

THE UNIVERSITY OF NEW MEXICO  
Board of Regents Audit Committee Meeting  
October 18, 2012 – Meeting Minutes

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

Other Attendees: Robert Frank, David Harris, Ava Lovell, Liz Metzger, Breda Bova, Dianne Anderson, Lee Peifer, Chris Vallejos, Gina Urias-Sandoval, Troy Clark, Ellen Wenzel, Cynthia Reinhart (KPMG), Francisco Archuleta (KPMG), Jennifer Hall (KPMG), Jaime Clark (KPMG), Steve Keene (Moss Adams), Brandon Fryer (Moss Adams), Purvi Modi (Moss Adams), Ella Watt, Amy Neel, Manu Patel, Chien-chih Yeh, Lisa Wauneka, Avedona Lucero, Lola Neudecker, Victor Griego, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 8:06 a.m. in ROBERTS ROOM, Scholes Hall, UNM.

Chairman Gallegos noted this meeting will be truncated because Regents Hosmer and Koch need to wrap up at 11:00. Therefore, there will be an open session with a couple of business items, the meeting will go into Executive Session, and after that go back into open session for information items.

**ACTION ITEMS:**

- The Committee approved the minutes from September 20, 2012 by unanimous consent.
- The Committee considered the renewal of REDW’s UNM Hospital contract for 2013. Last October, the Committee approved a 3 year REDW contract for internal audits of the UNM Hospital, with a yearly renewal approval process. The contract renewal is effective January 1, 2013, runs on a calendar year, and includes approximately 1500 hours per year at a price of \$184,000 (includes gross receipts tax). Chairman Gallegos stated there was discussion at the last audit committee meeting about scope, and the role that Internal Audit and the Audit Committee have regarding audits conducted under this contract. Internal Audit Director Patel stated he participates in setting the scope, the entrance and exit conferences, and the final report. Therefore, the relationship is functioning in the way the Committee requested.

Regent Koch moved to approve the renewal; Regent Hosmer seconded. The contract renewal was approved by unanimous consent.

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

- a. Presentation of FY12 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, Senior Executive Officer for Finance and Administration for UNM Health Sciences Center*).
- 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).
- c. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978).
- d. Proposed FY13 Audit Workplan exceptions at Sections 10-15-H(2 and 7), NMSA (1978).

- e. Vote to re-open the meeting.

The meeting returned to open session at 10:46 AM. President Frank joined the meeting.

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

- 2012-02, Robert Wood Johnson Foundation Center for Health Policy at the University of New Mexico Audit of Business Practices and Procedures (Motion: Regent Hosmer, Second: Regent Koch).
- 2012-05, Championship and North Golf Course Revenue and Receipt Audit (Motion: Regent Koch, Second: Regent Hosmer).
- Chairman Gallegos stated the committee combined the discussion on the Internal Audit status report and audit planning. They have recognized the audits in fieldwork – College of Arts and Sciences and the belated Internal Audit Peer Review. The Physical Plant Department, Purchasing Card, and UNM Medical Group audits are assigned audits. The IT Firewalls audit will be removed from the audit plan and replaced with an audit of data centers. Per Director Patel, it will probably be about the same amount of budget hours. The Chairman asked Director Patel to state the reason for the switch. Director Patel responded that he had a discussion with UNM's CIO, who indicated that the data centers would be a more useful audit at this time. The Committee is also interested in devoting management request audit hours regarding security of student information, especially given the widespread identity theft problem occurring nationally. Regent Hosmer stated that at a national level students at Universities have been identified as a target; we owe students a review of the level of vulnerability. Chairman Gallegos asked Director Patel to come up with a plan and amount of budget hours.

Chairman Gallegos informed President Frank that the Committee also discussed the President's travel and entertainment expenses. The President's contract requires that these expenses are reviewed by this Committee.

Chairman Gallegos updated President Frank on his request for review of the College of Arts and Sciences. The fieldwork is in progress. Regent Hosmer suggested the scope of the audit be expanded to not only include financial auditing, but performance auditing as well. The Department is already looking into the workloads of professors, etc., but perhaps it should include graduation rates and degrees being granted. President Frank would support that; however, he knows that the University has not been diligent in building a database. We need to be more proactive. If we don't start now, we will not have that information in the future. The data will not be as strong now as we want it to be, but we need to look at it to get it for the future. Chairman Gallegos asked how we can do that. Director Patel said we should look at other universities that have that kind of data system and find best practices. We can make a recommendation to the University regarding what information the database should include.

Future audit plan suggestions from the Committee include the Center on Alcoholism, Substance Abuse and Addictions (CASAA) because of the risk involved there and it has been six years since the last audit. The Committee would also like to include the Taos and Los Alamos branches. Regent Hosmer suggested, because of the role of the University in addressing the problems with K-12 education in our state, pushing the College of Education

audit forward on the schedule as a performance audit. Regent Koch noted the Legislative Finance Committee may be doing the same thing, and if they do, they will do a thorough job. We should wait to see what they do.

The Committee moved to approve the present audit plan (Motion: Regent Koch, Second: Regent Hosmer).

#### INFORMATION ITEMS:

- Director Patel presented the Committee with the Internal Audit Department's Annual Report. The annual report is complete, and will be finalized and submitted to the University Secretary's office. The report details the data for the last 5 years, including where the Department spends its hours. For FY12, most audit hours were spent on the completion of 4 to 5 audits. Management and advisory services includes two audits resulting from complaints. There were about 2300 hours spent on complaints and investigations; the Department received over 90 complaints. The annual report includes a summary of audits completed. In FY12, the Department completed 36% of audits on the audit plan. This is an increase over FY11, where the Department completed 20% of audits on the audit plan. The low completion rate is due to the scope of work on audits becoming larger than originally planned and vacancies in the audit staff. Internal Audit should be fully staffed in FY 13, and should complete at least 75% of audits. The audit that included performance auditing was the Provost General Administration audit. The Department implemented the new electronic work paper system and the staff received training. The Department is using the software for the current College of Arts & Sciences audit. Future audits will be performed using the software.

The Annual Report lists the Department's achievements. The Department worked with Anderson School of Management to hire its first student intern, and plans on continuing this relationship. Internal Audit is collaborating closely with the Health Sciences Center Compliance Office and UNMH's Internal Audit Department. The after-audit survey scores increased over the prior year. The Audit Manager position was open in FY12, but the Department filled it at the beginning of FY13. There is another vacant auditor position that is currently posted; it should be filled in November. The Department also needs to create a position and advertise for a compliance staff person; the FY14 proposed budget request to fill this position is included in the Committee's meeting packet. However, the Department is out of space and is working with the Space Allocation Committee to obtain more space.

Plans for improvement include: incorporating more performance auditing; improving productivity with the use of the new electronic work paper software; and, enhancing the complaint database to better analyze data.

- Internal Audit Manager Chien-chih Yeh presented the status of audit findings. There are no past due items at this time. The second section includes findings that have been addressed and verified since last month's meeting; they are cleared. The final report includes four pages of items still outstanding that are not past due. The Department will continue to work with management and will continue to report the status to the Committee. Chairman Gallegos stated the follow up reminds him about the ACC ground lease and auditing the final cost. There was an amendment to the lease adopted by the Board that stated what the rental would be. Director Patel stated there is a FY13 audit for Lobo Development and it will cover this issue. President

Frank asked what determined the final rental costs. Director Patel stated his recollection is initially there was an estimate of construction costs. Based on that estimate the land lease payment would be a certain amount. If the cost exceeded that estimate, the lease amount would reduce. Chairman Gallegos further explained that is only to a certain point; there was a floor of approximately \$309,000. If the construction cost was less, the rental would go up. Mid-stream it was decided instead of ACC getting their own utilities brought in, they would hook up to our utility system. That would save ACC money. It became a negotiation. Since ACC would save on utilities, they would give UNM a break from 7.5 to 7.15 on the return.

- Director Patel reviewed the Internal Audit budget request and space request with Chairman Gallegos. Director Patel explained there are currently 10 FTE positions in FY13. The addition of the compliance staff person would bring it to 11. The salary budget requirement would be \$809,000, with an operating budget of \$60,000. The total budget would be \$869,000. The Department's current allocation is \$759,000. The Department will have to use \$110,000 from reserves due to vacancy savings. The Internal Audit Department office space is full and the Department will find out in November if it will get additional space from an attached building.
- Director Patel covered remaining items in the Director's Report (most were already covered earlier in this meeting). The next scheduled Audit Committee meeting is February 21, 2013, but the Committee has requested a Special Meeting in December. Chairman Gallegos explained to President Frank that the external audit of the financial statements should be back from the State Auditor's office in about a month. The Committee would like the chance to review it. The Full Board meets on December 11<sup>th</sup>, so this Committee should meet sometime in the first week of December. Director Patel stated this is all pending on when the State Auditor releases the report.

There are currently 16 audits in process for FY13. So far in FY13, the Department has received 22 complaints. Director Patel told President Frank that he can provide him some data as to where most complaints are coming from and the nature of the complaints. Chairman Gallegos asked if any complaints end up in Legal. Director Patel stated we do have two or three in litigation, but they happened earlier than the time period of this report.

The Department's financial report shows an expenditure of 676,000 as of the end of September. Director Patel estimates there will be a carry forward balance of about \$200,000.

The Peer Review team will come to the Internal Audit Department in the last week of October or early November.

There being no further business, the Chairman declared the meeting adjourned at 11:20 a.m.

Approved:

  
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Audit Committee Chairman