

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
February 16, 2012 – Meeting Minutes

Members Present: Chairman J.E. "Gene" Gallegos, Regent James Koch (Quorum). Regent Lt. Gen. Bradley Hosmer was delayed; arrived in Executive Session.

Other Attendees: Helen Gonzales, Gilbert Gonzales, Breda Bova, Lee Peifer, Ella Watt, Pamina Deutsch, Chris Vallejos, Tim Ross, Ellen Wenzel, Mary Clark, Halie Garcia (REDW), Wynn Goering, Melanie Sparks, Kim Murphy, Lisa Marbury, John Reindorp, Jeff Gassaway, Manu Patel, Lisa Wauneka, Avedona Lucero, Lola Neudecker, Victoria Gorman, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 8:30 a.m. in ROBERTS ROOM, Scholes Hall, UNM. Two of the Committee members present during open session (quorum). The third member arrived in executive session.

ACTION ITEMS:

- The Committee approved the Minutes of the Regents' Audit Committee Meeting from October 20, 2011 (Motion: Regent Koch, Second: Chairman Gallegos). The Committee unanimously adopted the minutes.
- The Committee discussed items from previous meetings for follow-up. Chairman Gallegos asked Internal Audit Director Patel to report on the status of the five year quality assessment process for Internal Audit. The department is currently two years past due. Director Patel stated the audit manual is 95% complete; it lacks hyperlinks to the required forms and some formatting. Following that, the department needs to put together the work papers. Then, the department must contract with a reviewing company to come in sometime in the summer or fall and complete the peer review process. Internal Audit recently joined a state and local government audit association that provides the peer review services. Internal Audit will contact that agency as well as the Institute of Internal Auditors to inquire about the review. The department is in the process of implementing the audit management software. That is also a part of the peer review process. Chairman Gallegos stated that Director Patel should begin the contract process now to get in the queue and not wait for the completion of the manual.
- The Committee reviewed the status of audit recommendations. There are five past due. The first one regarding contract review officer training partially is partially closed. Internal Audit is waiting for University Counsel to set up the training. Hopefully this will clear in the next couple of months. Per Lee Peifer, University Counsel, there is a new policy office manager. It should still be on track to be available by late spring. The next one deals with Gallup reconciliation of financial aid accounts. We received information that they completed the reconciliation last week, and the information was forwarded to the controller's office. It is cleared but that occurred after the reports were printed.

The Gallup Advisory Committee met with our Board of Regents on Saturday, February 11, 2012. Director Patel attended the meeting. They reviewed the status of audit recommendations. Feedback received included that Internal Audit should revisit prior recommendations from previous audits the next time we are on campus, and make sure the implementation is complete and documented. The Gallup Executive Director will issue a memo to the Bookstore requiring that mail be opened immediately and checks are deposited with the cashier's office. That recommendation should clear in the next couple of weeks. There are still about a half dozen open items. Director Patel stated Gallup has hired a new Bookstore manager. Auditor Lola Neudecker is handling follow-up on the Bookstore; Director Patel and Interim Audit Manager Lisa Wauneka are handling the other Gallup items. Internal Audit is working closely with Wynn Goering, who is on the Gallup Campus twice a week. Melanie Sparks from the Main Campus Bookstore has been offering assistance to them as well. Wynn Goering reports that he believes the operation is now running in the black.

The Real Estate Department has completed an amendment for the lease agreement in recommendation #7. The amendment is pending attorney review at the Health Sciences Center. Kim Murphy, Director of Real Estate Operations, informed the committee that a lease amendment for the Mind Research Network (MRN) was delayed due to some billing issues between MRN and the Physical Plant Department. These billing issues also pertain to recommendation #13. The billing issues were resolved in December. It is the Real Estate Department's opinion that they have satisfied the action items for recommendations #7 and #13. This is somewhat complicated by the fact that MRN has been acquired by Lovelace. That is why the agreement is still at Health Sciences Center. The amendment acknowledges an extension, but there were some billing and utility disputes. Internal Audit agrees with Real Estate, but to satisfy the recommendation, Internal Audit requires the signed agreement as documentation. Lee Peifer stated the situation with MRN, housed on North Campus, is increasingly complicated. It is not clear if they were taken over by Lovelace or if they simply reformed. It may end up being litigated. Lovelace asked for a conflict waiver to resolve a lease dispute between Lovelace and the University; UNM did not agree to the waiver. There is a long history. Regent Koch stated there has been an ongoing problem for nine years. Mr. Peifer stated he can provide a report to the Committee at the next meeting. The building is owned by Health Sciences, but investments were made in the structure by MRN.

Director Murphy also addressed items that are not past due. Director Patel stated some of these items are partially completed and will be cleared when they are included in a procedures manual. The procedures manual is expected in October, 2012. The Real Estate Department believes they will make or beat that timeframe on the manual. Director Murphy provided the Committee with a detailed status report on outstanding recommendations. Chairman Gallegos inquired about how Real Estate contracts with outside counsel. Real Estate has followed Regents' policy when contracting with counsel. The Department goes through Legal. There was no comprehensive procedure outline as a guide for staff, and that is in development. University Counsel has worked over the last few years to take care of as much as possible in house. There is a Request for Proposal process for firms to be approved as outside counsel.

Director Murphy stated Internal Audit considers items #2, #3, and #9 to be partially closed. The reason they are not fully closed is because they are also items that will be addressed in the procedures manual, which is item #1. He feels it is not necessary or appropriate to consider them open when there is another recommendation that will capture the reflection of those items in the procedures manual. They state they have satisfactorily addressed the action items in those recommendations. It would be appropriate to close out #2, #3, and #9. Chairman Gallegos stated he will leave that decision to the Audit Director. It is the position of Internal Audit that once Real Estate satisfies the recommendation in item #1, then #2, #3, and #9 will drop off. Internal Audit wants to make sure each of those items is in fact addressed in the procedures manual. The Chairman stated that sounds logical. Recommendation #5 is open regarding lease monitoring. A portion of that item includes cash management. Real Estate has addressed the procedure within the office and provided information to Internal Audit. They also feel that portion is closed. The second part of that, a billing and accounts receivable process, is (per the Controller's office) to be handled through the non-student accounts receivable process as part of Banner. This was already implemented on North Campus, and by July 1 will also be on Main Campus. The process will replace having to go through the Bursar. Real Estate currently processes tenant lease payments in an internal accounting system within their department. The Chairman asked why there is billing. Are they not on a monthly basis? Director Murphy responded that Real Estate often provides bills as a convenience. Director Patel stated that current policy 7200 requires billing and collection through the Bursar's office. Real Estate was not doing that. Under this new system, integrated in Banner, it will provide automatic billing and payment through Banner. This will be complete in July, 2012 and will be cleared at that point. Chris Vallejos, Vice President of Institutional Support Services stated the process was handled in Real

Estate because the only module was student accounts receivable; it did not lend to the business practices to do the collections on leasing. They had the tools at the department level. They are now able, with the new module, to book through Banner and age the receivable. The Chairman asked how they handled late or non-payment. Director Murphy responded they handled that at the department level. Vice President Vallejos reported all his directors provide him a monthly profit and loss statement, and if there are receivables, they post them to Banner as the year closes. As of last month's report, there was only one tenant that was past due 60 days. Recommendation #6 is a closed item. Real Estate wanted to report to the committee that it was regarding an ACC payment that was eight days late. ACC actually paid the University three days late; it did not post for five days. They revised the interest calculation. It amounted to \$212. It was paid. Item #8 is still open, subject to determination by the Executive Vice President for Administration. It is an overall budget issue that has to do with Lobo Development and where revenue will go. Item #14 is regarding exploration of a new account code for real estate leases in order to track them in a comprehensive way. Currently, Real Estate uses an existing account code that allows departments to use that account for short-term room rentals, etc. The Controller's office did not feel a new account code would solve any issues and would not guarantee proper recording. Director Patel stated that could be true for any account. Per Vice President Vallejos, the Controller wants to keep account codes general in the Banner system, and the non-student accounts receivable system implementation will provide reconciliation. The Chairman asked what is in the current account code. He stated that is rent expense, not revenue. Per Vice President Vallejos, they also have an account code for the expense side. Director Patel stated the rent expense needs to be split into two codes, one for long term leases versus short term rental expenses. It provides better information on what we are spending. He needs to meet with the Controller's office to see what they can agree to. Real Estate included the email documentation from the Controller's office in the follow up status report. Real Estate informed the Committee they will conform to whatever the Controller decides. Finally, Real Estate is still in discussions with the Foundation regarding oil and gas revenues. That is an open item. They thanked the Committee for indulging them in this review of items. They wanted to communicate they are working hard on all of these items and have made significant progress in many areas. Chairman Gallegos stated that overall, the audit showed there are not major issues or problems, just some fixes.

- Chairman Gallegos informed Faculty President Ross about the status of the peer review/quality assessment process for Internal Audit (as reported above in this document). Director Patel stated he updated President Ross in an impromptu meeting last week. The Chairman reiterated that he directed Mr. Patel to start the process now, give it priority, and not to wait for completion of the manual or the other items. President Ross stated his concern, after talking to Director Patel last week, was that it would take place in June. President Ross wants it moved up to occur as soon as possible. Chairman Gallegos stated the problem is the availability of the contractor and the process of getting the contract. The Chairman stated he is interested in knowing if the faculty disciplinary process is implemented. President Ross informed the Committee (as he indicated at the last full Board of Regents' meeting) that the faculty approved the disciplinary policy last semester and it is now included in the Faculty Handbook at Section C-07.
- 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)

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- 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

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 UNMH audits:

- Cash Receipts, dated May 2011 (Motion: Regent Hosmer, Second: Chairman Gallegos)
- Materials Management and Food and Nutrition/Cafeteria Inventory Process, dated September 2011 (Motion: Regent Hosmer, Second: Chairman Gallegos)

The Committee approved the following Internal Audit Department audits for publication:

- 2012-04 University President's Travel, Entertainment, and Other Expenses (Motion: Regent Hosmer, Second: Chairman Gallegos). The Chairman noted the report is for the period of July 1, 2010 through September 30, 2011.

There being no further business, the meeting was adjourned at 11:05 am. (Motion: Regent Hosmer, Second: Chairman Gallegos).

Approved:


Audit Committee Chairman