

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
October 20, 2011 – 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: David Harris, Gilbert Gonzales, Helen Gonzales, Ella Watt, Carol Stephens, Chris Vallejos, Tim Ross, Anne Murray, Ellen Wenzel, Mary Clark, Halie Garcia (REDW), Wayne Brown (Moss Adams), Ann Brooks, Sylvia Andrew, Mike Duran, Mary Vosevich, Kim Murphy, Tom Neale, Lisa Marbury, Cynthia Reinhart (KPMG), Adam Cavin, Lee DeLeon, Manu Patel, Avedona Lucero, William Cottrell, Lisa Wauneka, Lola Neudecker, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 8:31 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 August 18, 2011 (Motion: Regent Koch, Second: Chairman Gallegos). The Committee unanimously adopted the minutes.
- Faculty Senate President Tim Ross provided the Committee with an update on the faculty disciplinary policy. This audit committee requested the disciplinary policy over a year ago. Previously, the policy passed the Faculty Senate but was tabled at the Academic and Student Affairs subcommittee by request of Dean Claiborne. It returned to Faculty Senate. Now, the policy is approved with one change (the word performance replaced by misconduct) by all academic deans on Main Campus and is waiting on review by three deans at the medical school. It will then be forwarded on to the full Board unless there are any major changes.
- President Ross asked why the Committee does not include an agenda item for advisor’s comments. Chairman Gallegos explained the Committee has never done so in the past, but it would be a good idea, so it will be added. At this meeting, the Committee will hear comments after the follow up items are discussed.
- The Committee discussed items from previous meetings for follow-up. Regent Koch stated that Ms. Prando, Interim Director for Safety and Risk Services (SRS), provided him with risk management/premium items he requested from the prior meeting. Manu Patel, Internal Audit Director, will brief the Committee on requested electronic work paper software information during his Director’s Report.
- President Ross presented comments to the Committee. He informed Committee members that in 2004, there was an Institute of Internal Auditors’ quality assessment of the internal audit process. UNM had the lowest rating for conduct. The report made a number of recommendations, including the formation of this audit committee. Was a report ever filed by UNM as to how they would address recommendations? UNM is already 2 years in arrears on the next review. When will there be another review? Has the University been conducting internal audits as required by the standards indicated in the 2004 report? Regent Koch responded that the recommendations have been addressed. The Audit Committee was formed and UNM put into place an open records agreement. The Chairman and Regent Koch stated UNM does need to do a follow-up review. President Ross stated Regent Policy requires a quality assessment review every five years. He does not need an answer today about when it will happen. Director Patel stated the Department did build 200 hours into the work plan for this

review. Also, international standards have been revised once again and the Internal Audit manual will require another update to comply with standards. Chairman Gallegos asked to see the standards. Professor Ann Brooks, present at this meeting, provided the Committee with the standards. GPSA stated they have no comment on this agenda. There were no further comments.

- Ella Watt, Chief Financial Officer, University of New Mexico Hospital (UNMH), presented information on the Hospital audit contract. UNMH went out for bid through a Request for Proposal (RFP). They sent the RFP to eight firms, but only received two responses. Their committee scored the proposals. REDW scored highest. Ms. Watt, on behalf of UNMH, asked for permission from the Audit Committee to award the contract to REDW. The contract is for three years, effective January 2012, with one year annual renewals and a 30 day termination clause. REDW has performed the audit function for five or six years. This is for internal auditing, not external, so Ms. Watt feels comfortable continuing with REDW. Their work plan goes through the Hospital Audit Committee. Mr. Patel does participate in the entrance and exit conferences and gives input. REDW meets with UNMH to do an audit assessment. REDW provides recommendations and management provides recommendations. These go before the UNMH audit committee for approval. The cost has increased slightly from the prior contract. The Audit Committee recommended acceptance of the REDW proposal (Motion: Regent Koch, Second: Chairman Gallegos).
- Chairman Gallegos asked for a review of the Internal Audit complaint process. He noted Internal Audit works under three complicated policies, one of which was last revised in 1991. Mr. Patel listed the policies – Regent Policy 7.2, the Whistleblower Policy 2200, and Dishonest and Fraudulent Activity Policy 7205. Lola Neudecker, Internal Auditor 3, detailed the process. There are multiple ways the Internal Audit Department may receive a complaint, such as: receipt through campus or USPS mail, direct call to the Department, direct email to an auditor, the Director, or to the generic audit email address, notification to anonymous hotline, direct management or department contact, or via walk-in. Ms. Neudecker explained the Hotline assures anonymity. The Internal Audit manual documents the process.

A lead person and backup person (auditors) are assigned to complaints on a two week rotating schedule. The assigned auditors attempt to get a first-hand account (interview) with the complainant and also record the interview if the complainant agrees. The Department provides the complainant with - and thoroughly goes over - a three page form explaining the process and their rights. The Department tracks all complaints in an Access database. The database form includes a summary of the interview/major issues as well as many other details, including if it is referred out. Depending on the nature of the complaint, Internal Audit will either investigate in-house or refer out to another appropriate department. If referred, the Department requests notification of the results of the investigation. Mr. Patel and Ms. Neudecker informed the Committee as to what types of complaints stay within Internal Audit and why others are referred out and where. The Department reviews the status of complaints at the biweekly staff meetings. After an auditor(s) spends over eight hours working on a complaint, it is assigned a project number for budget tracking purposes.

Per the Regents' Policy Manual, the Internal Audit Department notifies the Audit Committee immediately if illegal activity involves an area of public interest or an amount greater than \$20,000. But there is a conflicting policy about notifying the President, cognizant Vice President and University Counsel. Last year, Internal Audit sent six or seven notification letters to the State Auditor. Chairman Gallegos stated he believes the policies need to be clarified and cleaned up as complaints take a large amount of time away from audits. He asked Mr. Patel if he had given any thought to restructuring. Director Patel stated policy refers to an outdated State Auditor's Rule as well. He agreed that it is necessary to change the complaint process; right now it takes up 1.5 FTE of staff resources in a very small department. The Department is considering designating one person to handle all complaints. According to Ms. Neudecker, most universities have a designated Certified

Fraud Examiner for investigations. Chairman Gallegos stated there should be a meeting by mid-December with David Harris, Executive Vice President for Administration, to figure out how this will be manned and financed so as not to take away from audit resources that are already strapped. Budget funds (as an addition) should include a designated person to handle complaints. Chairman Gallegos stated that departments involved (Internal Audit, those who receive the referrals, and the financial areas) should get together and discuss how this process should best be handled. Regent Koch inquired if Internal Audit asks for a written response from referral departments and if they have a deadline to respond. Mr. Patel explained that it is in writing and there is no formal deadline for their investigation. Regent Koch stated we should inform them of a deadline date when referred and make sure the information is received. Ms. Neudecker explained the Department asks for a response within 10 days. Mr. Patel stated there is no deadline for the completion of the investigation. If requested, Internal Audit could provide quarterly reports to the Committee.

- Mr. Patel reviewed the Department's Draft Annual Report. As discussed earlier in the meeting, the Department lacks staff and spends a great deal of time on investigations, therefore actual direct audit work time has decreased. Some audits are deferred. Chairman Gallegos stated some might need to be removed from the plan. Goals the Department improved upon include using performance auditing in two audits, and using ACL for the Gallup Branch audit. The Department also identified cost savings through audit work. The Department still needs to increase the use of performance auditing and ACL, and implement electronic work paper software. Mr. Patel will provide the Committee with work paper software information in the presentation of the Director's Report. Mr. Patel discussed the budget hour distribution. The Audit Manager position has been vacant since 2009. Two searches failed and the Department has appointed an Interim Audit Manager, Lisa Wauneka. A new search process will begin early next year. The Department is working with Anderson School to hire some interns.
- Mr. Patel reviewed the status of audit recommendations. He stated there are only two past due recommendations from the Gallup Campus audit. Sylvia Andrew, Executive Director, Gallup Branch Campus addressed the Committee regarding follow up items. They hired a bookstore manager with eleven years of bookstore management experience. They conducted a search for the Director of Business Operations, but the search failed. President Schmidly has sent Wynn Goering to fill in while they continue a search. They re-categorized the position to Chief Financial Officer/Director of Business Operations in an effort to increase the caliber of candidates. They will be aggressive in recruitment efforts. One of the findings is dependent on the hiring of the Director of Business Operations. Mr. Patel stated Internal Audit is waiting on paperwork to prove that the other finding is completed. Director Patel and two other auditors visited Gallup recently and cleared up a majority of the recommendations. Safety and Risk Services still have two outstanding recommendations, but Internal Audit gave them an extension on those. University Counsel set up a training session for contract review in January, 2012. Ava Lovell, HSC Senior Executive Financial Officer & University Controller, stated the Standard Accounting Resource Manual (SARM) is on line and running; this was cleared after the report was printed.
- Mr. Patel presented the Director's report. There will be two audit reports presented in executive session. There are four audits in the planning stage and four audits in field work. There are five audits unassigned due to lack of staff. Starting Monday, October 24th, Lisa Wauneka, who has been with the Department for 10 years, will begin in the position of Interim Audit Manager. The Department will advertise for the permanent position again. In the next few weeks, the Department will advertise for one or two more auditors. Mr. Patel met with Dr. White, Accounting Department Chair, to explore an intern program similar to what is done at Colorado State and the University of Texas-Dallas. This would include two or three students and give them hands-on experience. All interns would be required to sign a confidentiality agreement.

The Department recently participated in Grants Management training. The emphasis of the Department's portion of the presentation was on internal controls, payroll, and compliance with laws and regulations. The next training will be in the spring of 2012. The Department will again participate.

The Department requested information from electronic work paper software providers and received responses from three. One is too similar to the ACL tool. Of the other two, TeamMate seems most appropriate and a better fit for the Department than the other option. It is widely used, but it is a little more expensive. The Department needs to meet with IT to see if there is the necessary hardware, etc. in place and that they can support the software. If the IT Department can support this software, it will cost the Internal Audit Department more, but free up time the audit staff spends on database maintenance. Chairman Gallegos stated the Department should make sure to get underway preparing for a QAR and acquiring electronic work papers as soon as possible. Mr. Patel responded that installing electronic work papers allows for downloading standards and preparing for the QAR. Also, it is possible for the peer reviewers to access some information electronically.

The Department will end up with a budget surplus at the end of the fiscal year due to vacancy savings.

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

- a. Presentation of FY11 External Financial Audit pursuant to exceptions at Section 10-15-1H NMSA (1978) and Section 12-6-5 NMSA (1978) (*Moss Adams, KPMG, and Ava Lovell, Vice President for Finance and University Controller*)
- b. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978)
- c. Proposed FY12 Audit Workplan exceptions at Sections 10-15-H(2 and 7), NMSA (1978)
- d. 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)
- 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:

- Payroll (Motion: Regent Koch, Second: Regent Hosmer) dated April 2011
- Human Resources (Motion: Regent Hosmer, Second: Regent Koch) dated June 2011

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

- 2010-08 Audit of Real Estate Department Operations (Motion: Regent Hosmer, Second: Regent Koch)
- 2007-10 Audit of Internet Native Banner Application Security (Motion: Regent Hosmer, Second: Regent Koch)

Summary of the Regent's Audit Committee
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There being no further business, the meeting was adjourned at 1:08 pm. (Motion: Chairman Gallegos,
Second: Regent Hosmer).

Approved:



Audit Committee Chairman