

# **BOARD of REGENTS**



## **AUDIT COMMITTEE MEETING**

*Wednesday, June 11, 2014 at 4:00 pm  
Scholes Hall, Roberts Room*

The University of New Mexico  
Board of Regents' Audit Committee  
*June 11, 2014 – 4:00 PM*  
*Roberts Room*  
**Agenda**

**ACTION ITEMS**

1. Confirmation of a Quorum and Adoption of Agenda
2. Approval of Meeting Minutes from May 23, 2014
3. Confirmed Audit Committee meeting dates listed below are for the remainder of calendar year 2014. The Committee meets at 9:00 AM in the Roberts Room. This schedule will accommodate the exit conference for the financial audit.

August 21, 2014  
October 16, 2014

**INFORMATION ITEMS**

4. Advisors' Comments

**EXECUTIVE SESSION**

5. Vote to close the meeting and to proceed in Executive Session as follows:
  - a. Discussion of Final Internal Audit Reports, pursuant to limited personnel matters exception at Section 10-15-1.H(2) NMSA (1978), 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); and
  - d. Vote to re-open the meeting.
6. Certification that only those matters described in Agenda item # 5 were discussed in Executive Session and if necessary ratification of action, if any, taken in Executive Session
7. Adjournment

THE UNIVERSITY OF NEW MEXICO  
Board of Regents Audit Committee Meeting  
May 23, 2014 – Draft 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, Chris Vallejos, Lisa Marbury, Richard Holder, Tom Neale, Jep Choate, John Reindorp, Renee Delgado-Riley, Che Nyamboli, Jarrett Hines-Key, Eileen Sanchez, Elsa Cole, Purvi Mody, Cynthia Reinhart (KPMG), John Kennedy (KPMG), Steve Keene (Moss Adams), DeVon Wiems (Moss Adams), Stuart Freedman, Monica Wilson, Dianne Anderson, Pamina Deutsch, Mike Bush (ABQ Journal), Manu Patel, Chien-chih Yeh, Lisa Wauneka, Avedona Lucero, Victor Griego, Bill Cottrell, Lola Neudecker, Brandon Trujillo, Amy O’Donnell.

Chairman Gallegos called the meeting to order at 8:59 AM in ROBERTS ROOM, Scholes Hall, UNM.

- The Committee discussed the FY15 Audit Committee meeting calendar. Chairman Gallegos noted that dates in 2015 would need review from two new members. Since there will be new Regents, the dates may be altered. The Committee confirmed the first meeting date of August 21, 2014. Regent Hosmer stated October 16, 2014 is tentative. He cannot confirm that date yet. Chairman Gallegos added there will be another meeting before August because it is not likely that all of the current agenda items will be able to be addressed in this four hour meeting.
- There were no advisor comments.
- KPMG (John Kennedy and Cynthia Reinhart) and Moss Adams (Steve Keene and DeVon Wiems) provided the Committee with an entrance conference presentation detailing the audit plan for the FY14 external audit. KPMG is the lead. They will audit the academic and non-medical component units. Moss Adams will audit the clinical areas. The auditors introduced their team members and reviewed the timing of the external audit. Chairman Gallegos asked Mr. Wiems if he is based in Albuquerque. He replied that he is not based in Albuquerque, but he will be here every week during the weeks there is fieldwork. Throughout the process, they have a weekly status meeting with the hospitals, medical group and main campus. The audit is a financial audit that encompasses the University as a whole. The Moss Adams piece rolls in. There is one ultimate audit opinion but there are stand-alone reports of all the various entities. They also conduct the single audit. The risk assessment is not complete, but they do know they will be auditing the student financial aid program this year. Last year they looked at the R&D program and did not have any issues or findings, so it is not likely they will look at it again this year.

President Frank asked if requirements have changed for student aid. The auditors replied that not much has changed in that area. President Frank inquired if they look five years out and assessing how students are repaying or if they only look at how the University assesses students. Mr. Kennedy stated that they will look primarily at the students’ eligibility and that the University reports status changes when students graduate, etc., so the repayment process can start. They perform the audit in accordance with government auditing standards and state audit rules. They will communicate any significant issues as they arise. At the completion of the audit process, the auditors will come back to this Committee for an exit conference. Responsibilities include issuing an opinion on the financial statements. They design an audit approach that is in accordance with government and generally accepted auditing standards, and communicate matters to the Committee as they arise. The opinion is not on the effectiveness of controls.

Chairman Gallegos asked how much of their work is on paper versus electronic files. Mr. Kennedy stated it is about 50/50. Ms. Reinhart said that when they get information in Excel it allows the audit team to sort the data, etc. They do have the IT team come out and look at the systems and controls so they know they are in the position to rely on the controls that are IT-based.

The audit takes a risk-based approach. They look at the overall financial records and determine what they think are the most risky areas. They design an approach to address those specific risks. The work is done in three phases. They start with the controls to make sure they are functioning. If they determine that there are weak or failed controls they need to reassess their audit approach. They test controls over grant programs. They will also look at HUD and the VEBA trust. Regent Hosmer noted we have a small but increasing internally financed student financial aid program; is that captured in their work? Mr. Kennedy said that the focus of the test work is on the federally funded piece, but it will be included in the overall audit. They also test accounts receivable, reconciliation controls, payroll expenditures, procurement, Banner IT controls, etc. They look at alternative investments, primarily at the Foundation level. They will look at the UNM-level patient revenues and non-routine transactions. The only one they know of is a large infrastructure power grid at Mesa del Sol that will be deeded to the University this year. They look at the NCAA programs, test contracts, etc.

Moss Adams stated their risk areas are the same as prior years. The highest risk is patient accounts receivable. There are some changes this fiscal year due to the Affordable Care Act and expansion of Medicaid. The state identifies who is eligible. Management is waiting on that information. President Frank asked how would that be reflected in the audit report if that information does not come in time? Mr. Wiems stated you use all the information you have available at the time to make your estimate. Any increase or decrease is recognized in the subsequent period and they would not have to qualify the opinion. New Mexico is not alone in this. Historically University management is reasonably conservative with their estimates. They would rather recognize revenue late than early and try to play catch up. Other areas tested will be procurement, the pharmacy process, payroll, non-operating revenues and expenses, investments, bond issues, etc. They also involve their IT specialists to test IT controls. Another large area of focus is transactions between component units and other entities. If there were any prior year audit findings, they check to make sure those compliance issues are resolved. They will coordinate with KPMG. Their reports essentially roll up into the main report.

There are a few new accounting standards. They are minor in their impact this year. GASB Accounting Standard 65 added a new category to the financial statements. Now along with assets and liabilities, there are deferred inflows and outflows. GASB 68 is where you record underfunded ERB liability. It is effective next year. It will not be on this audit. GASB 69 talks about if you acquire or sell a business entity. GASB 70 refers to guarantees and how your record that liability. There are additional disclosures involved but it is not significant.

The auditors have been in the field for a couple of weeks. They will complete their final fieldwork in August. The final draft to the State Auditor will be sent approximately October 20, 2014. The Committee may need to look at the October meeting date closer to that time to see what the audit progress might be. Regent Hosmer informed the auditors that President Frank is in the process of changing the budget process. Can they informally give an opinion on that process? President Frank stated it is more about financial planning than budget and the University might not be ready for any kind of analysis yet. Provost Abdallah agreed. President Frank added he wants to get EVP Harris' opinion first as well. Chairman Gallegos asked Director Patel if he had any additional comment. Director Patel responded that he had no comment other than that he coordinates with the auditors

and the Controller's Office throughout the process and attends status meetings. Liz Metzger, Controller, noted that KPMG started fieldwork on Main Campus at the beginning of May and Moss Adams started clinical fieldwork about a week later.

- Stuart Freedman, Health Sciences Center Chief Compliance Officer, provided a status update/presentation to the Committee. He stated his office is making the rounds and getting the word out. They have been to Sandoval Regional Medical Center. Healthcare is front and center in compliance and they want to stay a step ahead. Healthcare compliance personnel are always trying to understand "regulator behavior." Monica Wilson, HSC Compliance Manager informed the Committee that the Office of the Inspector General has a "10 most wanted list." Chairman Gallegos asked if these are "healthcare fugitives." Ms. Wilson stated that there was a record number of enforcements in 2013. They recovered 5.6 billion dollars and added more than 3,000 people to the exclusion list. UNM Health Sciences Center checks the list before hiring and contracting, and will now require monthly list checks. There are penalties for hiring excluded parties. They are looking beyond fraud; fraud is intentional. However, regulations are very complex and difficult to implement. The guidance is not always clear. This area is still developing. Every year the OIG comes out with their annual work plan. There are more and more quality issues, hot topics to pay attention to and work toward preventing. Ms. Wilson stated that data analytics is another issue that is shaking compliance professionals. Using today's technology it is easier for regulators to find outliers. It is one of the first times healthcare providers have had to try to play catch up to the government. Ms. Wilson noted the government likes to make their regulations as loose as possible, so they have wiggle room to reinterpret things later. Mr. Freedman added huge risk they look at is billing compliance and the rules for the codes are very gray. Compliance personnel are doing their best to identify and clarify them for their providers. There are corporate integrity agreements for those who run afoul and they usually come with fines. These agreements are public and are published on line. The OIG wants to look good and they like to be in the news to demonstrate their effectiveness. The HSC Compliance office uses this information as a tool.

Mr. Freedman stated they are thrilled with the response to their new code of ethics. It is value-based, topical, and easy to read and understand. They are going to Washington, D.C. to present it. There have been more inquiries and the hotline vendor says more people are identifying themselves when they call than with other clients. This signifies a cultural shift and awareness. HSC Compliance updated their website and a new hotline poster, and they are developing an annual training calendar. They also developed 15 guidance documents for physicians and hired an educator to communicate with physicians. Faculty respect each other, and a physician is the best person to deliver a message to another physician. Mr. Freedman concluded by saying there are many people doing investigations and there should be a standardized process. The HSC Compliance Office is moving to a new location at 1650 University. This location will bring together HSC, Hospital, Medical Group, and Privacy compliance personnel.

- Helen Gonzales, Main Campus Chief Compliance Officer, provided her office's status update to the Committee. Ms. Gonzales referred to the prior conversation regarding the external auditor testing of internal controls. They do not tell you if there are sufficient controls in place. That is the kind of work that the Compliance Office does. She stated that the Compliance Office does work with the compliance partners on campus regarding controls. The Compliance Committee consists of department heads of all major areas that have compliance obligations, such as IT, HR, Finance, Athletics, Admissions, etc. Michele Huff, Senior Associate University Counsel participates as advisor to the Committee. Main Campus Compliance developed a database/compliance directory. Ms. Gonzales said their first step was to assess what all the compliance obligations are. Now they are documenting those obligations. Step 2 is to look at risk by conducting risk assessments,

identifying controls, etc. They have a quarterly Compliance Council meeting. At the last meeting, they discussed the federal Lobbying Disclosure Act, anti-terrorism standards, compliance risk, and the new compliance assessment process. The Compliance Office examined all the University and Regent policies and identified all the committees named in the policies. Then, the office worked with the compliance partners to determine if the committees are meeting, the charters are correct, and what the outcomes are. Chairman Gallegos asked about contribution of the compilation of these various committees. Ms. Gonzales stated that all the committees have some compliance obligations. Their office has catalogued all the state and federal compliance obligations they are aware of today for Main Campus, who handles them, and how.

Chairman Gallegos asked how they track the performance of the compliance areas. Ms. Gonzales replied that she relies on the compliance partners to address issues. In some cases, the Compliance Office will partner with Internal Audit to discuss a possible need to move an area up in the audit plan. In their second year of existence, the Compliance Office is evolving to track added reporting requirements to the compliance directory. Regent Koch inquired about conflict of interest. Is there any committee working on this as a whole with regard to Regents, staff, and faculty? Ms. Gonzales informed the Regents that University Counsel, not a committee, maintains conflict of interest. Regent Koch wanted to know if the conflict of interest policy is more strict and broader for Regents. Elsa Cole, University Counsel, replied that it is. Regent Koch noted there is a Student Fee Committee that states they meet "to determine how student fees should be allocated to various organizations..." He said that is not correct; it is to recommend, not determine. Ms. Gonzales said that was copied from Policy 1310. They can work with compliance partners to revise them. Chairman Gallegos noted a difference between the high priority of compliance with government regulations versus internal University committees that may or may not meet. Ms. Gonzales stated in their model, part of her role is to give the compliance partners tools to oversee their operations. The risk assessment is the biggest tool. Regent Hosmer stated that the University is likely to look to her office for some of the basics. How are we doing and how do we know? Ms. Gonzales replied that is done through the risk assessment process and compliance partners reporting to her. Regent Hosmer suggested the Committee solicit a periodic assessment.

- Chien-chih Yeh, Audit Manager, addressed the Committee regarding the status of audit recommendations. Per Mr. Yeh, there are approximately 19 recommendations on the report and only a few have implementation dates that have been extended. Chairman Gallegos asked who was lagging. Mr. Yeh reported that one of the deadlines for a recommendation in Safeguards for Protecting Private Data for vendor contracts with access to private data was extended six months. The responsible parties are developing an automatic workflow process in LoboMart to flag those contracts, and they need more time to implement this recommendation. President Frank noted that his office just recently decided to contract that out to an outside consultant, and will move quickly.
- Director Patel presented his Director's Report. He stated we will keep the October 16<sup>th</sup> date as tentative for the Regents to look at their calendar. They could also look at October 23<sup>rd</sup>. The external auditors could revise their date for submitting the draft report to the State Auditor. Director Patel will coordinate with KPMG. Mr. Patel reported that nine audits are complete. Four are in fieldwork and two are in the planning stage. There are four unassigned FY14 audits that will likely be pushed to FY15. He supplied the Committee with complaint trend data and reviewed the complaint statistics. There are 107 complaints for FY14 and 15 that carried over. There are 65 closed and 57 remain outstanding. Internal Audit referred 69 issues; some complaints may have more than one issue. Regent Hosmer asked if there are more problems, or if it is better reporting; we may have to wait until investigations determine the outcomes of issues. However, this does stimulate appropriate questions.

Chairman Gallegos asked about “harvested funds” on the department financial report. Why was \$178,000 harvested from Internal Audit’s reserve? Where did the money go? He stated it needs to go back. Director Patel stated that the department used to have unfilled positions; the funds were vacancy savings that were pulled back by the central office in FY13. Provost Abdallah stated that \$3 million in funds were harvested across academic units to balance the budget. President Frank informed the Committee that the funds no longer exist. The University is broke. He would be glad to have Andrew Cullen, Associate Vice President for Planning, Budget and Analysis come in and talk to them.

Director Patel updated the Committee with information on external audits and reviews. The most critical one has recovery contractors looking at 2500 patient billing records at UNMH. The review is contingency-based so it is in their best interest to question as much as they can. The other outside audits are not critical. Regent Hosmer asked to what extent compliance improvement can affect these audits. Mr. Freedman stated that they already put a lot of things in place to mitigate the risk. Regent Hosmer asked if we know enough about the specifics of each recovery to roll that in to polishing the processes. Mr. Freedman stated yes. Purvi Mody, Health System Director, Compliance and Audit, informed the Committee that there are three different types of Recovery Audit Contractor (RAC) requests. The largest are in the area of medical necessity and diagnostic related groups (DRGs). HSC Compliance has a committee that looks at 100% of admitted Medicare patients. They also have consultants that audit their coding. Regent Hosmer noted that roughly 10% of recoveries were appealed. Ms. Mody stated there are three levels of appeal. It is a very long process, and will actually result in about 30% of recoveries that are appealed. They can also rebill some inpatient claims under Part B. Regent Hosmer noted that 70% that are not appealed suggests recovery was valid. Ms. Mody replied that 50% of that 70% will be refiled and they will get some of it back. Regent Hosmer inquired what a reasonable goal might be. How aggressive can they be? There should be an established expectation. Mr. Freedman stated it should be a goal of zero recovery. He believes that having case managers and utilization review nurses on the physicians every day for everything will minimize the risk.

David Harris, Executive Vice President for Administration joined the meeting to discuss the Internal Audit funds item from earlier in the meeting. Chairman Gallegos asked Mr. Harris about the \$178,000 taken from Internal Audit. Why was this much money taken and where did it go? Mr. Harris stated that for all the units in central administration, Andrew Cullen works with each unit to see what the spending needs are for the rest of the year. The I&G funds are brought back to central funds when they are not expended to balance the budget and/or to fund a required 3% reserve. Funds can be restored to the units if they have need. Director Patel stated Internal Audit’s FY15 budget will be short. Chairman Gallegos asked where the deficits were – if the money is taken to make up deficits and balance the budget. He asked Mr. Harris to show him the information. Mr. Harris informed Chairman Gallegos that he could produce the information; it is not a problem.

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), exception for matters subject to attorney-client privilege pertaining to threatened or pending litigation at Section 10-15-1.H(7), NMSA (1978), and exception for matters subject to discussion of purchase, acquisition or disposal of real property or water rights by the public body at Section 10-15-1.H(8), 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); and
- d. Vote to re-open the meeting.

The meeting returned to open session at 12:40 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 March 25, 2014 (Motion: Regent Hosmer, Second: Regent Koch).

Motion to adjourn 12:41 p.m. (Motion: Regent Koch, Second: Vice Chairman Hosmer).

Approved:

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Audit Committee Chairman



There is no  
handout  
required for  
this item

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handout  
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this item

# EXECUTIVE SESSION