

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
January 20, 2011–Meeting Minutes

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

Other Attendees: Ava Lovell, Gilbert Gonzales, Michael Carr, Helen Gonzales, Paul Krebs, Ellen Wenzel, Steve Cogan (REDW), Halie Garcia (REDW), Michael Padilla (REDW), Richard Holder, Ann Brooks, Billy Sparks, Chris Vallejos, Jim Blackshear, Mary Vosevich, Liz Metzger, Carol Stephens, Richard Wood, Ella Watt, Donna Smith, Dan Byrne, Manu Patel, Avedona Lucero, Lisa Wauneka, Lola Neudecker, Betsye Ackerman, William Cottrell, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 8:29 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the Minutes of the Regents’ Audit Committee Meeting from October 21, 2010 (Motion: Regent Koch, Second: Chairman Gallegos).

INFORMATION ITEMS:

- Chairman Gallegos reviewed follow up items from the minutes of the last meeting (October 21, 2010). Chairman Gallegos noted there is some follow up for Mr. Saavedra, but he is not in attendance at this meeting, as he is at the Legislature. The Chairman addressed Faculty Senate President Wood about drilling down into the financials as the subject of the Special Procedure. Mr. Wood stated the timing was off, there was the holiday, and he will notify the Regents if there is anything further that needs to be done. Mr. Wood has had a phone conversation with Moss Adams. The Chairman asked Mr. Wood for an update on the status of performance audit/work load discussions. Mr. Wood stated it is an ongoing process and there should be information on a more accurate work load policy that may be ready in time for the next academic affairs meeting. The Chairman asked Director Patel about UNM Internal Audit assisting with the Hospital audits. Mr. Patel stated the Regents agreed at the last meeting to extend the contract with REDW until December 31, 2011. Mr. Patel will be involved in the risk assessment process, and if the decision is made, Internal Audit would begin participation/involvement with the Hospital audits in 2012. Chairman Gallegos addressed Lee Peifer regarding the signature authority policy. Mr. Peifer stated Carol Stevens has been working on this. Ms. Stevens noted the ERM Council reviewed the policy and submitted recommendations to EVP Harris in December. A portion of that policy is affected by recent HSC restructuring (Section 4). It will go to the Campus this spring semester for review and will hopefully be approved by June. It addresses delegation process and contract monitoring process. The project is on track to be complete by June 30, 2011, and includes updating training of the Contract Review Officers. Development of a database(s) for contract monitoring is also underway.
- Following the LFC audit, the Audit Committee asked Human Resources to prepare a UNM employment analysis to present to the December Board of Regents meeting. Chairman Gallegos asked if this was done. Helen Gonzales stated there were multiple requests for data and HR focused on budget, pause and hold and salary savings reports; they have not yet presented the 3 year analysis. Chairman Gallegos stated they did get some basic, unspecific information on Special Administrative Components (SACs). Mr. Wood indicated that there are many factors, including summer work load that make up the formulation for SACs. Mr. Wood and Mr. Patel agreed that there is an upcoming audit on the work plan that is a good place to include detail on SAC processes. Deputy Provost Holder noted there is no policy on SACs; they are based on historical labor calculations. The Chairman asked if there is a simpler way to calculate SACs based upon which committee(s) a faculty member serves on or if they are Faculty President. Dr. Holder replied it might be possible on some SACs, but not all. There are still other mitigating factors. The Special Teaching Component (STC) compensation is a different category that now follows the policy. Both SACs and STCs are part of

the written faculty contract. Mr. Wood stated compensation is decentralized, because you cannot compare department X exactly to department Y. For example, the Department of Anthropology has 160 graduate students and to be chair of that department is easily a half-time job and is an enormous amount of work. Whereas, chairing the Department of Geography is a whole lot less work. Salaries are driven by the discipline a faculty member is in, and SACs are driven by the amount of work for the role within the department. This is common practice in Universities. These historical amounts are built into the departments' budgets. Ms. Lovell stated the SACs do sometimes cause problems with proposals for research. Finance certifies the salaries on the contracts; sometimes the actual can be more than a 5% difference, and they have to go back to the agency to explain. Chairman Gallegos stated he hopes we can at some point be organized enough to have all that information together. Ms. Lovell explained we do have all the information through December 31, 2010 posted on a website -- Dr. Roth asked for it when he was Acting President. Chairman Gallegos said that's good and they will want to look at it.

- Chairman Gallegos informed the audience that he will be looking at follow up every meeting and involved parties will be asked questions.
- Mr. Wood asked if minutes can be distributed more broadly. The Committee agreed. Mr. Peifer stated he does not know of any legal reason to avoid distribution for review, but it is the position of the Committee that there are no minutes until they are approved. The Chairman stated everyone knows they are draft minutes until approved.
- Ms. Lovell addressed the Committee regarding the scope of work for the annual external audit RFP process. Our bid only lasts three years, but each audit firm can do six years. The State Auditor wrote a letter on April 14, 2006, stating Moss Adams' first year was 2006; 2010 is five years. Moss Adams could do one more year. Per the State audit rule, Ms. Lovell sent a letter to the State Auditor on December 15th requesting that UNM be allowed to go out to bid as soon as possible. She has not received a response. UNM is a huge, complex organization that requires interim work starting in April. If UNM has to wait until after the legislative session is over to go to bid, Ms. Lovell feels UNM would not make the deadline for the financial statements. Regent Koch agreed to contact the State Auditor to ask for an answer. Moss Adams cannot bid by themselves for a three year contract, but they can bid with someone else. Chairman Gallegos is concerned about a lack of rotation because after a few years the auditors may be auditing their own work. Ms. Lovell noted price is really a big issue. The external audit is expensive - after gross receipts tax it was over a million dollars last year. She feels Moss Adams intends to offer a one year price for their final year of eligibility. If the price is right, we might look at it for one year, and then go back out to bid. Ms. Lovell stated approval for the pricing will go before this committee and then to the full Board (but she will double-check on that). Although this was an information item, Chairman Gallegos felt a motion to approve would be appropriate. Regent Koch moved to approve.
- Mr. Patel provided the Audit Committee with two reports as of January 14, 2011: "Past Due Findings," and "Not Past Due Findings. IT follow up items should be resolved by the next meeting; Internal Audit is working with the CIO and EVP Harris. Internal Audit met with PPD on January 19th, and their follow up on billing processes should also be resolved by the next meeting. They will determine which of their service types are billable and then come up with a 3 year implementation plan.
- Chairman Gallegos stated the Committee needs a meeting to focus on follow up items. Director Patel stated that would be doable at the April meeting. The Chairman agreed.
- Mr. Patel reviewed the Director's Status Report. Director Patel stated that to help the University control audit costs, the scope of work for the annual external audit RFP process should include

coordination with Internal Audit in the areas of payroll and fixed assets additions and deletions. Ms. Lovell stated the current auditors are very receptive to that idea. Director Patel explained Internal Audit would coordinate with them up front, for example: with payroll, pull a sample of 50 items at a 90% confidence rate and 10% error rate. Internal Audit would do the detailed testing to make sure those 50 items have correct; documentation, pay, leave, gross-to-net calculations, benefits, taxes, etc. The external auditors would review Internal Audit's work papers to make sure it meets their standards, and if it does, then they would not have to do further work on that portion. Or, they may select a sample of that 50 item sample Internal Audit works on, test, and determine that they do not have to spend many hours on that testing. Chairman Gallegos asked if this type of coordination has been done previously; Director Patel stated it has not. Regent Koch asked if the Internal Audit Department has staff/budget to take this on. Director Patel stated that if we hire the 1.25 FTE we are proposing, for FY11, Internal Audit can free up the money and audit hours to do this.

- Internal Audit has ACL software to assist in complex audit work.
- Audit vacancies: Internal Audit currently has two vacancies. As discussed, if the Department fills 1.25 FTE, current vacancy savings will cover the costs for FY11. If the positions remain open for the rest of the year, there is approximately \$80,000 in remaining vacancy savings; approximately \$44,000 will cover the 1.25 FTE for the rest of this fiscal year. Director Patel also wants to update the Department's professional library and computers (approximately \$18,000) and that money is also in the available budget. Chairman Gallegos stated the issue is not this fiscal year, but the budget starting in FY12. Director Patel agreed and informed the Committee the additional budget resources needed are approximately \$76,000. Chairman Gallegos feels this is acceptable and confirmed that Internal Audit needs the additional manpower. Director Patel will work with Human Resources to expedite the process and get the additional staff on board as soon as possible.
- Audit plan status: There are 2 audit reports to discuss in Executive Session today. One audit is 95% complete, and seven other projects are currently in field work. There are 33 new complaints in this fiscal year, and eight carried forward from FY10. Internal Audit closed 23 complaints; 18 remain open and auditors are actively working on seven of these. The others are assigned out to other departments.

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

- 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 10-15-1H(2 and 7), NMSA (1978)
- e. Vote to re-open the meeting

Summary of the Regent's Audit Committee
January 20, 2011

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:
2010-07, Audit of Selected Payroll Processes
- The Committee approved the University of New Mexico Hospital audit of June, 2010.

There being no further business, the meeting was adjourned at 3:23 p.m. (Motion: Chairman Gallegos, Second: Regent Koch).

Approved:



Audit Committee Chairman