

THE UNIVERSITY OF NEW MEXICO
Board of Regents Special Audit Committee Meeting
December 5, 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, Dianne Anderson, Lee Peifer, Helen Gonzales, Mark Saavedra, Cynthia Reinhart (KPMG), Brandon Fryer (Moss Adams), Purvi Modi (Moss Adams), Ella Watt, Manu Patel, Chien-chih Yeh, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 1:06 p.m. in MABRY HALL, Jerry Apodaca Education Building, Santa Fe. Chairman Gallegos and Regent Koch attended in person (quorum). Regent Hosmer joined by telephone at 1:16 p.m.

INFORMATION ITEMS:

- KPMG and Moss Adams reported that the external financial statement audit reports for FYE June 30, 2012 were approved with no changes by the State Auditor's Office on November 27, 2012. UNM received the release letter from the State Auditor's office on November 29, 2012. UNM waived the 5 day waiting period for public release. Cynthia Reinhart, KPMG, and Brandon Fryer, Moss Adams, reviewed the reports with the Committee, and Chairman Gallegos asked them to make a presentation to the Full Board of Regents on December 11, 2012. Ms. Reinhart noted the information is basically the same presentation information as the last meeting. She stated she did update the information about the occurrence of the exit conference and approval to release. They are now public documents. Chairman Gallegos inquired about Governmental Accounting Standards Board (GASB) 68. The external auditors reported that GASB issued Statement 68 which requires governments to record their share of the unfunded pension obligation currently held at the Education Retirement Board (ERB) - for UNM, it is approximately \$644 Million. This number is a rough estimate based on contributions and there are different ways to calculate it. Chairman Gallegos stated it would be helpful to get an update on that number next year. Hopefully it will start going in the other direction. The June 30, 2015 financial statements would be required to show the effects of GASB 68.

Chairman Gallegos asked the external auditors to review the post-employment benefits. Regent Koch inquired about the change in obligation for unfunded medical. The amount changed from \$131 Million as of 2009 to \$152 Million currently. In FY12, the obligation grew by \$14 Million. The estimates built in to the assumptions for the increase of the obligation is 5% but actual costs have been trending at 7-9%, so it is quite possible the projections may grow at a faster rate. This also includes an estimate of benefits attributable to future periods of service for people not currently enrolled but are eligible, based on the population of employees from now until they retire. There is also an estimate for individuals who have already vested in the program. Regent Koch asked when this would affect the balance sheet for potential bonding. Ms. Reinhart stated that is hard to say, and she could not really comment upon that. But, she stated, it may be when the obligation becomes so significant that it is eating up more and more of the University's resources to fund the normal activities of the University, and, importantly to pay debt service. When the obligation gets large enough, Moody's, Fitch or S&P will take note. Chairman Gallegos asked if it is a contingent liability under GASB. Ms. Reinhart responded that currently, a piece of the obligation is recorded. The accounting standards allow the University to amortize the \$152 Million into the financial statements over a 30 year period. So

a portion is presented, but the largest piece is not. The expense represents the portion of the expense that is attributable to the University. It does not include premiums contributed by the employees. Those are not reflected in the financial statements. In FY12, UNM contributed \$8.4 Million of the \$14 Million amortized amount on the balance sheet (\$5.6 Million short). Per Mr. Fryer, this is typical for a pay-as-you-go system.

The Vice President of Human Resources, Helen Gonzales, informed the committee that for retiree insurance, UNM pays about 60% and the retiree pays about 40% until age 65. For over 65, UNM pays about 43%. Ms. Reinhart stated there are approximately 2,500 current retirees. Of that amount, \$44 Million of obligation pertains to those under 65, and \$29 Million of the obligation pertains to those over 65. 6,500 people are active but not yet fully eligible. These numbers are reflected in the overall projection of \$152 Million. Chairman Gallegos asked if \$5.6 Million were contributed by the University into trust for that year, would that be dealing with the long range accrual. Ms. Reinhart stated it would, but the cost would not change whether you fund it or continue the way the University is going. Director Patel stated we need to contribute \$25 Million now to make the plan solvent. Chairman Gallegos stated that although this is the University's burden, the pocket the payment comes from can be adjusted.

Regent Koch asked Vice President Gonzales how long someone has to be at the University to retire. Ms. Gonzales reported there are several ways to retire at UNM. The retirement benefits a retiree receives are dictated by the New Mexico ERB. As of 2010, an employee can retire after 30 years of service. Or, there is also an age-plus-years calculation. There is a difference in the date you can retire versus when retirees get medical benefits. Eligibility to get the medical insurance changed in the UNM Policy. Employees hired on or after July 1, 2011 must meet the eligibility requirements of the ERB and have completed 20 years of service and be at least 60 years of age, or 7 years of service at 65 years of age. They must have been enrolled in the plan continuously for five years. For someone who was hired prior to July 1, 2011, they must have worked five years, be 59.5, and participate in the UNM plan for 4 out of 5 years. President Frank told the Regents that where UNM is getting killed is with those who retire early due to many years of service, before they are eligible for Medicare at age 65. Regent Koch stated that a simple solution is to require those early retirees to pay 100% of their insurance premiums. President Frank noted many faculty members do not take early retirement but are reflected in the projections. Ms. Gonzales provided data that stated the average staff retirement age last year was 61 and average faculty retirement age is 65.

Regent Koch asked Ms. Gonzales what early retiring employees would have to pay if they paid the full amount. President Frank replied for single coverage per month it would be \$380 for Lovelace and \$472 for Presbyterian. President Frank requested that rather than laboriously pouring over the numbers in this meeting, he would like Ms. Gonzales to provide a spreadsheet. Regent Koch stated he did not know UNM pays 55% of the premiums for the entire family if they have a family plan. Chairman Gallegos stated 1% of total payroll would yield \$5 Million. This would equal approximately the amount of money that the University is short. At UNM, the whole plan is determined by the Regents, but the Hospital plan is determined by the Human Resources Administrator and the Chief Executive Officer. Regent Koch asked about how the Hospital's OPEB policy. Ava Lovell, Senior Executive Officer for Finance and Administration for UNM Health Sciences Center, stated the Hospital employees (except, per Ella Watt, Chief Financial Officer, UNMH, for a short time under special circumstances) do not receive OPEB. Ms. Gonzales noted that total payroll includes a lot of people who are not eligible and/or

participating. Regent Koch stated that the State collects 3% from everyone. So everyone pays into it to lower the cost. President Frank also asked about long-term care and catastrophic leave. Chairman Gallegos asked about over 65 retiree benefits. Ms. Gonzales explained there are Medicare Advantage and Supplement plans. UNM pays 43% of the cost. That is a historical benefit. Chairman Gallegos asked Ms. Gonzales to add the numbers of persons and costs to the spreadsheet she is going to provide. President Frank stated this conversation should take place with the faculty/staff benefits committee. He also said there is a benefit that not very many people use but it costs UNM several million dollars a year and he needs to find out what that is. Chairman Gallegos would also like to see the life insurance benefit.

- At the last meeting, the Committee asked David Harris and Lee Peifer to draft a resolution to set in motion some sort of solution for the OPEB problem. David Harris addressed the Committee regarding that resolution. The Regents asked President Frank to form a study group to bring solutions forward into the budget process this spring for FY14. Regent Hosmer stated he would move approval on the resolution. However, Regent Koch stated there needs to be more discussion before he seconds a motion; he noted if we do nothing it will continue to grow quickly. David Harris said he feels it would be difficult to change the plan half way through a coverage year. Regent Koch does not necessarily think any current program should be changed. He is talking about what is going to happen to those who are getting ready to retire and are not in the program yet. President Frank asked if Regent Koch is proposing that they issue a proclamation now that states effective immediately any employee that retirees will be expected to pay a higher insurance premium so that we do not have any more hemorrhaging. Regent Koch said yes, he thinks so. Ms. Gonzales stated it would be important to look at any unintended consequence of a lot of faculty retiring immediately, who were going to work a few extra years, if it is effective July 1. That could cause a problem in the short term. Regent Koch agreed that does happen, and it would happen, no question. Chairman Gallegos affirmed the problem needs to be addressed immediately but the University has to go through the process and hear from everybody. He does not see how a comprehensive plan can be in effect before the FY14 budget cycle. David Harris stated there are different interests to address in this process. There is an impact on the University's financial structure, but then it impacts directly on individuals.

President Frank stated the biggest cost is the group of people who retire before age 65 and are on full UNM benefits until Medicare kicks in. President Frank asked if those people should receive a letter stating that UNM is examining the benefits of people in this group. We let them know that we are in the process of restructuring the benefits and the current structure may change for those about to retire. This way we have given some notice. Regent Koch stated the Regents have to be responsible to correct the problem. After discussion, the President and the Committee decided that language to that effect should be included in the draft resolution. All Regents agreed to pass a motion for approval of the resolution with the altered language included.

- Chairman Gallegos stated he would like for KPMG and Moss Adams to make a summary presentation to the Full Board at the meeting on December 11, 2012. Ms. Reinhart stated she would update the presentation materials to reflect the new date and the fact that it was presented to this committee today. She will provide the packets as well as an electronic copy for the Regents. Chairman Gallegos complimented the external audit firms on the professional, excellent and comprehensive job they did on the external audits.

- The external auditors provided a brief overview of the other two audits – UNMH and UNM Medical Group (UNMMG). Brandon Fryer noted these were presented to the respective audit committees/boards. Chairman Gallegos stated he was not able to devote much time to the presentation packages for the Hospital and Medical Group. He would like for the Committee to revisit them at the regular meeting scheduled in February 2013. Chairman Gallegos asked if Internal Audit is doing a performance audit on UNMMG. Director Patel confirmed it is in the planning stages and UNMMG was notified.

Per Mr. Fryer, there were two matters (Purchasing and Kronos) described in the Internal Control section of the UNMH report that were discussed at the last Audit Committee meeting. Significant and unusual transactions made up most of the audit effort. That is where the major risk areas were. There were no corrected misstatements. There was a small inter-governmental transfer reclassification that is not of concern.

Regent Koch noted he has emphasized in the past that would like the information on UNM's cost for uncompensated medical care and the dollar value of the care highlighted with more prominence. Ms. Reinhart directed the Regents to the expanded information in the UNM-wide statements for more detail. Regent Koch said these big dollar amounts show what the University is doing for the State, and the information is buried in the report. Chairman Gallegos would also like to know statistical numbers for the uncompensated medical care provided by UNMH, such as cost of providing care, number of patients receiving uncompensated care, and the patient demographics (county of residence). This would be important information for legislators. Ms. Lovell stated she does have that information and can provide the regents with a website link. Chairman Gallegos requested more than just the cost amount information but also the value of the care provided. Regent Koch further noted that other local area hospitals send patients who cannot pay over to UNMH. The numbers help determine what kind of capacity we will need to care for these patients; it is going to do nothing but grow. He would like for that to be spotlighted in the presentation to the Full Board.

President Frank wanted to know if he could find the story of the mil levy anywhere in the audited financial statements. Mr. Fryer informed him it is reported separately on the statements.

Mr. Fryer reviewed the highlights of the UNMMG report. A lot of time was spent in purchased clinical services and there is a great deal of analysis behind that. Chairman Gallegos said he has questions about their investment issues. Mr. Fryer responded they are very conservatively invested. Chairman Gallegos asked Director Patel if Internal Audit's UNMMG audit work will be complete for the February meeting. Director Patel stated it is started and there are almost eight weeks to complete it, so it should be. The College of Arts and Sciences will also be complete.

- Director Patel reviewed the Internal Audit Director's Report. The remaining regularly scheduled Audit Committee meetings for FY13 are February 21, 2013 and May 16, 2013. Director Patel reviewed the audit plan status of current audits. There are three completed audits. The Arts and Sciences audit is in the report writing stage. The audit listed in field work is the peer review audit. There are four other audits in the planning stage, including two IT audits. Upcoming are P-Card, Physical Plant, and UNMMG. There are seven unassigned audits, which brings it to a total of 16.

The Internal Audit Department has received 33 complaints this fiscal year (current as of November 28, 2012). The Department has one staff auditor devoted to the complaints. Internal Audit cannot obtain a full time, dedicated compliance position until it receives more office space. There is no more space. Chairman Gallegos told the President he would like for Internal Audit to obtain the space Robert Wood Johnson is occupying in the building directly behind Internal Audit's current space.

Director Patel reviewed the status of the Department's budget for FY13. He stated the department will have a projected carry forward balance combined from this fiscal year and past years of \$200,000.

There are 43 applicants in the system for the open auditor position. It will hopefully be filled next week.

Peer review team members will be interviewing the Regents and the President. They met with David Harris.

ACTION ITEMS:

- The Committee approved the agenda by unanimous consent.
- The Committee approved the minutes from October 18, 2012 by unanimous consent.
- Regent Hosmer moved to approve the draft resolution regarding OPEB benefits, with inclusion of the additional language regarding examination of and possible changes to the current benefit structure. Regent Koch seconded.
- Regent Koch moved to approve the UNM audit performed by KPMG, and the UNMH and UNMMG audits performed by Moss Adams. Regent Hosmer seconded.

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

- a. Schedule of Audits in Process, pursuant to exceptions at Sections 10-15-1H(2 and 7)
- b. Vote to re-open the meeting

The meeting returned to open session at 3:05 p.m.

Motion to adjourn (Motion: Regent Koch, Second: Regent Hosmer). There being no further business, the Chairman declared the meeting adjourned at 3:06 p.m.

Approved:



Audit Committee Chairman