

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
August 18, 2011 –Meeting Minutes

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

Other Attendees: Gilbert Gonzales, Helen Gonzales, Ella Watt, Susan McKinsey, Carol Stephens, Chris Vallejos, Tim Ross, Jeff Gassaway, Anne Murray, Carla Prando-Dominici, Ellen Wenzel, Mary Clark, Katie Richardson (GPSA), Manu Patel, Lisa Wauneka, Lola Neudecker, Amy O’Donnell, James Monteleone (Albuquerque Journal).

Chairman Gallegos called the meeting to order at 8:31 a.m. in ROBERTS ROOM, Scholes Hall, UNM; All three Committee members present (quorum).

ACTION ITEMS:

- The Committee approved the Minutes of the Regents’ Audit Committee Meeting from June 16, 2011 (Motion: Regent Hosmer, Second: Regent Koch). The Committee unanimously adopted the minutes.
- The Committee discussed items from previous meetings for follow-up. Chairman Gallegos asked about status on signature authority. David Harris, Executive Vice President for Administration, responded that the signature policy is implemented and a software program is in the installation phase; it started this week. The software is similar to what they use at the New Mexico Department of Finance and Administration and it works well. Manu Patel, Director of Internal Audit, further stated Internal Audit will be working on future audits of contracts using the software – it is a good system.

David Harris informed the Committee that Payroll is currently down to running two supplemental payrolls per month. It has generated a lot of savings and they are not hearing of people missing their payroll or other significant problems.

Helen Gonzales, Vice President of Human Resources, stated she made a presentation regarding FTEs above a certain grade level to the full Board of Regents and the Finance and Facilities Committee meeting. Regent Chalmers asked for follow up information regarding comparison to peers. She will present the additional information to the full Board at their next meeting.

Tim Ross, Faculty Senate President, updated the status of the faculty disciplinary policy. The process passed Faculty Senate last spring but was tabled at Academic Affairs as some deans/chairs did not see it. He hopes to bring it back to the Committee this fall.

- David Harris introduced Carla Prando-Dominici to the Committee. She is the new Interim Director for Safety and Risk Services (SRS). Ms. Prando comes from University Counsel, has been with the University for about six years, and has been on board at SRS for two weeks. She has been working with Dr. Kessler regarding the construction and fire task forces, chemical safety inventory, and other elements of the relationship with the ERM council. Some major projects she is working on include working with Internal Audit on the implementation of audit recommendations, consolidating SRS staff into one location, a return-to-work program, a thorough and consolidated inventory of UNM’s art collection, and a tight inventory of chemicals. Currently, the database relies on the purchasers/Principal Investigators to input the data; SRS wants to look at additional ideas for controls.

The Committee discussed Risk Management and insurance premiums. Ms. Prando reported that the University received the premiums for workers’ compensation and all lines of coverage from the State about a month late. There is a total increase of about four million dollars for areas including

unemployment insurance, fine arts, blanket property, etc., and a decrease in workers' compensation. Invoices are not broken down to find out where increases occurred specifically. She plans a meeting with Risk Management to see where the increases occurred and why. Regent Koch stated he feels parts of our insurance (specifically workers' compensation) should be self-insured. He believes that the property insurance and general liability, malpractice, and probably auto should stay through Risk Management. Mr. Harris stated he feels we might be successful extracting just the workers' compensation. Regent Koch asked Ms. Prando to get the last 5 years of loss runs. Specifically, how many exceed \$250,000. Regent Koch also asked if we receive a rate or just a premium. Ms. Prando replied we see just a premium, not a rate. Regent Koch stated if he gets the information he could determine the rate. He worries we could be subsidizing other entities; but it might be somewhat difficult to obtain the loss per year information. According to Ms. Prando, SRS houses two worker's compensation specialists. Until recently, some claims were being handled by other adjusters; this does not make sense. There is a new "denial committee" in Santa Fe; they have little experience with workers' compensation. Because of that, some claims may be denied that should not be.

Chairman Gallegos inquired about differences in workers' compensation rates for different types of employees. Regent Koch stated in an institution of this size they might have a composite rate. Mr. Harris stated that UNM is the only education entity in this state that must participate through the State Risk Management Department by law. There are some reasons the University has not been able to opt out. There have been some large losses.

Chairman Gallegos asked if Risk Management employees are housed at SRS. Ms. Prando stated that they are (5 people) – at the Tucker location. The bulk of SRS employees are at the Tucker location, and a few are at the Onate location. Ms. Prando wants to run a cost/benefit analysis to see if it makes sense to keep the Risk Management people in house. Chairman Gallegos asked if Risk Management moved out, would there be enough space to bring all the employees together? Ms. Prando replied that it would be close, and it would be tight, but it might work temporarily. In addition, the ergonomics specialists they have would be able to better serve return-to-work people. Mr. Harris stated that the Risk Management staff people do not pay rent. The former Risk Management Director worked with the previous SRS Director; they determined since UNM is the largest single customer of the Risk Management Division, it would be easier to have people on site for claims adjusting. That is not the current belief.

Davis Harris noted the finances will stay housed at the Controller's office. It is a strong internal control and very workable; they now have a CPA handling the accounting activity.

Chairman Gallegos thanked Ms. Prando and stated they are glad to see her in place at SRS.

- The Audit Committee addressed the UNM Regents' Travel Policy 7.7. Currently, per the State of New Mexico Mileage and Per Diem Act, there are two methods of reimbursement for State funds. The first method is a flat rate per diem with \$215 maximum for out-of-state travel; \$135 for in-state. The second is actual cost of lodging plus receipts for meals up to \$45 per day for out-of-state; \$30 per day in-state. Section 10-8-5 of the statute allows exceptions for extraordinary circumstances. Chairman Gallegos informed the audience he was at a loss as to how UNM can approach it any other way than to follow State law. A 2009 amendment allows for mileage reimbursement at the Federal rate. Any changes to the per diem should be made at the Legislature. The Chairman invited comment from the audience. He stated they need a decision and will send the matter on to Finance and Facilities and then to the full Board. Faculty Senate President Ross addressed the Committee. He collected input from the 73 faculty senators; faculty does not want a change as they feel the current system is working. The Faculty Senate listened to comments from faculty members, and two main ideas distilled out (came from Economy and Biology). Faculty members would have a choice – travel on a per diem basis with the State rate or actual expense with receipts and daily cap at Federal

rate. They want to continue with exceptional circumstances. There are sometimes issues with credit cards and/or receipts outside of the country. In some areas there are no restaurants or stores and food must be bought and packed in, and sometimes faculty and students eat with locals and provide cash to help with food. There are sometimes issues with accounting when they return. The Faculty would like to see if there is actually any money saved if the policy is changed or if there will actually be more administrative costs associated with receipts. Could it be done on a one year trial basis? Chairman Gallegos stated whether or not we follow the law is not discretionary. The current Policy 7.7 is not in compliance with the State statute and must be changed. This relates to I&G funds, not Federally-funded travel. Any finding of extraordinary circumstance requires a public meeting. Faculty President Ross stated that 2.4.2 allows two entities a provision as exceptions – one is Universities. Anne Murray from University Counsel stated New Mexico Administrative Code (NMAC) 2.4.2 does state that public higher education institutes are excepted from administrative regulations. Chairman Gallegos noted that according to OMB Circular A-21, reimbursing at State rates might result in the Federal government deciding not to reimburse at a rate higher than the State rate. Exceptions for extraordinary circumstances could come before the full Board.

Regent Hosmer stated the makings of a solution are on the table. The Regents could list cities and countries where it is necessary to have a higher rate in a table. The Regents could make a blanket finding for exceptions in accordance with that table, to be reviewed and updated annually. Travelers could be authorized to use a timely record kept by the traveler in lieu of receipts in circumstances where receipts are not available. Chairman Gallegos stated sometimes even the Federal rates might not be sufficient and noted it is necessary to amend the Regents' Policy to track the statute. Regent Hosmer agreed on a one year review of the Policy to see the result; including, if there is a Federal reaction that might make it necessary to adjust the State Statute. Regent Koch stated there is something on the table but there is a long way to go. Regent President Fortner wanted this to go through both Audit and Finance and Facilities' Committees. Regent Koch moved to accept the recommendation and move forward. Regent Hosmer seconded the motion.

- Mr. Patel presented the Director's report. Moss Adams and KPMG will be on site through October to complete the FY11 external financial audit. They will present at the October meeting. Mr. Patel will discuss the proposed FY12 work plan in executive session. Internal Audit has a report ready that is waiting for responses by the end of next week, so that will be presented at the October meeting. A summary of complaints is included in the Regents' packet of materials. Of the 82 complaints in FY11, we closed 53 and 29 are outstanding. The 29 rolled over to FY12, and so far we have also received nine new ones. Regent Hosmer expressed concern over five complaints carried forward from FY10. Mr. Patel stated he can provide detail on those in executive session, as there is litigation involved. There are no Hospital reports but they will have two at the October meeting. The Department ending balance from FY11 is a reserve of \$82,000. This is due to vacancy savings. The department would like to purchase electronic work paper software. He further stated that most CPA firms use electronic work papers to improve efficiency. There is an initial startup cost of approximately \$26,000- \$30,000 for implementation and training, and a yearly maintenance fee. Chairman Gallegos said it would be helpful to know what the software actually does and the Committee asked for more information (i.e. what it entails, how it stores data, etc.) before giving approval to use the funds for this purpose. Mr. Patel stated he has done some research on the different programs and is working to get a demonstration of the one that seems to be the best solution for the Department. He is also attending a yearly conference of the Association of College and University Auditors (ACUA) and one of the sessions he signed up for relates to electronic work papers. The Chairman stated they need to be fully informed before they make a decision. Mr. Patel replied that he will gather the information and present it to the Committee.

Mr. Patel stated the Department has two vacancies and he hopes to have an Audit Manager hired and working in the department by mid-September. Then the Department will start the process of hiring

another auditor for the vacant Auditor 3 position; However, Mr. Patel may decide to change it to an entry level auditor position. Chairman Gallegos asked why the balance of \$82,000 would be spent on software when the Department is understaffed and the budget needed an increase of \$75,000 for salaries. Mr. Patel explained that it is two different issues. The one time savings is due to vacancies and when we get the vacant positions filled and are back at full staff, the adjusted salary budget will be for the salaries and does not include the \$82,000. The \$82,000 is not recurring savings. The software will not cost the full reserve amount, and any non-expended funds would be fund balance.

- Mr. Patel reviewed the status of audit recommendations. For past due items, five of the seven relate to the Gallup audit. They have a vacancy in the Director of Business Operations and this position is the responsible party for implementation in many cases. The Chairman noted he would like Gallup management present at the October meeting. He also stated the management issue of the unusable turbine purchase bothers him. Someone needs to address it because it is a management issue.

Ms. Gonzales confirmed she is working with Gallup management on the hiring processes. Chris Vallejos, Associate Vice President of Institutional Support Services, stated there is a real challenge there for recruiting staff. Regent Hosmer asked if someone here at Main Campus should solve these issues in the interim. Chairman Gallegos stated the problem is nobody takes ownership. He was hoping the Gallup Bookstore would become an affiliate of the Main Campus Bookstore. Mr. Vallejos stated because of the distance issue and differing systems in place, they are allowed autonomy. Main Campus can give oversight but cannot lend Bookstore staff. The Valencia Campus works well because of their great business manager that works with Main Campus on best practices.

President Schmidly informed the Committee that the Executive Director of the Gallup Branch reports to him and he will work with the Gallup management to get answers for the next meeting. The President stated he is accountable and his office has recently devoted additional staff time. High level staff persons have been out there many times; we cannot get critical personnel permanently in place. Temporary upper administrative level personnel from a Higher Ed. agency are currently on assignment at the Branch. The key middle management levels are having recruitment issues.

For the other two past due items, one relates to the SARM system – it will go on line in September/October, so that is practically complete. The other one is the time extension to SRS for consolidating staff.

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

- 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) (*Lee Peifer, Interim University Counsel*)
- b. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978) (*Manu Patel, Internal Audit Director*)
- c. 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. Regent Hosmer asked for clarification on column descriptions on the work plan. Mr. Patel and Lisa Wauneka, Information Systems Auditor, informed the Committee a risk assessment was done to assign priority.

Summary of the Regent's Audit Committee
August 18, 2011

There being no further business, the meeting was adjourned at 11:33 am. (Motion: Regent Koch, Second: Regent Hosmer).

Approved:


Audit Committee Chairman