

THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit Committee Meeting
February 20, 2014 – Meeting Minutes

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

Other Attendees: Liz Metzger, Helen Gonzales, Gil Gonzales, Ava Lovell, Mike Schwantes, Chris Vallejos, Lisa Marbury, Carol Parker, Richard Holder, Eileen Sanchez, Mike Duran, Elsa Cole, Ella Watt, Mallory Reviere, Purvi Mody, Therese Sears, Rodney Martinez, Richard Lauer, Cynthia Reinhart (KPMG), Steve Cogan (REDW), Halie Garcia (REDW) Stuart Freedman, Pamina Deutsch, Mike Bush (ABQ Journal), Manu Patel, Chien-chih Yeh, Lisa Wauneka, Avedona Lucero, Ashley Manley, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 9:00 AM in ROBERTS ROOM, Scholes Hall, UNM.

- The Committee discussed University-Wide Compliance Structure with President Frank, Helen Gonzales, UNM Chief Compliance Officer, and Stuart Freedman, HSC Chief Compliance Officer. Chairman Gallegos began by stating the University is a regulated business, like it or not - from HIPAA regulations at Sandoval Regional Medical Center to NCAA at south campus, a wide variety of subjects with hundreds of regulations in between. It is the Audit Committee’s idea that Compliance should be overseen and dealt with on a University-wide basis by a central compliance office. It is ultimately up to Administration and this Committee as to the roles. The Committee feels the July 2013 policy 7.2 and 7.3 drafts provide the basic framework as to how they see the policies should apply. The Compliance Office should have the same reporting structure as Internal Audit, administratively attached to the Presidents’ Office but functionally reporting to the Regents through this Audit Committee with the same independence and direct, unfiltered access to the Regents. The Committee has seen different versions of policies related to this function but the Chairman feels we need to come back to the July 2013 iterations. Regent Koch noted he agrees with the structure and he supports what the President and Chancellor want to do to set up the organization. Regent Hosmer stated it is the President’s call. The interests of the Audit committee need to be served and that single oversight makes good sense. Regent Hosmer further noted that although we are a single entity, the two sides have progressed down different roads to this point, with HSC well in advance of the rest of the University. Helen Gonzales has done a remarkable job of a “boot strap” operation to pull the University in the right direction and constructing the skeleton and some of the muscle tissue of the compliance operation. It seems there is a way to combine both strengths – the work and expertise of the HSC side and the structure from Ms. Gonzales – as a way to get down that road as soon as possible.

President Frank stated there is great strength across the organization and HSC has had a head start. Ms. Gonzales has made tremendous progress. The concept of one University is what we have been trying to do in creating an economy of scale across the enterprise. He also noted that athletics has significant compliance responsibility. There will be more dialog related to trying to move this forward and Manu Patel, Internal Audit Director, also needs to play a part. There is great opportunity to take advantage of work that has been done.

Mr. Freedman informed the Committee that he is excited about working together and sharing ideas. Ms. Gonzales said that collaboration is a fantastic idea. University health science centers across the country have been working on this due to the regulated components inherent in those centers. They have the depth; main campus has the breadth of compliance areas that is more

diffuse. Starting a compliance office took the better part of a year. Ms. Gonzales noted that several things, like ethics, have not been tasked to her office and she is wondering if they should come back or remain disbursed. There has not been an opportunity for discussion about the tasks and responsibilities of the Main Campus Compliance Office. Her office has spent a significant amount of time researching the main campus compliance obligations and the reporting requirements for those obligations. They have also identified the top risks.

Chairman Gallegos informed the compliance personnel that he would like to see, fairly soon, concrete organizational structure, and he wants to return to the July 2013 format for Policies 7.2 and 7.3. The Chairman thought the policy format included that ethics be a part of the compliance office structure. He wants to see the policies in a format that the Committee can adopt by the next meeting. President Frank informed the Committee that he asked that ethics code be handled by the University Counsel office since they have the experience and the staff to handle it. Elsa Cole, University Counsel, stated that they are in the process of drafting the ethics code. It is about to go out for campus comment. In developing the code, they consulted with Monica Wilson from HSC and other experts from the business school and Faculty Senate. Chairman Gallegos stated Committee members are more interested in that it is being done, rather than who is doing it. President Frank added that it will marry up with the HSC code, although that focused on health practitioners. This will be over-arching and is broader code about being a citizen of the University of New Mexico. Regent Hosmer noted that if University Counsel is able to produce an ethics structure and set of practices that are constructive, helpful, aspirational, and proscriptive, it would be a first for a law office, and he applauds that.

Mr. Patel stated that he and Ms. Gonzales are working in coordination with each other. For the last year or longer, he has met with her once or twice a month. Expertise from both sides of campus and an entity-wide organization will help.

Chairman Gallegos stated that although this is on the agenda as an action item, the Committee is not in the position to take any action on this other than to launch what needs to be done by this discussion. Regent Hosmer asked for a deadline date on policy and organizational structure. The Chairman noted that the Policy office should be able to get something back to them fairly soon. President Frank responded that he expects to resolve this within 30 days, so it could certainly happen by the May Audit Committee meeting and by the March 25 full Board of Regents for all the Regents. Chairman Gallegos confirmed a deadline of the March 25, 2014 Board of Regents meeting.

INFORMATION ITEMS:

- Chairman Gallegos asked the audience if there were any advisor's comments. Richard Holder, Deputy Provost for Academic Affairs stated that he is on the Compliance Committee as an ex-officio member. There is an astonishing amount of compliance and it is a complex domain, especially relating to athletics. He likes the idea of one University, though he does not know if that means one office, but collaboration has to be very close. He hopes our compliance policies/code look similar to that of HSC. He does want plenty of opportunity for comment on the ethics code by faculty and staff. He suggested UNM hire an outside firm to draft the code, as most universities do, but it was too expensive. Compliance and enforcement are two different things. He hopes the Compliance Office will not be in charge of enforcement of

regulations, but rather find out when/if we are not in compliance, and pass that information on to the structure of the University.

- Director Patel provided a list of follow up items from the previous meeting. The first item included organizational charts for the new UNMH Internal Audit function. Purvi Mody, UNMH Executive Director of Compliance and Audit, and Ella Watt, UNMH Chief Financial Officer are working together with Director Patel to look at responsibility and avoid duplication of efforts. Ms. Watt explained the organizational structure. UNM Hospital Compliance and Audit will be responsible for the hospital and clinical operations while the University Internal Audit will focus on the research, instructional, contracts, grants and administration aspects of the Health Science Center.

Chairman Gallegos asked for clarification on why the Cancer Center is separated out. Ms. Watt replied that they have two missions. They see many patients through the hospital-based clinics. However, they also do a lot of research – and those are UNM Employees. The hospital-based portion has different accounts payable. There are two separate systems. Ms. Watt also stated that they are in the final offer stage for hiring, and are developing risk assessments. She referred the Committee to the back of the organizational chart for the compliance structure. Ms. Watt informed the Committee that UNMH coordinates with Mr. Freedman on all compliance issues. Ms. Mody stated she speaks with Mr. Freedman on a daily basis. Mr. Freedman explained the biggest risk is in patient care and that Ms. Mody is on their compliance committee. Regent Hosmer stated they have a model for collaboration.

- Carol Parker, Interim Senior Vice Provost, reported on the Special Administrative Compensation (SAC) and the Special Teaching Compensation (STC) processes. She was pleased to report much progress. She asked the units for SAC guidelines by February 1, 2014. They complied; no one will issue any SACs in FY15 unless they have guidelines in place, and they are on track to be able to pull reports regularly. Everything is moving along as planned. Ms. Parker will be reviewing the guidelines for all the units. She will take the language from Policy C180, and as long as the goals are achieved, they will allow the individual units to justify their unique needs. They will move toward a common approach and believe they will achieve more equity. STC Policy C140 proposed revisions are still before the Faculty Senate Policy Committee. The policy draft should leave committee after their next meeting in March and it will then be available for the open comment period. However, she has not waited to issue guidelines for implementing changes because there is nothing in the policy currently that prevents the Office of Academic Affairs from issuing implementation guidelines or reporting. She worked with the Controller's Office to obtain new account codes. This will improve their ability to run reports, beginning in FY15.

Regent Hosmer inquired about the functional impact of the new guidelines in terms of student learning. Ms. Parker replied that compensation should be aligned with strategic initiatives within the department. If departments are not reaching goals, we will see that reflected in compensation rates. Dr. Holder further added that Academic Affairs is doing a good job with this. He is pleased. They visited this issue some years ago with some outside help. Dr. Holder met with Ms. Parker a couple of times for historical perspective.

- Director Patel addressed the Committee regarding third-party audits. He stated he will review these in more detail in his Director's Report.

- Stuart Freedman informed the Committee that he followed up his Code of Ethics with a compliance survey. It is important to go back to customers and ask if they are providing good service. There is a high level of support from leadership (tone at the top). The survey consisted of 27 questions on-line that took less than 10 minutes to complete. There is always room for growth. They learned that people do not always interact with compliance officers. They need to get out in front of people more often. As far as reporting issues, HSC does not have a lot of compliance hotline issues. People need continued education on the hotline. There should also be “tone at the middle” as they are the people in touch with their employees on a daily basis.
- Director Patel presented the Internal Audit Director’s report. He reported the external financial statement audit contract ran out last year. The Controller has issued an RFP for the FY14 audit. The due date for responses is March 7. The Controller is expecting to have a final recommendation by March 14. There will need to be a special meeting of this Committee to approve the award. Mr. Patel and Chairman Gallegos asked involved parties to look at their calendars for an appropriate date. Chairman Gallegos stated the Committee can also look at the compliance structure at that meeting.

The final regular meeting for FY14 is May 23, 2014 - rescheduled from May 15, 2014.

Director Patel reviewed the audit plan status: seven (7) complete; one (1) in report writing; two (2) in fieldwork; five (5) in planning; and three (3) unassigned. The Department received 71 complaints so far in FY14, closed 39, and has a balance of 64. He noted one complaint can have multiple issues. There are 96 issues associated with the 64 complaints. The Department is expected to have a small reserve balance at the end of the year. Director Patel returned to the subject discussed earlier in the meeting regarding external audits and reviews. Two have closed with only minor findings. There were small amounts of questioned costs and no major internal control issues or areas of high risk. Sandia and Los Alamos Labs have their own auditors. There were no weaknesses found but some out of state travel did not have proper approval. There are about seven outstanding outside audits reviewing grants. For instance, New Mexico Human Services Department is reviewing about \$100,000 worth of grants. NMSU is auditing sub grants of their grants – about \$160,000 worth. NMSU auditors requested documents from UNM, but they are doing the work remotely. For the Recovery Act audit at the Hospital, the Center for Medicare and Medicaid Services (CMS) has contracted out with a private contractor who specializes in Recovery Audit Contract (RAC) audits. Fees are contingency-based so they will question a lot more. They so far requested approximately 2,250 records related to patient billing, totaling about \$23.5 million. Of that amount, they denied \$7.8 million in those claims. The Hospital is in the appeal process for about \$3 million. They have two or three levels of appeals. In the meantime, the Compliance Office is working proactively to educate service providers. Most of the records are 3-4 years prior. Mr. Freedman discussed the RAC process. There is not a hospital anywhere in the country that does not cringe when you say RAC. They have made some significant changes. The government is so focused on not paying provider bills. Regent Hosmer stated there is useful information in complaint flow data. He asked if the data could be trended to catch or rule out things. Chairman Gallegos asked about next steps. Mr. Patel responded he can provide detail at the next meeting. Regent Hosmer added he would like to see the trending on new complaints. Ms. Gonzales noted that these are broad categories. “Human Resources” could be 50 types of things. Regent Hosmer said it should be peeled down

to provide guidance as to what, if any, actions are appropriate. Mr. Patel stated he does have the departments and the issues and could work on a trend.

Mr. Patel stated the Internal Audit department hired three student interns. He introduced one of the interns – Ashley Manley – who was present at the meeting.

Regent Koch asked Mr. Patel when his start date was at UNM. Mr. Patel replied that he started in August 2010.

- Chien-chih Yeh, Audit Manager, supplied the Committee members with the status of audit recommendations of prior audits. There are 21 items on this reporting cycle. Ten are complete and eleven are outstanding. The outstanding ones are pretty recent and he feels the Department is in good shape with this. The Department is receiving good cooperation. Chairman Gallegos stated it raises a question – on quotes for Purchasing. The recommendations are appropriate but you are not receiving a welcome response. The response from the department was that it was not cost effective to implement the changes but it seems the changes are important. Per the auditor and Mr. Yeh, the recommendation was that the department should consider implementation. They formed a committee, and met with a consultant and other departments and determined it would only be beneficial over a certain dollar amount for on-call contractors. They are usually not high-dollar. They did due diligence in their consideration. Internal Audit requested better documentation for change orders. The Committee also inquired about tracking graduation and retention rates. Mr. Yeh stated the project requires a lot of resources. The matrix is still in draft mode, not officially approved. Regent Hosmer informed Chairman Gallegos that the University knows the rates as a whole, but had not previously broken it down by college. They are working toward that. The Chairman noted that tracking academic load requirements is very important and the target completion date passed. Mr. Yeh replied that the date was simply to come up with the plan to do the work. The revised estimate is 8/31/14. The Chairman noted this is of interest to Regent Hosmer's Academic Affairs Committee. Regent Hosmer stated that recommendations related to IT are processes. Do we know that the policies are the right policies? Have the processes been tested? Gil Gonzales, Chief Information Officer, stated change control and testing measures are an important part. There are some inconsistencies. Chairman Gallegos asked if there is an issue concerning Mr. Gonzales' authority. Mr. Gonzales replied there is a history of decentralized areas with latitude. The Chairman agreed it is diffuse. President Frank noted it is a struggle because of multi layers of complexity in security, culture, etc. Regent Hosmer stated that because of the diversity, testing end product is important.

The meeting went into Executive Session for the reasons stated in the agenda. (Motion: Regent Koch, Second: Vice Chairman 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. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7), NMSA (1978)

d. Vote to re-open the meeting

The meeting returned to open session at 2:00 p.m., with certification that only those matters described above were discussed in Executive Session.

ACTION ITEMS:

- The Committee unanimously approved the minutes from the meeting of October 25, 2013 (Motion: Regent Koch, Second: Regent Hosmer).
- The Committee approved the following UNMH audits:
 - Fixed Assets, dated May 2013 (Motion: Regent Koch, Second: Vice Chairman Hosmer);
 - Admitting, dated August 2013 (Motion: Vice Chairman Hosmer, Second: Regent Koch);
 - Purchasing, dated September 2013 (Motion: Vice Chairman Hosmer, Second: Regent Koch).
- The Committee approved the following UNM audits:
 - Parking and Transportation Services Department: Investigation of Allegations #2013-27 (Motion: Regent Koch, Second: Vice Chairman Hosmer);
 - Review of Health Science Center Cancer Research & Treatment Center Operation #2013-05 (Motion: Regent Koch, Second: Regent Hosmer).

Motion to adjourn 2:01 p.m. (Motion: Regent Koch, Second: Vice Chairman Hosmer).

Approved:



Audit Committee Chairman