

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee
April 24, 2012 – Meeting Minutes

Members Present: Chairman J.E. "Gene" Gallegos, Regent James Koch (Quorum).

Absent: Regent Lt. Gen. Bradley Hosmer

Other Attendees: David Harris, Helen Gonzales, Gilbert Gonzales, Ava Lovell, Breda Bova, Lee Peifer, Ella Watt, Steve McKernan, Pamina Deutsch, Chris Vallejos, Nicole Dopson, Curt Porter, Melissa Vargas, Tim Ross, Ellen Wenzel, Kim Murphy, Melanie Sparks, Cynthia Reinhart (KPMG), Jaime Clark (KPMG), Jennifer Hall, (KPMG), Steve Keene (Moss Adams), Purvi Harville (Moss Adams), Manu Patel, Lisa Wauneka, Victoria Gorman.

Chairman Gallegos called the meeting to order at 1:04 PM in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the Minutes of the Regents' Audit Committee Meeting from February 16, 2012 (Motion: Chairman Gallegos, Second: Regent Koch). The Committee unanimously adopted the minutes.
- Chairman Gallegos asked Internal Audit Director Patel to report on the status of the five-year quality assessment process for Internal Audit. Per Mr. Patel, all 15 correction action items from the 2004 peer review are resolved. The Internal Audit Department contacted the Association of Local Government Auditors (ALGA), the Association of College and University Auditors (ACUA) and a private Quality Assurance Services provider. ALGA has only performed two higher education peer reviews. ACUA services are completed through member volunteer basis; therefore, there is a long wait time. It appears that the QAR private consulting firm would be able to conduct our QAR during mid-August and provide a final report during the fall of 2012. The estimated costs for the QAR would be \$8,500. The amount is similar to what it would cost with ALGA or ACUA. The Committee recommended contracting with the QAR Consulting firm and to plan on having the next QAR scheduled in three years rather than after five years. Faculty Senate President Ross stated that sounds fine to him. Additionally, Internal Audit is in the process of implementing electronic work paper software.
- The Committee received the Entrance Conference presentation and corresponding materials from KPMG and Moss Adams for the FY12 external audit. Cynthia Reinhart, Office Managing Partner for KPMG and the Lead Engagement Partner for the UNM audit began the presentation and introduced her team. Steve Keene, Southwest Managing Partner for Moss Adams will be the Client Service Partner for the Hospital portion. He introduced his team. Ms. Reinhart stated the presentation covers the scope, limitations, and timing of the audit. KPMG is responsible for the financial statement audits of the University and covers Main Campus, Branches, Health Sciences Center, the UNM Foundation, ASMF, Alumni Association, Lobo Club, Lobo Energy, Lobo Development and other components units. KPMG also performs the Federal Single Compliance Audit at the government-wide level. Moss Adams is covering the clinical operation aspect for UNM Hospital, UNM Behavioral Operations, Sandoval Regional Medical Center (SRMC), UNM Medical Group, and other component units.

The financial statement audit will include an opinion on the consolidated financial statement of the University. The single audits will focus on Federal program monies, research and development, Recovery Act funds, and FHA programs. The key standards include GAO, OMB A-133 (single audit) and OMB A-21 (cost principles), and the New Mexico State Audit Rule. The AICPA standard 114 requires the external audit firm to communicate with the Committee prior to starting the audit, after it ends, and if there are any significant matters of which the Committee needs to be aware. The

external auditors will form and express an opinion about whether the financial statements have been prepared and presented by management in conformity with generally accepted accounting principles. Then, the auditors design the audit to obtain reasonable, although not absolute, assurance about whether the financial statements are free of material misstatements. They are required to communicate significant matters.

An audit of financial statements includes consideration of internal controls. The audit is risk-based. The external auditors will identify key controls to test. They will test compliance with Federal grants. The key areas for testing are cash receipts, investments, payroll expenditures, other expenditures, contracts and grants, Banner system controls and related IT controls, alternative investments, accounts receivable and related revenues, patient revenues, non-routine transactions, bonds payable, interest rate swaps, transactions with affiliates, non-operating expenses and revenues, and overall financial statement disclosure and presentation. The Chairman asked for trends on booking the liability for health care costs.

Areas of risk for the Hospital side are different. The auditors will look at patient revenue, patient receivables, cut-off valuation, uncompensated care, insurance and patient charges, financially-assisted patient charges, third-party settlements, bonds payable, cash and investments, general and payroll expenditures, non-operating revenue, IT controls, as well as State audit procedures.

For other component units such as Lobo Club, Lobo Energy, Alumni Association, etc., that each have separate stand-alone financial statements, they will look at things like contributions, royalty or other revenue sources, expenditures, transactions with UNM, and that statements are appropriately prepared and presented.

Internal control testing has begun. They expect to test internal controls on Main Campus through May 18th. Final audit test work will begin on August 18th and continue through September 28th. The Hospital is working with similar deadlines.

The Committee discussed the scope of the audit for the UNM Foundation in relation to examining the alternative investments, management fees of 185 basis points, pledges received compared to actual collection of pledges, and document trends over last five years. They would also like information on the Regents endowments (Winrock, Mesa Del Sol, Sandia Foundation), and funds raised by the Lobo Club, Health Sciences Center, etc. The Committee indicated that they would like to see a more detailed disclosure of this information in the audited financial statements. Another option may be to show the information in the Management's Discussion and Analysis (MD&A) section of the report. The Committee alerted auditors regarding the UNM travel policy changes adopted by the UNM Board of Regents effective January 2012. The auditors should test for the policy change implementation in travel expenditures testing.

The Committee requested a status report of the financial audit during September and an exit conference with the committee on October 18, 2012. A draft report will be submitted to the State Auditor on October 19th for their review. The final report is due to the State Auditor on November 15th. The costs for the external audit are approximately 2% higher this year than last year.

- The Committee considered the proposed dates for the FY13 Audit Committee Meetings. They did not accept the proposed July 19, 2012 date; it was changed to September 20, 2012 to accommodate a status report for the external audit. The FY13 dates are now September 20, 2012, October 18, 2012, February 21, 2013, and May 16, 2013.
- Chairman Gallegos asked for Advisor's Comments. Faculty Senate President Ross stated this afternoon is the final Faculty Senate meeting of the academic year. They will vote on approval of the

faculty workload policy. They will also discuss endowed chair policy and a resolution to deal with strategic planning for the coming year. Last month they approved the formation of the Honors College and the transfer of the Organizational Learning and Instructional Technology Program from the College of Education to the College of Libraries. They approved reorganization of the Faculty Senate. At today's meeting, they will discuss the Rules of Order. Chairman Gallegos noted that Dr. Ross got quite a bit accomplished during his term as Faculty Senate President.

There is no report from Graduate and Professional Student Association. There were no other Advisors present.

- The Committee reviewed the status of audit recommendations. There are currently no past due audit recommendations. Thirty-three (33) recommendations are pending. Of the 33 recommendations, 15 are partially implemented. Many of the pending Gallup recommendations are dependent upon the campus hiring a new CFO. The Athletics W-2/withholding issue is resolved. Lobo Development will take up the subject of ACC rent payment distribution at their next meeting and bring a recommendation to the Finance and Facilities Committee.
- Director Patel reviewed the status of the current Internal Audit work plan and the complaints. Internal Audit has temporarily dedicated one staff auditor to the complaint process until the Department hires a full time staff member to handle compliance investigations. The Internal Audit Department will end fiscal year 2012 with an estimated budget surplus of \$130,000. The department will use these funds in FY13 to fully staff all authorized positions including the position to address compliance investigations. Our Audit Manager position is vacant. The department posted the position on April 5, 2012. The interview process will begin early-to-mid May. Internal Audit acquired and installed the audit management electronic work paper system. Training sessions will begin at the end of May and continue in June. Internal Audit will participate in the first phase (first and second are now combined into one phase) of the Kronos installation. This will go on line in September.
- Chairman Gallegos asked for an on-the-record discussion of the internal audit function of UNM Hospitals to examine if the Audit Committee will make any amendment recommendation to the full Board of Regents. Mr. Steve McKernan, Chief Operating Officer, UNM Hospital, and Ella Watt, Chief Financial Officer, UNMH provided information regarding the internal audit function of the UNM Hospital. UNM Hospital has an internal audit coordinator. The internal audit work is contracted out through an RFP process. The RFP is for a three-year period. The internal audit contract is signed for one calendar year at a time with a 30-day cancellation clause. The contract price is about \$185,000 for approximately 1,500 audit hours. The audit firm prepares an audit plan based on a risk assessment and input received from the Hospital's Board of Trustees Audit Committee, management, and the UNM Internal Audit Department. The audit plan is prepared for a three-year period. The audit plan is presented to the Hospital's Board of Trustees Audit Committee for approval. REDW conducts six audits a calendar year. The draft audit reports are provided to Hospital management to provide responses. The UNM Internal Audit Department participates in the entrance and exit conferences, and a draft copy of the report is provided to Internal Audit for review and comments. The final audit report is presented to the Hospital's Board of Trustees' Audit Committee and to the UNM Board of Regents' Audit Committee.

Chairman Gallegos asked for the pros and cons of UNM's Internal Audit Department conducting the audits of the Hospital. Mr. McKernan indicated that REDW brings a high level of independence and competency to the hospital audit work, and that most people do not have the experience to conduct hospital audits. The audit plan can be changed quickly if needed, and REDW's reports are professional, timely, and of good quality. The private internal audit contract works well for the Hospital. If the current process works well for the Hospital, changes may not be necessary.

Regent Koch asked who is on the selection committee for the Hospital's internal audit services. Mr. McKernan indicated that JoAnn Woolrich, Hospital Internal Audit Coordinator, Manu Patel, Director of the UNM Internal Audit Department, and Ella Watt, CFO, UNMH are on the selection committee. The Hospital Director of Purchasing is a non-voting advisor to ensure compliance with the purchasing regulations. The Hospital's Board of Trustees Audit Committee, the UNM Board of Regents Audit Committee, and the State Auditor approve the contract.

The Hospital's internal audit plan is approved by the Hospital's Board of Trustees Audit Committee but not by the UNM Board of Regents Audit Committee. In response to a question by Regent Koch, Mr. Patel indicated that to hire two additional auditors would cost approximately \$190,000 if the UNM Internal Audit Department were to take over the Hospital's internal audit function. Regent Koch indicated that the UNM Board of Regents Audit Committee and UNM Hospital Board of Trustees Audit Committee need to work together to select the entity to perform the Hospital's internal audit function.

Chairman Gallegos stated that the Hospital internal audits conducted by REDW are routine financial audits and those audits are not very probing. REDW conducts inventory audits, pharmacy inventory controls, and cash receipts audits. Chairman Gallegos stated that he does not remember any audits performed by REDW that require healthcare expertise. Chairman Gallegos stated that these are routine audits and he would like assurances that real exposures are being examined. UNM Board of Regents Policy 3.5 carved out an exception for the UNM Board of Regents Audit Committee. Chairman Gallegos would like to have input into the Hospital's internal audits. Mr. McKernan stated that he would include the UNM Board of Regents Audit Committee on the Hospital's risk assessment planning and audit planning. The planning can be done jointly with the Hospital's Board of Trustees Audit Committee. Mr. McKernan stated that the UNM Board of Regents Audit Committee members need to be comfortable with the process. The Chairman stated that even if the process remains outsourced, the UNM Board of Regents' Audit Committee should be involved from the beginning and throughout the process, instead of simply receiving the output.

Chairman Gallegos asked where malpractice fits in with internal audit. Mr. McKernan stated that malpractice is not looked at by internal audit. The medical staff defines the parameters for the plan of care. It is an independent body that has its by-laws. HSC has a surveillance system for quality of care. There is a performance oversight committee that reports back to the Hospital Board. There is a peer review organizational immunity act regarding health care quality. This peer review immunity allows staff to review quality of care. The peer review information is free from legal discovery if conducted in a specific way. The Hospital is reviewed by the Federal Government through the Department of Health. The Joint Commission performs an accreditation survey. Some hospital issues must be reported to the Federal Government. There is a complete mechanism to look at quality of care to ensure patients receive safe care and minimize malpractice law suits. It also protects the reputation of the Hospital.

The Clinical Operations Board is a nine member Board, seven of which are appointed by the Regents. Two members are appointed by the County Commissioner. The Hospital was formed based on a 1949 Federal statute that deeded Indian trust fund land to Bernalillo County to build a hospital to serve Native Americans and the uninsured of Bernalillo County. The Hospital opened in 1954 and was run by Bernalillo County until 1968. Then UNM and the County entered into a joint powers agreement in 1968 to co-manage the Hospital. The County was to manage the finances and UNM was to manage the operations. In 1978, based on a State statute, UNM leased the Hospital, and BCMC became UNM Hospital. The lease was revised in 1998 and 2004. The lease obligated UNM to always have a Board. The Federal Government looks at the governance structure and makes sure it has required committees: Quality (Performance Oversight), Finance, and Audit. They also have an

Summary of the Regent's Audit Committee
April 24, 2012

Executive Committee and a Strategic Planning Committee. All meetings are conducted in accordance with the State Open Meetings Act. They are bound by the Regents' Policy Manual and the Business Operations Manual of the University.

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

- a. Discussion of limited personnel 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) (*Manu Patel, Internal Audit Director*)
- 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) (*Lee Peifer, Interim University Counsel*)
- c. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978) (*Manu Patel, Internal Audit Director*)
- d. Vote to re-open the meeting

The meeting returned to open session at 4:24 PM (Motion: Regent Koch, Second: Chairman Gallegos).

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

- 2010-04 Audit of Provost Administration (Motion: Regent Koch, Second: Chairman Gallegos).

There being no further business, the meeting was adjourned at 4:25 PM. (Motion: Regent Koch, Second: Chairman Gallegos).

Approved:



Audit Committee Chairman