INFORMATION ITEMS:

- In 2011, KPMG and Moss Adams were awarded a contract to conduct UNM’s consolidated audit in partnership. This is the third year renewal of the audit contract. Liz Metzger, Interim University Controller, presented the information to the Committee. Ms. Metzger stated that their office just learned from the State Auditor that UNM has been approved to be audited by an independent public accountant versus the State Auditor’s office. Under the contract, KPMG audits the University and component units; Moss Adams audits the clinical areas. The FY13 costs are $917,000 plus gross receipts tax for all of the entities combined. Each entity pays for their own portion of the audit costs.

Chairman Gallegos confirmed the Committee’s task at this meeting is only to approve the performance of the third year of the contract that is already in place. Ms. Metzger agreed and confirmed the entrance conference will be at the Audit Committee Meeting on May 16, 2013. The contract information also goes to the Board of Regents’ Finance and Facilities Committee in reference to the price of the contract. Chairman Gallegos asked if KPMG or Moss Adams have any comment. They did not. Chairman Gallegos asked if there would be any problem sticking to the price that was agreed upon. KPMG and Moss Adams said there would not be a problem.

- Chairman Gallegos asked members of the retiree healthcare task force and David Harris, Executive Vice President for Administration to come forward to address the Committee regarding the retiree healthcare liability issue. EVP Harris introduced Fran Wilkinson, Deputy Dean of UNM Libraries, and Hans Barsun, University Utilities Engineer. They are co-chairs of the Faculty/Staff Benefits Committee; this is the group President Frank requested to investigate and bring forth possible recommendations for the Regents’ unfunded liability resolution. The group was asked by leadership to run three scenarios: 1) offer no health care benefit to pre-65 retirees; 2) pre-65 retiree pays 100% of the blended premium; 3) pre-65 retiree pays 100% of estimated retiree rated premiums. In addition, they came up with three of their own scenarios. One of their scenarios actually reduces the unfunded liability by more money than completely eliminating pre-65 retiree health care.

EVP Harris referred to the annual audit and how it set the stage for resolving the issue of future costs of post-employment benefits. The benefits had zero funding against them and over $152
Million in liability. It is growing every year. The Regents adopted a resolution which directed President Frank to study the situation and formulate recommendations to the Regents to address the problem. The President requested the Faculty/Staff Benefits committee to handle the research effort and make recommendations. Currently, UNM pays about 55% of the premium on average, with the retiree paying 45%. This will vary marginally, but is the average. There are three tiers, depending on salary: 1) under $20,000; 2) $20,000-35,000; and 3) over $35,000. The average employee is at or around $35,000. The lower an employee’s salary is, the higher the percentage of UNM’s contribution to their retirement benefits. By 2016, there will be a 50/50 split, to phase in over the next few fiscal years for those UNM retirees under age 65 and making over $35,000. The total under-65 retiree cost for 2011-2012 was $5.3 million for UNM and $2.5 million for employees, totaling almost $8 million. The Faculty/Staff Benefits Committee wants to protect employee interest, but also work down the future obligation (actuarial impact) to UNM. They brought in the benefits consultant and an actuary to assist in what the recommendations would and should be. One recommendation is a Voluntary Employee Beneficiary Association (VEBA) trust. It is elective in its basis. If employees opt not to join, it reduces the University’s actuarial impact.

Chairman Gallegos asked how that would work. David Harris deferred to an expert in the audience (an outside attorney – Julie Neerken). Ms. Neerken stated there are a number of different plan design choices on how or whether to participate in the VEBA. But it does not affect those that are already retired today. You build a pool of assets that works down the obligation. Part of the obligation would be paid by budget funds and part by the trust. Also, in order to begin to fund the VEBA, initially UNM would contribute .5% and the employees would contribute .5%. Anyone who opts out after opting in has to make up their entire back log of contributions not made (includes cost of premiums plus interest). Regent Koch is concerned about how “he can see the games played on that.” Per EVP Harris, San Juan College has been successfully operating with a VEBA trust. Like UNM, they did not join the state retiree health care. Chairman Gallegos noted we have to keep it simple because we are trying to make a recommendation for this budget coming right around the corner. Per EVP Harris, we should set up the contribution plan now, and create a trust fund within UNM until the VEBA is formed, which could take some time (several months) and must be IRS compliant.

In terms of the contribution scheme for retirees, the group worked out a number of options. One is no change. Another one, the one the President and David Harris prefer, is a 70/30 split for all retired employees (under and post-65) with UNM contributing 30%, beginning on July 1st. The greatest benefit is availability of health care. If that were to occur, the actuary has estimated a significant decrease of $69 million in the future liability. That makes a huge impact, even without the opt in or opt out known.

Chairman Gallegos asked about Scenario 1. Scenario 1 assumes the VEBA. Chairman Gallegos asked about the dollar impact without the VEBA. Ms. Wilkinson noted that this scenario was run with the VEBA because it was the only way to significantly reduce the liability as they were asked to do. EVP Harris stated it would be a reduction of approximately $46 Million. Chairman Gallegos inquired about the employees making under $20,000 who would go from a 75% subsidy to a 30% subsidy. He stated these employees could least bear this change. Ms. Wilkinson informed Chairman Gallegos that the actuaries only provided aggregated numbers due to the limited time frame for the study. The Faculty/Staff Benefits Committee does have great concern about the employees with a lower wage being able to afford healthcare.
Chairman Gallegos stated that it is not possible in this scenario to know the actual split. The higher paid are not going to be subsidized at 30%.

The current liability is at $162 Million. Per Chairman Gallegos, to reduce that by half, you need to reduce the liability by $81 Million.

EVP Harris described Scenario 2. Scenario 2 includes a 1% contribution by the employee and 1% by the employer. He stated there is a 1% compensation increase embedded in House Bill 2. He believes the University and the employees could then accommodate a 1% VEBA contribution. Chairman Gallegos said people have not seen a pay increase in a long time and he thinks the VEBA needs a lot more discussion and thought before putting it in place. EVP Harris asked Chairman Gallegos if he would like to postpone the whole discussion for a year; he believes everyone would breathe a sigh of relief. The Chairman stated he is only talking about postponing the VEBA portion. EVP Harris thinks it would be very difficult to begin to take funds from people’s paychecks without the assurance that the funds would be in a secure place. Once funds start to accumulate, that is when they are typically raided.

Ms. Wilkinson stated that in order to get to a $73 Million dollar liability decrease, the University would have to eliminate all health care for pre-65 retirees. This is the reason they were exploring the other options while preserving the commitment the University made to provide retiree health care. Chairman Gallegos asked if the VEBA could be put in place rapidly. Attorney Julie Neerken stated that we could start putting money in now and file with the IRS within the next 15 months after formation. The trust document is ready. You can inform employees that the funds are only for the VEBA under tax law. Chairman Gallegos asked about the assumption of voluntary participation. Ms. Wilkinson said the actuaries provided an assumption of 60% for pre-65 retirees and 40% for post-65 retirees. Since benefits are reduced substantially, they reduced the participation assumption. In Table 1, Scenario 2, at a 30% premium, Hans Barsun stated the assumption given in the actuarial report is 70% for pre-65s and 50% for post-65s. And with the voluntary VEBA contributions, participation is assumed at 85%.

Chairman Gallegos asked why an employee wants to put 1% of their income in to the trust. Ms. Wilkinson stated that it would be to insure they would have health care as a retiree. They would be buying into that option to partially fund that. An unknown is the Affordable Care Act. Would people continue with UNM health care at all or go to Medicaid? Chairman Gallegos said he is having a hard time understanding why employees would do it. He asked what the advantage is. EVP Harris said that with the unique situation of carrying the huge actuarial liability, it presents an advantage either way to the University. Regent Koch asked what 1.5% of the total payroll is. EVP Harris stated it is $3.3 Million.

Regent Hosmer stated if he understands correctly, the proposal is to go to a 70/30 split. What the VEBA does is offer an opportunity to pre-pay against both sides of that but does not change the basic distribution. Is he correct in assuming the VEBA contribution would begin to be tapped immediately because the premiums are tapped immediately? It does not contemplate building up a large amount of money in the VEBA. EVP Harris stated as the plan costs increase, applying the same percentage would yield a different number. As salaries increase, the amount contributed would then grow. The promise is that you will have access to health care. Ava Lovell stated the question is what current employees would be willing to do to keep
access to retiree health care. The answer was to put .5% to 1% in to a VEBA. If you do not opt in, you do not get any retiree health care. The benefits go only to the participants.

Regent Hosmer stated that a VEBA becomes a levy on all current employees, regardless of age. The contingency is for retirement prior to the age of 65. Post 65, you have Medicare participation. The large liability is for those retirees under 65. Hans Barsun stated in actuality, it is fairly evenly split for pre-and post-65. Regent Hosmer further inquired about how exactly the VEBA contributes. Julie Neerken explained that people often form individual accounts and the VEBA will reimburse them for health insurance policies they purchase, perhaps under Health Care Reform. There are a lot of ways to make these plans work. Regent Hosmer stated the contemplation is that each individual will have a slice of the VEBA account attributed to that individual. The actuaries presumably made an assumption as to the spread of the contributions. What is the assumption about the way in which the VEBA available is used to depress the cost of health insurance? Ms. Wilkinson stated they did not discuss the use of VEBA for individuals; it was discussed in terms of reducing the actuarial liability. What the individual pays in is to offset the University’s liability. The VEBA would help cover claims and administration costs.

Chairman Gallegos asked if UNM’s obligation for the contribution of 1% would be taking on another liability. He is worried about GASB. Ms. Wilkinson stated it is also interest-bearing. Liz Metzger stated the funds that go into the VEBA would not be a liability; they would be more of an asset that would be counted as funding the liability. It would be an expense as it occurs. Now, the audit report says it is zero-funded. EVP Harris said in the past UNM has neglected this future obligation until it has accumulated into something very substantial. We have to come up with some kind of a solution to work it down, we know that. There is a commitment to current employees and retirees that has been long-standing so when you balance those two concerns, you get recommendations such as these.

Chairman Gallegos stated the University needs something now, not down the road. All we have are these 3 scenarios, but they want something that can go into the budget. EVP Harris stated it is not pain free. It is painful for the University; it is painful for the employees. It is very painful for retirees. Regent Koch noted that retirees over 65 have a different situation – they can go to Medicare. We are addressing everyone in one pot and you can’t do that. He has a concern for someone who is already retired and is anticipating what they are getting, their funds are limited, but they are all set to retire; it is very hurtful. Chairman Gallegos also said the one pot problem includes the different levels of salaries. Regent Koch stated you have to look at the kind of health care benefits you are going to get; you have to look at the big picture. If UNM leaves the benefits just the way they are now, he can understand these numbers. Per Chairman Gallegos, Scenario 2 seems like it could be put into place with some variation. Except that you have to put in a calculation for the different ranges of employees. It cannot be 30% across the board. Regent Hosmer inquired if there is something now that they can recommend to the full Board that also allows staff some time to review and work through some of the variations.

Chairman Gallegos stated some members of the audience have direct interest. He asked for public comment. Professor Emeritus Beverly Burris addressed the Committee. She stated she is a recent pre-65 retiree but there were no pre-65 retirees involved on the task force; therefore, she feels it is important for her to speak. She stated she prepared a written statement and she then read it to the Committee and audience. As a single mother, she worked very hard at UNM
for over 25 years. She served as a department chair and was also at one time president of the Faculty Senate. Her daughter graduated from UNM magna cum laude. She developed serious health issues, and at age 62 could have taken extended sick leave, but instead chose to retire. In doing so, Professor Burris had to carefully consider her financial situation, including health care costs for herself and her family. At the time of her decision to retire in 2011, the previous Retiree Health Care Task Force had just issued their recommendations which became policy. The policy phases in contribution increases over a period of five years from a 60/40 employer/higher income employee split, to a 50/50 split in 2016. After attending a retiree seminar, she decided she could afford to retire, despite the 10% contribution increase in five years – especially since she would be eligible for Medicare after three years of retirement. Ms. Burris stated that given the current discussion of raising the contribution for early retirees to well over 50%, she feels betrayed by UNM. In her opinion, it is unfair for UNM to do this after she made the irrevocable decision to retire. She further stated it may even be illegal. It could be construed as a contract violation. Although she understands UNM is in a very difficult financial situation, she is asking UNM to consider exempting early retirees. Speaking for her own finances, if her premium contribution goes up to 70%, she will have to pay $400 more per month.

Karin Retskin, who served on both retirement task forces mentioned herein, addressed the Committee members. If a university has a VEBA trust in place, those who look at unfunded liabilities will hardly give you a second glance. They feel you are taking care of future liability. She stated “that gets a lot of monkeys off a university’s back...” In addition, if employees join and later pull out, they do not get their funding back. It stays in the trust and that is another way the trust can grow. The trust cannot be raided. Ms. Retskin stated the committee looked very favorably at the trust. She also noted that the task force looked at the unfunded liability as a three-pronged stool. Yes, there is a total unfunded liability, but each of the groups has a share of that unfunded liability: current employees, early retirees, and post-65 retirees. That is what they tried to address on the whole. They asked HR to run the numbers for what the premium increase would look like, and she was very concerned about the lower paid employees.

Barbara Gabaldon, retired School of Medicine employee, stated the task force did a very good job coming up with these three plans. It is going to be a very high-dollar hit for under 65 retirees. She asked the Regents to look at both the salary structure and the possibility of phasing it in. It is like a slap in the face for those that worked over 25 years and met the requirements to retire. She knows six people who had to retire early due to health issues.

Regent Koch asked Mike Duran to look at the current retiree health plan and see if it can be restructured. He further stated Mr. Duran should have Gallagher Consultants contact him. In addition to a new scenario, the plan could be leaner.

Chairman Gallegos suggested the Committee recommend Scenario 2 with the understanding that there will be adjustments. EVP Harris added that they should also to look at the current plan structure as Regent Koch noted. Regent Koch stated they are not ready to vote; there is still much to consider, but this needs to be expedited for the budget process. EVP Harris said they may have a firm recommendation by the time of the budget discussion. They can interact with this committee, but cannot finalize it in time if it goes through multiple committees again. Chairman Gallegos stated the consensus is to embrace both the fund/trust and the reduction. EVP Harris and Chairman Gallegos noted that UNM Hospital employees pay 100% of their
retiree health care premiums. Regent Hosmer stated he reminded the members that as they work further, they should consider a 50% or better liability reduction at a minimum. EVP Harris informed the Committee that the task force did an exemplary job. The Chairman and President Frank thanked the task force for the report. The President also stated that lower paid staff members need to have a different contribution amount; the tiers should be honored. Regent Koch stated the University needs to be very careful about current retirees. The President agreed, and stated the University should hold those nearing 65 and about to retire harmless. Individuals retiring at an earlier age are harder to protect. Ms. Wilkinson thanked the Committee for their commitment to continuing some sort of retiree health care as opposed to abandoning it.

- Chien-chih Yeh, Internal Audit Manager, provided the Committee with the current status of audit recommendations. The first report details past due items. The first item on this report pertains to Provost General Administration. Chairman Gallegos wanted to know if there will be a way to see how the awards are given and that they are awarded rationally. Supplemental compensation amounts vary depending on size of departments and the work that is involved. The Faculty Policy Committee wanted to look at this. The Special Teaching Components do not have a consistent policy. UNM’s policy office is working on that. As a result, it is still past due.

The other past due item relates to the Foundation’s Consolidated Investment Policy (CIP). Under the CIP, actively managed accounts are limited to no more than 5% of total assets. The Consolidated Investment Fund has at times exceeded this limit. They are in the process of modifying the investment policy to make it a little more flexible, allowing them to occasionally exceed the 5%, as long as they self-correct it back down to under the 5%. Internal Audit feels they have addressed the recommendation, but the Foundation wants to complete all the policy modifications before final approval. Chairman Gallegos feels you should not change the rules if you don’t meet the rules of the game. He feels it is an exception and it is unresolved.

Mr. Yeh asked if the Committee wanted to review any of the cleared findings. He pointed out the Provost’s Special Administrative Component issue was resolved during this reporting cycle. Chairman Gallegos stated a review of the not past due items was not necessary.

- Director Patel reviewed the Internal Audit Director’s Report. The remaining regularly scheduled Audit Committee meeting for FY13 is May 16, 2013. This will accommodate the entrance conference for the financial audit. The Department currently has 3 audits in field work and by June should have 75% of audits completed. The Department is on track. The Department’s financial statements would have showed a pretty good fund balance, but $185,000 was transferred to the central pool. The impact of that is that the Department’s budget allocation will need to increase.

The Department filled its vacant auditor position. Internal Audit recruited Brandon Trujillo from UNM Payroll, but he previously worked at REDW and has 4-5 years of audit experience. Chairman Gallegos asked about the space issue and the Department’s need to fill a compliance position. The budget increase to $859,000 beginning in FY14 will need to be in place in order to fill this position. Director Patel informed the Committee that the Department is in the process of acquiring the space behind the current building and will need to do some remodeling.
The meeting went into Executive Session for the reasons stated in the agenda. (Motion: Regent Koch, 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 4:44 p.m.

ACTION ITEMS:

• The Committee approved the minutes from December 5, 2012 by unanimous consent.

• The Committee voted to move agenda item #3 to the second item of the meeting. (Motion: Regent Koch, Second: Regent Hosmer).

• Regent Koch moved to approve the third year of the consolidated audit contract with the KPMG and Moss Adams partnership. Regent Hosmer seconded. The Chairman noted unanimous approval pending acceptance by Finance and Facilities.

The Committee approved the following UNMH audits:

• Third Party Settlements, dated June 2012 (Motion: Regent Koch, Second: Vice Chairman Hosmer)

• Admissions and Patient Placement, dated August 2012 (Motion: Vice Chairman Hosmer, Second: Regent Koch)

• Patient Financial Services, dated October 2012 (Motion: Vice Chairman Hosmer, Second: Regent Koch)

• Accounts Payable, dated November 2012 (Motion: Regent Koch, Second: Vice Chairman Hosmer)
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- The Committee also considered the Quality Assessment of the University of New Mexico Internal Audit Activity, Report 2013-02, dated February 2013. Motion to approve (Motion: Regent Koch, Second: Regent Hosmer).

Motion to adjourn (Motion: Regent Koch, Second: Regent Hosmer). There being no further business, the Chairman declared the meeting adjourned at 4:47 p.m.

Approved:

[Signature]
Audit Committee Chairman