated unanimous approval.

Ms. Lovell stated for one index as a sample that was the highest I&G in-state spending, the food total was \$4,590. According to the Federal website, allowances for meals and incidentals are different depending on the area, i.e. Santa Fe is \$71 per day; other area allowances are less so the numbers vary. Ms. Stephens and Regent Koch noted policy can be changed by Regent vote. Ms. Lovell said, however, the University would need a period of time to administrate any changes. Dr. Wood noted this shifts the burden of doing University business on to the employees and creates a disincentive for people to travel. Chairman Gallegos stated the Legislature might need to change the rates, but that's where it should happen.

- The Committee discussed items from previous meetings for follow-up. Ms. Stephens updated signature authority information. The policy is out for campus comment. There have not been major concerns and it should take effect as soon as it is signed by David Harris, Executive Vice President for Administration and President Schmidly. Contract management and monitoring policy is written and is out for campus comment. There is some comment on the clinical and research side.

Anticipated effective date is July 1, 2011. The contracts database software has been identified and they are in purchase negotiations. All contracts will be housed in one area under contract management by Bruce Cherrin, Chief Procurement Officer. It will take some time to implement a new system. A repository will start July 1, 2011. Software implementation will begin immediately, and should be complete within a year. Chairman Gallegos stated this is an excellent, huge accomplishment. Ms. Stephens commended the team she has worked with for doing such a good job. Sub-delegations are in the midst of review. EVPs are the key administrators who delegate signature authority. There is a transition in the Provost's office. They would like the interim Provost an opportunity to review them. They also want them to align nicely with the new software program. With Regent endorsement, they would like an extension on the deadline on this item. It should be complete by the next Audit Committee meeting. The Committee agreed.

Ms. Lovell addressed the Committee regarding out-of-cycle payroll and EDC processes. A great deal of work has been accomplished. Richard Holder, Deputy Provost, stated they are on target with addressing recommendations. The processes are being streamlined and are becoming much more uniform. Beginning July 1, 2011, there will be one out-of-cycle payroll per type – one for biweekly, one for monthly. There will be an extra 1 or 2 during the late August, early September hiring for faculty and graduate students. Regent Hosmer asked if the process had any unexpected gains. Opportunities for systems improvement have indeed come to light. Dr. Holder stated it has been an extremely valuable exercise. Regent Hosmer added the University should document the gains.

Helen Gonzales, Vice President, Human Resources, stated she will make a presentation at the next meeting regarding FTEs. The presentation will focus on numbers of employees above a certain grade level. They are currently studying the data as an analysis over time. They now have four years worth of data.

Mr. Patel updated the information on outstanding audit recommendations. There are only a few items that are past due. Ms. Lovell showed an overview of the Standard Accounting and Reporting Manual that is now complete. Everything will now be housed in one place on the website and includes video tutorials. This will be constantly updated. The branch campuses will be able to follow it as well, as they have the same procedures and same access to the materials on line. The roll out is expected at the end of September.

Dr. Wood reported to the Committee on status of faculty disciplinary policy. The faculty developed and approved (up through Faculty Senate level) a policy. Academic Student Affairs voted to table it for now in order to consult with department chairs. If changes are substantial, it must go through the Faculty Senate again.

- Mr. Patel presented the Committee with the Director's Report for the Internal Audit Department. This includes the financial statements. There will be a fund balance - subject to harvest by the budget office - from the salary budget due to understaffed positions.
- Dr. Wood addressed the Committee with some final comments as outgoing Faculty Senate President. His term expires at the end of the month. He stated he feels it has been a constructive year as well as a productive relationship and thanked all those involved. He recognized the importance of what the Committee is doing and urged a sense of balance in the midst of the zeal to follow rules that it is balanced with careful judgment and does not get in the way of the University's mission. The function of the Provost's office is critical. An audit of that office could either help successful transition or create chaos. This is where the faculty lives and breathes. The faculty also sent a letter to the Regents to ask for an outside look at the hiring process as relates to the hiring of the Internal Audit director position and they hope to address this issue at the full Board meeting. Chairman Gallegos stated he also feels the relationship has been positive and wants to know why the position is only a one year

term. Dr. Wood stated the Faculty Senate President takes up a large amount of time and takes away from research and research writing. It should not take a year to develop new policy, and we should also look at many areas of how the governance is structured at the University. There is also a severe lack of staff to ask for assistance.

- The Committee reviewed a presentation from Ms. Lovell and Duane Arruti, Director, Information Technology Services, on the proposed Kronos electronic time reporting system. Due to the cost-prohibitive nature of the original quote, UNM restructured the proposal utilizing a phased-in implementation approach, and therefore received a quote with less up-front costs. The original quote was for complete institutional implementation with about 11,500 staff members. UNM provided Kronos with revised numbers for a phased implementation. Kronos submitted a quote maintaining the rate and allowing for a smaller first phase (about 3400 employees) as long as the vendor gets commitment for full implementation over time. Several departments are using the system already and a number of departments have expressed interest. The Committee moved (Motion: Regent Hosmer, Second: Regent Koch) to recommend to the full Board of Regents purchase of the Kronos system with up-front costs of \$1,026,000 as per the new agreement. Regent Koch noted departments will need to come up with the funds, but it will save the University money in the long run. He stated the University could communicate that it is mandatory and reward departments that move quickly, charging more for each year departments postpone implementation. The Committee moved (Motion: Regent Koch, Second: Regent Hosmer) that the implementation plan be mandatory for hourly employees by the end of 2014, with financial incentives to departments for early implementation.

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

- 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) (*Manu Patel, 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) (*Manu Patel, Internal Audit Director*)
- d. Vote to re-open the meeting

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

- The Committee approved by unanimous consent two University of New Mexico Hospital audits: UNMH Controlled Substances dated January 2011, and OptumHealth – Requested Procedures also dated January 2011.
- The Committee approved by unanimous consent the following audits for publication: 2011-06, Gallup Branch Audit of Business Processes and 2011-02, Department of Intercollegiate Athletics Men's Basketball Audit of Undeposited Cash.

There being no further business, the meeting was adjourned to go into closed session with the Internal Audit Director at 1:00 p.m. (Motion: Regent Koch, Second: Chairman Gallegos).

Summary of the Regent's Audit Committee
June 16, 2011

Approved:



Audit Committee Chairman