THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee Meeting
June 20, 2013 – Meeting Minutes


Chairman Gallegos called the meeting to order at 8:32 AM in ROBERTS ROOM, Scholes Hall, UNM

INFORMATION ITEMS:

- Chairman Gallegos announced he will be retiring from the Board of Regents in a year and a half. He is concerned about a successor, because he now has the position (required under best practice standards for audit committees) that has financial and accounting expertise. He asked Cynthia Reinhart from KPMG to speak about what kind of beneficial training they offer. Ms. Reinhart stated that there is a long-standing KPMG Audit Committee Institute. The Institute has an Annual Conference to be held in January 14-15 in Phoenix, Arizona. That conference will be held somewhere on the east coast in 2015. She reported there is also a round table series that meets in over 20 cities around the United States (smaller programs). There will also be a quarterly audit committee webcast (about an hour in length) on June 27th and one in September. There are multiple publications available on the Institute’s website.

- Helen Gonzales, Chief Compliance Officer stated that there is also training available for Board members on audit and compliance areas. One place is through the Association of Governing Boards.

- Ms. Gonzales provided a presentation on compliance and the new Compliance Office. She discussed the context and landscape that created compliance functions, and although she discussed other universities, she focused on Penn State. As a result of what happened at Penn State, compliance functions have really popped up at universities. She attended a higher education compliance conference in early June and met compliance officers from universities all across the country. She also met for lunch with the new Chief Ethics and Compliance Officer at Penn State. One thing Penn State did was to hire a new full-time Clery coordinator. More and more universities are doing so. The Clery Act spurred an incredible amount of regulations and increases of requirements for reporting.

Ms. Gonzales discussed what the compliance function is as there has been confusion. The presentation includes information on next steps, goals, ideas, and what the office has accomplished so far. She discussed the Louis Freeh Report. It is a very large, independent report on the child sexual abuse incidents committed at Penn State. The Board of Trustees (very large, at 31 members) at Penn State gave Louis Freeh full rein to review themselves and the administration – total independence with no vetting before it went public. There are seven (7) areas that the report looked at. Campus culture and fear of retaliation is an issue. According to Ms. Gonzales,
there was an early report from a custodian and nothing was done. There are observations around administration, the Board of Trustees, and the General Counsel’s office. It is a painful report to read; there was a lack of coordination, resources, organizational structure, oversight, and leadership, as well as a lack of accountability, ethics, and values, etc. The report discussed the athletic department and its organizational structure, NCAA compliance, the police department, and programs for non-student minors and access to facilities. The report goes into the details of all of the charges, including criminal, and the resulting recommendations. There is a big focus on ethics and campus culture. The recommendations include training; Ms. Gonzales stated that Chairman Gallegos’ comments earlier in the meeting are therefore very relevant. For the Athletics Department at Penn State, there were recommendations on organizational structure, lines of authority, reporting, security, access to minors, etc. For the police, the report recommended they review policies and have better records management and retention.

The Freeh Report recommends establishing a Chief Compliance Officer who heads an independent office. One of the key collaborations is with Internal Audit. In a lot of ways it is similar to Internal Audit’s independence to be able to identify, investigate, and report on risks.

Ms. Gonzales talked about the structure of the UNM Compliance Office and the role of a Chief Compliance Officer. The office needs to coordinate compliance, develop the compliance philosophy, and establish a compliance council. There is a compliance council now in place and they meet for the first time next week. The office will identify partners and coordinate with University Counsel, Risk Management, and Internal Audit. It will establish training and a code of ethics. Internal Audit just sent out a risk assessment. Ms. Gonzales will work with Internal Audit to review and prioritize those risks.

Chairman Gallegos noted that there is a specific Regent’s policy about reporting structure for Internal Audit. We need to have the same type of policy in place for the Compliance Office. Ms. Gonzales stated that it is a model that makes sense. She spoke with other universities at the June conference about the reporting structure of their compliance function, and most of them stated it is similar, with administrative reporting to a president or chancellor and functional or regular reporting to a Board. Catholic University has done phenomenal work in cataloging the laws that relate to compliance. It is a great resource and the link is referenced on UNM Compliance Office’s website.

Hotline reporting is a critical component. The Compliance Office and Internal Audit are working on the transfer, over time, of administration of the hotline complaints to the Compliance Office.

Compliance is front and center now for universities. Clery fines have also been in the news of late. Several universities have recently received fines. Universities are being targeted by federal regulators. Organizations can be found guilty of criminal conduct. They cannot be imprisoned but they can be fined. What can be done proactively to prevent compliance failures? Implementation of the Sentencing Guidelines can help minimize fines. Only about 60% of UNM’s employees take the mandatory ethics training. That’s an area that needs improvement. If an institution has a strong compliance structure in place, it can potentially help mitigate fines as well.
What is the Compliance Office? Who is responsible for each area of compliance? Ms. Gonzales stated she works proactively as a change agent to facilitate and assure that management is addressing key risk areas. She is working to create a program that focuses on preventing and uncovering misconduct, and will act as a neutral fact-finder. She will work with compliance personnel across campus. Ms. Gonzales showed the Committee that there is a new website for the Compliance Office and that website contains a compliance directory that is still being assembled. The website has a hotline poster that can be downloaded. The posters will also be distributed to all the building coordinators. The anonymous hotline has been available for a long time, but there is little awareness of it on campus.

Chairman Gallegos stated that Regents’ Policy 1.8 addresses conflict of interest. The Regents fill out forms and return them to the University, but where do they end up? Are they reviewed and checked? Ms. Gonzales stated they go to University Counsel. The University also needs to consider how deep the conflict of interest review goes. Director Patel stated UNM Policy 3720 also addresses conflict of interest, but it is for high-level administration. Regent Hosmer asked if the task falls to the Compliance Office when internal policies like this are found to be incomplete. Chairman Gallegos stated he feels the Compliance Office needs to take possession of the forms and review them. Litigation is theoretically the responsibility of the Audit Committee. Often, the first time the Regents hear about a lawsuit is in the paper. The Compliance Office provides an opportunity for complete assembly of information. Data can be collected and could connect indicators for early mitigation. In litigation against the University, the Regents are named as defendants but they do not feel informed.

Chairman Gallegos asked about the clinical areas. What is the Compliance Office’s responsibility there? Ms. Gonzales stated there is an HSC Compliance Office (Stuart Freedman is the Compliance Officer) and they are responsible for that side. The Chairman asked if Stuart Freedman should be added to the Compliance Committee. Chairman Gallegos feels that there should be a flow of reporting. Will the HSC Compliance Office report to the Audit Committee on progress as well as to their Board of Directors?

Amy Neel, Faculty Senate President, stated she is concerned because there was no representation from Academic Affairs, Vice President of Research, or the Faculty Senate. There would likely be ethics and compliance violation complaints that involve faculty. There is a faculty senate ethics committee but it has not been functional over the last several years; they are working to remedy that. There have been a lot of gray areas where complaints are not legal, but perhaps ethical, and they are not always sure what to do with those complaints. Ms. Gonzales reported that the Provost, Vice Provost, and Vice President for Research are members of the Compliance Committee. She was not aware of the ethics committee. Ms. Neel asked if they could consider adding someone from Faculty Senate. Ms. Gonzales said that is a good point. Yemane Asmerom, UNM Leadership Academy Fellow, stated it would be important to also include program managers that deal with children. Ms. Gonzales noted that it is already a 20+ person committee with senior leadership for these areas, and increasing the size could be a problem. As part of the committee meetings, however, they will bring in experts.

In August 2012, President Frank commissioned a review of the compliance function. How can the University create this compliance function without adding additional administrative burden? The compliance function should advance the culture of ethical conduct and compliance. The University needs to develop meaningful policies that encourage appropriate
behavior. Stanford University’s model for compliance in a decentralized environment is a matrix approach. Decentralized institutional offices and officers are coordinated by a small central compliance function that reports to the institution’s governing board. They conduct regular risk assessments. Regent Hosmer stated that the language of the policies is very important but what we are after is the results of these policies that are meant to develop meaningful compliance behaviors and practices. Chairman Gallegos inquired about enforcement. He said there will be violations and there has to be consequences. Ms. Gonzales referred back to the compliance directory on the website; each area has compliance responsibility. The risk assessment will look at these areas, prioritize the risks, and determine if the higher risk areas have their processes in place and if their practices are in compliance. Chairman Gallegos asked what the Compliance Office will do if policy violations are found. She replied that it would depend on the severity. She would work with management to resolve issues and report to an executive compliance committee that would include the President and his direct reports. They are the ones that can make a change happen if one is required. She will also track the issues and report them to this Audit Committee.

Regent Koch asked about notification to Legal Counsel if there is a violation. Director Patel stated when a violation is reported to the Regents, the Regents should decide how to use the legal system or Regent authority to take action. Ms. Gonzales stated Elsa Cole, University Counsel, will be a member of the Compliance Committee. Regent Koch stated if there is an issue that was not resolved or corrected the Regents need to have a legal opinion before it comes to them.

Ms. Gonzales explained that the Compliance function will help Compliance Partners identify processes that need to be improved and proactive measures that are missing. Chairman Gallegos stated there are going to be violations and there needs to be enforcement. The Compliance Office is important. He sees the role as more than just processes and training; they should get their hands on violations. The Audit Committee has seen egregious violations where the employee did not get fired.

Regent Hosmer noted that there is a supervisory responsibility – the supervisor is not relieved of responsibility, and that should be emphasized. Ms. Gonzales stated that Jewel Washington, Interim Vice President of Human Resources is responsible for making sure that discipline is consistent for staff violations. Mike Dougher, Senior Vice Provost would be responsible on the faculty side. The Compliance Office will make sure there is reporting.

Chairman Gallegos asked Ms. Gonzales to attend the Audit Committee meeting in September. The Committee will need updates. Regent Hosmer inquired if there will be information about recommended reports, such as the Legislative Finance Committee report (outside recommendations). Identifying follow-up has been scattered. The Regents have discussed if the Compliance Office could be involved in assuring something is going on in response to those outside recommendations. Ms. Gonzales replied that is something she wants to discuss through the administrative function with the President’s Office. Chairman Gallegos stated that the University needs a policy for reporting of the Compliance Office by the September meeting. Internal Audit Director Patel stated that a recommendation for that policy change was part of the external Quality Assessment Review.
• Chairman Gallegos asked if there were any advisor comments. There were none.

• There were no follow-up items for discussion from the meeting of April 18, 2013.

• Audit Manager Yeh reviewed the status of audit recommendations from previous audits. There is a new template now that was approved at the last Audit Committee meeting. There are three types of items on this report: Implemented, Open, and Pending. Mr. Yeh stated there are two implemented items; everything else is open or pending.

Robert Wood Johnson completed their recommendation on annual review of policies. Internal Audit received a copy and is satisfied the recommendation is implemented. The second implemented item is regarding the Quality Assessment Review. That was completed. He discussed three past due items. These show up with red boxes on the report. The UNM Foundation will present their information on the investment policy revisions to the Board in September. It is open until the action is completed. Carla Prando, Director of Safety and Risk Services (SRS) asked for an extension on the finding regarding policies and procedures for SRS’s involvement in pre-construction and construction phases of projects. Ms. Prando reported they formed a task force and hired a consultant to help develop the roles and resulting policies. The policies are in draft form and should be finalized in December. The last past due item is Robert Wood Johnson’s finding that they are required to meet with the Provost twice a year. Internal Audit is awaiting evidence of those required meetings.

Regent Hosmer stated he is interested in the status update column of the follow up report. It is mostly blank. Mr. Yeh responded that the system is new and there is not much content yet in that area. The auditors will be updating the new system regularly. Director Patel commented on the status of risk assessments. The Internal Audit Department has sent out approximately 80 surveys and to date has received 35 responses. Regent Hosmer is looking forward to the additional content.

• Director Patel reviewed his Director’s report. The proposed dates for FY14 are as follows: September 19, 2013, October 17, 2013, February 20, 2014, and May 15, 2014. Chairman Gallegos agreed to leave those dates in place for now. Internal Audit completed 10 audits this year. Two additional audits are in the report-writing stage; two are in fieldwork. Four more are in planning, and only one audit is unassigned. Internal Audit is working with a new complaint tracking system. So far, there have been 103 complaints received this fiscal year. Some are duplicates, as on occasion multiple people reported the same complaint. About half of those are resolved. Regent Hosmer asked about trends for complaint hotline information. Is the total number increasing or decreasing? Is a certain area increasing or decreasing? Director Patel stated that the total number is going up and 70-80% of complaints are human resources-related. The Human Resources number is increasing along with the total. Regent Hosmer requested a presentation (to include the Human Resources Department) on this trend at the next meeting.

The Department’s budget report was included in the meeting packets. Internal audit should have a small amount of carry-over budget funds (approx. $70,000) at the end of the fiscal year. Most of this amount will be used to fund the difference between the approved FY14 projected budget ($821,000) and the allocation of $766,000. The Internal Audit Department is now fully staffed.

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

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 at 3:23 p.m., with certification that only those matters described above were discussed in Executive Session.

ACTION ITEMS:

- The Committee approved the minutes from April 18, 2013 (Motion: Regent Koch, Second: Vice Chairman Hosmer).

- The Committee approved the following UNMH audit: (Motion: Vice Chairman Hosmer, Second: Chairman Gallegos).
  - Outpatient Pharmacy, dated June 2012.

- The Committee approved the following UNM audits: (Motion: Vice Chairman Hosmer, Second: Chairman Gallegos).
  - Physical Plant Department Review of Contracting Services for Maintenance and Improvements #2013-09, dated June 14, 2013; and

Motion to adjourn (Motion: Vice Chairman Hosmer, Second: Chairman Gallegos). There being no further business, the Chairman declared the meeting adjourned at 3:27 p.m.

Approved:

[Signature]
Audit Committee Chairman