

THE UNIVERSITY OF NEW MEXICO
Board of Regents Special Audit Committee Meeting
April 18, 2013 – 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, Lee Peifer, Helen Gonzales, Jewel Washington, Mark Saavedra, Chaouki Abdallah, Kevin Stevenson, Mark Maddaleni, Rebecca Rendon de Gonzales, Penn Rabb, Fernando Santillanes, Mendi Ali, Ellen Wenzel, Carol Ann Griffin, Rae Ramirez, Richard Cripps, Philip Ganderton, Michael Graves, Trish Aragon-Mascarenas, Jane Ellen Smith, Christine Smith, Mike Schwantes, Pamina Deutsch, Cynthia Reinhart (KPMG), Brandon Fryer (Moss Adams), Jaime Clark (KPMG), Ella Watt, Yemane Asmerom, Manu Patel, Chien-chih Yeh, Victor Griego, Lisa Wauneka, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 8:35 AM in ROBERTS ROOM, Scholes Hall, UNM.

The Chairman stated the meeting will go into Executive Session first to consider an audit. 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. Vote to re-open the meeting

The meeting returned to open session at 10:55 AM.

The Committee discussed revision of two of the responses to recommendations in the audit discussed in Executive Session. The report was approved by unanimous consent pending the revisions, and will be released early next week.

INFORMATION ITEMS:

- KPMG and Moss Adams presented the Entrance Conference for the FY13 external audit. The purpose of the entrance conference is to inform the Committee of the audit plan and solicit any input from the Committee. They will highlight areas of focus and any items that are different this year from previous audits.

KPMG has a change in the team with the addition of Joaquin Noon, who will take over for Jennifer Hall. He will also take over the single audit component from Jaime Clark who is transferring to the San Francisco office. Moss Adams has no personnel changes, other than the fact that the Sandoval Regional Medical Center (SRMC) switched focus from construction expertise to health care expertise.

The audit will report on the government-wide financial statements of the University Main Campus, Branches, the Health Sciences Center, Hospitals and Component Units. KPMG will accept responsibilities for Main Campus, Branches, Health Sciences Center, Foundation, and all Component Units except for the clinical operations. Moss Adams will perform the work on the clinical operations, including the Hospitals, psychiatric hospitals, SRMC, and the UNM Medical Group. It is an A-133 audit, performed pursuant to the requirements for when the University spends money.

Chairman Gallegos inquired about any new accounting standards. Cynthia Reinhart, KPMG, responded that the information is included later in this presentation.

The audit will be performed in accordance with governmental auditing standards, which include OMB Circulars A-133 and A-121. It is also performed in accordance with the State Auditor Rule. There will be pre- and post-audit communications with the Audit Committee. If any significant matters come up during the audit, the external auditors are required to communicate those matters to the Audit Committee. Prior to starting the audit work, the auditors will communicate the scope and timing of the audit. The responsibility of the auditors is to express an opinion on the financial statements as to whether they are presented in a fashion that is correct in all material respects. It is both a qualitative and quantitative calculation. It is a risk-based approach that takes into consideration past experience with the University and the systems that are in place. They test controls in Research and Development and the FHA programs, federal contracts and grants, as well as the June 30th balances and financial statement disclosures. Some main areas they will look at will include cash receipting, investments, payroll, and non-payroll expenditures (includes employee and retiree benefit costs).

Chairman Gallegos inquired about their use of an actuary. Ms. Reinhart stated that they do have an actuary that looks at the assumptions being utilized.

The audit looks at the general IT controls, access controls, and change controls in place for Banner. The auditors will review whether the transactions are recorded properly, and the information can be relied upon. Compliance with federal contracts and grants, alternative investments valuation, account receivable, patient revenue, non-routine transactions, OPEB liability, bonds payable, rate swaps, compliance with bond and HUD loan guarantee covenants, transactions with affiliates, non-operating revenues and expenses, and adoption of new accounting standards, etc., are all part of this audit. The State Auditor requires that all component units are included in the audit if their revenues exceed a certain amount. Mr. Fryer from Moss Adams discussed the four stand-alone reports; those for the two UNM Hospitals, the UNM Medical Group, and SRMC. Last year SRMC had no patient revenues, but that has now transitioned.

The key areas of focus for Moss Adams include patient revenue cycle, valuation allowance for uncollectible patient receivables, uncompensated care, third-party payor settlements, contingencies, and accounting for bond issue costs.

Key areas of focus for component units (KPMG) will include revenue recognition (contributions, royalty revenues, and other revenue sources), expenditures, transactions with UNM, financial reporting and presentation, an NCAA report, and KNME and KUNM attestation reports.

There are three new accounting standards that are effective this year. The first new accounting standard relates to Governmental Accounting Standards Board (GASB) 60 and is concerned with service concession arrangements. GASB 61 clarifies the definition of a reporting entity. This relates to component units and how to report them. GASB 63 changes the labeling (captions) of amounts reported in the financial statements.

Effective next year, GASB 65 reclassifies outflows and inflows and effectively will mean that deferred costs associated with a bond issue will be flushed through net position. Beginning net position would be restated with the adoption of this standard.

Effective July 1, 2014, GASB 68 requires all entities to record their share of pensions retained at the ERB.

The timeline of the audit is coordinated with the Audit Committee and the Controller's Office; there will be an exit conference prior to submission to the State Auditor's Office. The plan is to deliver the audit to the State Auditor on October 18, 2013. The exit conference with this Audit Committee is just prior to that in October. The audit is not actually due to the State Auditor until November. Chairman Gallegos requested an update at the meeting in August. Liz Metzger, Controller, stated that August would not be an appropriate time due to when the books actually close. The Chairman stated the meeting can be changed from August to mid-September.

- David Harris spoke to the Committee regarding significant issues impacting budget. The budget is due to the Higher Education Department (HED) on May 1, 2013. There is no provision/waiver for late delivery. However, the May 1st budget does not need final approval from the Regents. The formal presentation to the Regents will be May 14, 2013. If there are any changes, UNM is able to send amendments to HED. There is an open enrollment period for group health that will be implemented on July 1, 2013. Compensation increases have to be preceded by performance evaluations. UNM is in the process of implementing the Regents' decision regarding post-employment health insurance benefits in order to ease the burden on pre-65 retirees but continue reduce the accrued liability. There is also the new Voluntary Employee Benefits Association (VEBA) portion. Finally, there was an increased deductible plan submitted by Regent Koch, coupled with a supplemental insurance policy. Mr. Harris introduced Jewel Washington, Interim Vice President of Human Resources to discuss the benefit information.
- Ms. Washington provided an overview of the status of the benefits components Mr. Harris mentioned. She stated that there will be a phased-in approach over 5 years for pre-65 retirees, and over 3 years for post-65 retirees. There will be also changes in the pre-65 contributions, and a VEBA trust. Chairman Gallegos stated that he did not recall anything about a 5 year phased approach. David Harris reported it was part of the Regents' instruction to ease the burden on the pre-65 retirees. This plan how that request was addressed; it still maintains the goal of 50% reduction in the liability. Ms. Washington informed the Committee they have drafted preliminary trust and IRS documents for the VEBA. Emails went out to all benefits-eligible staff. There will be information sessions available for all faculty or staff so they understand deductions and opt-out options. University counsel is in the process of reviewing policy changes. The opt-out on-line process certification is currently in development. The goal is for the certification process to occur between April 29, 2013 and June 14, 2013 for all current, active, benefits-eligible employees. They are also working on the language regarding the one opportunity to opt back in.

Regent Koch asked about adverse selection for the VEBA trust due to the ability to opt back in in five years. He wanted to know the criteria. Regent Koch additionally noted that a simple way to avoid it is with a health statement. Chairman Gallegos stated his motion did not include this trust. He is concerned about a 50/50 contribution to the trust. He wants to know about the liability for UNM when funding half of the contribution. When will the trust be contributory to the expense? Human Resources' staff said the actuary would have to run scenarios. The expectation is that it would be at least 10 years. Regent Koch stated his high-deductible plan would make more of a major change and the change would begin immediately. David Harris noted there are also options through the Affordable Health Care Act. The VEBA trust is important because it establishes a trust relationship between the University and the employees but accomplishes the goal of reducing the liability. Chairman Gallegos is concerned that this is just words but there are no hard numbers.

Regent Koch inquired about the percentage of costs paid by UNM. Ms. Washington responded that there will be a tiered system. For instance, for employees making under \$20,000, their employee contribution would be 20% to start; it would phase up to 40%. Chairman Gallegos stated that the VEBA and the high-deductible plans are still up in the air. Ms. Washington noted the VEBA was part of the task force's recommendations, so when the recommendations were approved, the VEBA was approved as well. Mr. Harris stated that the motion instructed the Administration to coordinate all progress with the Audit Committee, which they are more than happy to do. But if there is a determination to stop the VEBA, it deters the fundamental effort to reduce the liability. Ms. Washington added that communication has already gone out to employees regarding the VEBA. Chairman Gallegos wants to be able to go to the next Regents' meeting and inform them of what UNM has taken on financially (as a liability) with the VEBA. David Harris responded that there will be no problem with going to the next Regents' meeting with a full fiscal analysis. Regent Koch informed the Committee the liability had already gone up \$10 million since the audit. That is why the Regents decided to have a motion to take care of that. Regent Koch stated the high deductible portion needs more research and that would not be complete until the end of the year.

Ms. Washington expressed that Human Resources will go forward with the education process for employees on the VEBA. Regent Koch asked how many employees will stay in the VEBA and not opt out. Gallagher estimated there would be an 85% rate of inclusion. Regent Koch feels that the estimated number is too high. Ms. Washington stated the actuarial estimated the process should reduce the liability by \$85 million.

ACTION ITEMS:

- The Committee moved to accept the agenda (Motion: Vice Chairman Hosmer, Second: Regent Koch).
- The Committee approved the minutes from March 8, 2013 (Motion: Regent Koch, Second: Vice Chairman Hosmer).
- The Committee approved the following audit, subject to receipt and approval of revised responses: 2013-01 Review of UNM College of Arts & Sciences Operations (Motion: Vice Chairman Hosmer, Second: Regent Koch).

Motion to adjourn (Motion: Vice Chairman Hosmer, Second: Regent Koch). There being no further business, the Chairman declared the meeting adjourned at 12:15 p.m.

Approved:



Audit Committee Chairman