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

Other Attendees: Robert Frank, Chaouki Abdallah, Helen Gonzales, Amy Wolhert, Liz Metzger, Chris Vallejos, Elsa Cole, Pamina Deutsch, Ella Watt, Purvi Mody, Jewel Washington, Gil Gonzales, Terry Turner, John Reindorp, Mark Peceny, Terry Babbitt, Bonnie Stepleton, Renee Delgado-Riley, Melissa Bokovoy, Cynthia Reinhart (KPMG), Manu Patel, Chien-chih Yeh, Lola Neudecker, Lisa Wauneka, Avedona Lucero, Victor Griego, Ashley Manley, Amy O'Donnell.

Chairman Gallegos called the meeting to order at 9:21 AM in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee unanimously approved the minutes from the meeting of June 11, 2014 (Motion: Regent Koch, Second: Regent Hosmer).

- The next Committee meeting will be October 16, 2014 at 9:00 AM.

  Pamina Deutsch, Director, Policy Office, presented the Committee with revised versions of Regents' Policies 1.2, 7.2, and 7.3. The Chairman stated that a paragraph should be changed regarding the following language. "They conduct independent, objective assurance services (audits) and consultations to determine whether the University's systems of controls, risk management, and organizational governance, as designed and represented by management, are adequate and functioning properly." It should have stronger language to include properly and lawfully or properly and ethically. He also noted that the word "to" was omitted in the final sentence of that section. Regent Hosmer suggested that it could say "…functioning properly, ethically, and in full compliance with all existing regulations." The Chairman discussed the language in this policy regarding the independence of the Audit Committee, Compliance Office and the Internal Audit Department. He has an issue with one of the numbered items under "Authority" for Internal Audit (#4): "Cooperate with any legitimate inquiry or investigation from an outside audit, law enforcement or investigative agency, if advised to do so by University Counsel." The same thing exists for Compliance Office (also #4). He suggests striking that information from the policy because it should not say if advised to do so by University Counsel. All Committee members agreed. Under Audit Reports in Policy 7.2, the policy states that audit draft reports and related audit materials will be made public. In actuality, when the Committee approves an audit, the final report becomes public. Other audit materials may be subject to the *Inspection of Public Records Act*, NMSA 1978 14-2-1 (IPRA) requests, but the University would not release the information unless requested under IPRA. Supporting documents such as work papers and drafts are kept in the Internal Audit Department for five years, plus the current fiscal year. After that time, they are sent for destruction. Now, however, the Department has audit software and most of the audit work is currently performed electronically.

INFORMATION ITEMS:

- There were no Advisors' Comments.

- Follow up items:

Terry Babbitt, Associate Vice President, Enrollment Management, spoke to the Committee regarding student financial aid, debt repayment, and ability to pay. Regent Hosmer previously asked Dr. Babbitt and Cynthia Reinhart of KPMG if they look at student loan repayment. Dr. Babbitt replied that it is not their focus (of the audit), but they do pay close attention. He has a lot of data available. If students graduate, they are very able to pay back their loans. For the 3,500 graduates last year, the average debt is $23,000. Only 55% of the 3,500 graduating with their bachelor's degree borrowed. The "rule of thumb" is generally not to borrow more than your expected first year's salary after graduation. UNM has a 13.3% default rate. (Branch numbers are included in that amount, and 40% of the defaults are from branch campus students.) There are penalties if an institution reaches over 30%. In comparison, the default rate is approaching 20% for New Mexico State University and approaching 25% for Central New Mexico Community College. Non-payment after 270 days is considered default. The worst part is the people who do not graduate. The data also shows that non-graduates make up a majority (Dr. Babbitt estimates 65%) of defaults. Less than 5% of the debt is over $50,000, and 60% is under $25,000. For-profit universities have the highest rates. Dr. Babbitt's office is working with New Mexico Student Loans to do default management. They are not a collection agency, but they stay connected with the student borrowers to avoid default as they go through the process. Regent Hosmer appreciates the information and stated perhaps the next phase of the discussion is not this committee's issue, so further discussion will not be at Audit Committee. In conclusion, Chairman Gallegos asked about enrollment numbers. Dr. Babbitt noted that the enrollment trend is down about 2%. It is down about 5% for Albuquerque student seniors. This trend ties to the economic conditions locally. However, the Santa Fe numbers are up. The good news is that grade point averages and ACT scores are up across all ethnic groups.

Purvi Mody, UNMH Executive Director of Compliance and Audit, updated the Committee regarding the status of the Recovery Audit Contractor (RAC) audits. For the sample selection of $24.6 million, they initially denied approximately $8.6 million. The amount recouped on all claims denied is down to $5.895 million. As a benchmark comparison, for UNMH, 1% was underpayment, 36% was overpayment, and 63% were no overpayment determination. They are faring better than their peers. Medical necessity (second guessing physicians' decision-making) was the primary reason for complex denials. The recoupments are about $2.7 million less than what was originally denied. For denials, the largest changes are in diagnosis-related groups (DRGs). Inpatient reimbursement is good; outpatient is not as good – about 30%. UNMH appealed 49% of RACS for medical necessity. There are three levels of appeal. Some UNMH appeals are at level two and level three. It is a time consuming and expensive process. They can also resubmit some of the claims and bill under Medicare Part B (outpatient). Regent Hosmer asked if there are lessons to be learned. Ella Watt, UNMH Chief Financial Officer stated there were many. She said for one thing, when an order to admit occurs for a Medicare patient, the Hospital performs increased chart review within the initial 24 hour period. That may result in admission status change for these Medicare patients. Regent Hosmer wanted to know if they are trending success rates. Ms. Watt replied that yes they are trending the process. On the RAC requests themselves, at level one the success rate of appeal is not very good. At level two, they have been able to overturn $288,000.

- Amy Wohlert, Chief of Staff, President's Office, and Melissa Bokovoy, Chair, History Department, and Ms. Deutsch presented the Committee with an update on the Main Campus Code of Ethics. They informed the Committee that the policy office created a Main Campus version to follow the successful Health Sciences Center (HSC) Code of Ethics, but some information lost validity in the translation. The missions are so different. Dr. Bokovoy addressed the Committee, stating that they are working closely with Dr. Linda Ferrell of the Faculty Senate Ethics Committee who is a professor of business ethics and a leading expert in the field. Working with the Daniels Fund, Dr. Ferrell visited six or eight universities in the west on a project developing ethics principles. They created a committee that includes the chair of the committee that is developing the Civil Campus Code, Ms. Gonzales as Chief Compliance Officer, the Faculty Senate President, President-elect of the Staff Council, as well as student presidents for ASUNM and GPSA. They feel that it is representative of groups across campus. The idea is to create a set of guiding principles. Dr. Bokovoy stated you can have a code of conduct that is regulatory but a code of ethics is supposed to embody the values and principles of the organization. They stated that their timeline for completion is December or January. It will take time to get buy-in from ASUNM, GPSA, Faculty Senate, Regents, and the Administration. There is renewed effort to make people aware of existing ethics policies and the whistleblower program. The Chairman noted he is impressed with the concept and style of the HSC version. He wants the Main Campus Code to be readable and not full of legalistic language. Faculty Senate President Pyle added that Main Campus Code will have more nuances than the one at HSC. This Code of Ethics committee understands the importance and is led very aptly by its members. Regent Hosmer stated that there is evidence that the compelling force of a document like this is inversely proportional to its length. He feels it would benefit from and would get more attention if it were shorter.

- The Chief Compliance Officer for the Health Sciences Center has no report.

- Helen Gonzales, Chief Compliance Officer for Main Campus provided an update for her area. She supplied the Committee with materials, and in the interest of time, informed them she would answer any questions they may have rather than provide a presentation. Things are going well. She does have her new goals assigned for this year and she has been working toward those goals and with the compliance partners. She has been working directly with the compliance partners to identify risks and actions, and on educational training. They meet quarterly to assure that the compliance obligations they have identified are accurate, correct and are fulfilled. It is a proactive process. They are close to having an accurate and comprehensive matrix. Ms. Gonzales and her assistant have been doing a lot of research on other universities, regulations, and information from expert consultants. They are documenting what is required, and are applying that to University policies and training.

- Chien-chih Yeh, Internal Audit Manager, reviewed audit recommendation status reports with the Committee. The first three pages are older recommendations that are cleared. There are eight previous recommendations with remaining items, not including the recommendations for College of Education from the last meeting. Chairman Gallegos asked about tracking graduation and retention rates. The implementation date is here. Where do we stand on that? Mr. Yeh replied that it is cleared. They are able to do that now. The Chairman inquired about Gallup's scholarship fund issue. Mr. Yeh informed the Committee they are awarding many scholarships now. The Chairman also asked about the amendment on the Research Park Act. What is the amendment that is needed and why? Director Patel stated that the Act requires an

annual audit report be submitted to the Corporation Commission as well as the State Auditor. UNMMG attempted to submit the report to the Commission, but the Commission said they didn't want it or require it. The amendment would be to strike that requirement from the Act. That should be completed after the next legislative session. The Chairman inquired about faculty workload and a Banner tracking system. Mr. Yeh informed the Committee there are two parts to this item. One is public service, which has a tracking mechanism and is going to be incorporated into the annual review process. The other part is research activity. This is awaiting software purchase and implementation that is estimated to be complete in January 2015, so there is an extension of the implementation date. Terry Turner, Director of the Office of Institutional Analytics can provide further information. The Chairman asked if faculty is involved as it will also track workload. Faculty Senate President Pyle stated that faculty is not involved in this. Provost Abdallah informed the Committee that the workload is already tracked in various ways at department and college levels. This is a method to track teaching assignments through Banner. The research software is something they started looking at a couple of years ago to track the research productivity. There is no policy change. President Frank stated in a previous Arts and Sciences audit it became clear there was a lack of apples to apples comparisons and clear data metrics. This is part of the ROM implementations. Most universities have this type of system; UNM is a little slow getting started with it. Everyone works hard and we are going to show that. Mr. Yeh added that they have a new dean at the College of Education; therefore, Internal Audit is giving that office a chance to implement recommendations.

- Internal Audit Director Manu Patel provided his Director's report to the Committee. He informed them that the Department completed 80% of the audits on the work plan. Four are delayed to the next fiscal year. Mr. Patel stated he attached charts with complaint data for FYs 2011-2014. The complaint data shows that most complaints are human resource-related. This mirrors the national trend. The Department has a new compliance poster. It will be distributed to building coordinators at the next meeting. With the additional communication, expect complaint numbers to increase. Regent Hosmer asked if the FY 15 numbers on the trending graph they were presented is annualized or absolute numbers to date. Director Patel replied that that number is just for one month of the fiscal year we are in, it is not annualized. Regent Hosmer stated that trending data for complaints is very useful. In conclusion, Director Patel noted the Department closed out FY14 with $36,000 and the Department's FY15 budget is fully funded.

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).

   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 12:36 PM, with certification that only those matters described above were discussed in Executive Session.

- The Committee approved Regents' Policy Section 1.2 – Structure of the Board of Regents, and 7.3 – Audit and Compliance Committee (Motion: Regent Koch, Second: Regent Hosmer).

- The Committee approved Regents' Policy Section 7.2 – Internal Auditing and Compliance as modified in accordance with discussions earlier in this open meeting (Motion: Regent Koch, Second: Regent Hosmer).

- The Committee approved a title change in Regents' Policy Section 3.7 – Institutional Compliance Program to read: "Health Sciences Center Institutional Compliance Program" (Motion: Regent Koch, Second: Regent Hosmer).

- The Committee approved the following UNM audits:

  Student Bar Association Off-Campus Bank Account Audit, #2014-03 (Motion: Regent Hosmer, Second: Regent Koch).

  Review of Ticketing Services Operations (as modified for IT security), #2014-08 (Motion: Regent Hosmer, Second: Regent Koch).

  University President's Travel, Entertainment, and Other Expenses, #2014-02 (Motion: Regent Koch, Second: Regent Hosmer).

  Review of Facilities and Administrative Receipts and Disbursements, #2014-12 (Motion: Regent Koch, Second: Regent Hosmer).

  Preliminary Assessment of Clery Act Compliance, #2014-04 (Motion: Regent Koch, Second: Regent Hosmer).

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

Approved:

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Audit Committee Chairman