THE UNIVERSITY OF NEW MEXICO
Board of Regents Audit and Compliance Committee Meeting
April 22, 2015 – Meeting Minutes

Members Present: Chairman Lt. Gen. Bradley Hosmer, Vice Chair Jack Fortner, Regent James Koch (Quorum); Regent Marron Lee attended as an open session observer.


Chairman Hosmer called the meeting to order at 9:00 AM in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee approved the minutes from the meeting of December 4, 2014 with a majority vote – one abstention, because Regent Fortner was not a Committee member at the time of the previous minutes.
- The Committee approved proposed meeting dates of June 18, 2015, August 18, 2015, and October 15, 2015. The October 15 date is provisional subject to external audit status.

INFORMATION ITEMS:

- There were no Advisors’ Comments.
- Follow up items:

  Internal Audit Director Patel addressed the Committee regarding follow up items from the two previous meetings. The Clery Coordinator position has been taken care of financially for fiscal year 2016. There is sufficient budget - approximately $257,000 for the Coordinator, training, and educational materials. Clery Act trend data/crime statistics are not prepared because there is no Coordinator on board yet. Once the position is filled, Helen Gonzales, Main Campus Chief Compliance Officer will work with the Coordinator to identify the trends and compile the data. Chairman Hosmer asked about the University’s exposure. There are 22 pending Clery Coordinator actions; either pending with Interim Coordinator Chester or awaiting the new hire.
  Ms. Gonzales replied that there is a Compliance Committee that is meeting regularly to support the Interim Coordinator. The Committee is confident that all elements are being met.
  Substantial activity is ongoing, and while there is a lot of work yet to be done, everything will be in line for the next reporting cycle (last year’s data, due October 1, 2015). The UNM Police Department has requested crime statistics from campus security authorities. They are making a push to get all campus security authorities trained, and are continuing to identify geography, etc. If inspectors were to come, they would be OK with that. Regent Fortner asked if there is any duplication of effort with Clery Act and what UNM is doing with Title IX. Ms. Gonzales stated there is not duplication; however, there are places they align well together. There is a new CARE model and Lobo Respect subcommittees that are working together. There is a compliance subcommittee looking at requirements in both of those laws as well as other laws. Director Patel added that from an audit perspective there has been much progress between the
2012 Clery report and the 2013 Clery report. The policy statements and the data they send to the Department of Education are a lot better. If inspectors were to come, we would not be at 100 percent, but we would be a lot better than we were two years ago. Chairman Hosmer asked if 2012 was a letter grade of “D,” and we aspire to an “A,” what would it be now? Director Patel stated B-plus. Ms. Gonzales said she would say B-minus. The Provost is assisting with making sure faculty members are getting trained. The Provost said it is at a D-plus on that front. Chairman Hosmer asked Amy Wohlert, Chief of Staff, President’s Office, if it still makes sense to consider an assistant for the current Interim Clery Coordinator. Ms. Wohlert stated there are now enough eyes on the problem, the budget, and a clear path forward in terms of hiring. UNM is also in the process of hiring a new OEO director who will oversee both Title X and Clery operations. Through the Provost’s Office, Dean of Students, and campus committees there is good coordination with OEO, University Counsel, etc. We have gone from blissful ignorance, to panic, to awareness of what we have to do. Chairman Hosmer asked that the appropriate parties go back through the 22 items and add dates for completion.

The last open session follow-up item is regarding guiding principles. Ms. Wohlert led the discussion on that subject. She stated that at the last meeting, there was tentative approval of the principles and the policy that was written surrounding the principles. The Committee directed Ms. Wohlert and her team to amend the preamble language, which they did. They have that draft and would be happy to present that again. There are other efforts ongoing on campus, such as new members of the Faculty Senate Ethics Committee who were not present during the drafting of the principles. There are also student government changes. Ms. Wohlert recommended that the good effort that has been accomplished be put out there now, partly due to the Human Resources evaluation component. This is more or less an update of the University Values we had before, with current terms and aligned with the current mission. When UNM puts the policy out for review, it is likely many things will unearth. Ms. Wohlert asked the Committee if they should go forward with it. Chairman Hosmer asked if the Committee could take a look at the materials later in this meeting.

- KPMG and Moss Adams presented the Entrance Conference for the FY15 External Audit. Liz Metzger, University Controller asked the members of each of these firms to introduce themselves. The contract for this audit is still awaiting approval from the State Auditor’s office. They are in the preliminary, preparatory stages at this point while they await approval. The firms and the Higher Education Department have all signed the contract. John Kennedy, Partner, KPMG, and DeVon Wiems, Partner, Moss Adams introduced their service teams and walked through the plan for the audit work. KPMG will perform the audit for Main Campus and non-clinical component units such as the UNM Foundation, Lobo Club, etc., as well as KNME and KUNM. Moss Adams will cover clinical operations including UNM Hospital, Sandoval Regional Medical Center, the UNM Medical Group, etc.

Chairman Hosmer asked if these particular audit teams have worked together on the audit before, or have they just come together for this particular project? Mr. Kennedy stated they have the same team. Mr. Wiems stated that they have one new member but the rest of the team members have worked on this before.

They will conduct an A-133 audit, which is transitioning to the terminology of Uniform Guidance Audit. They do need the University to provide them with a schedule of all the grants and related dollar amounts. The audit is conducted in accordance with government standards,
the State Audit Rule, and other regulations. Chairman Hosmer asked if they make their own risk assessments when choosing which items to sample. Mr. Kennedy stated they do. Every program has to be listed once every three years at a minimum. The teams will communicate with this Committee at various times throughout the audit and will notify them if significant matters arise. Chairman Hosmer noted that the reverse is also true – they have full access to this Committee and its chair. Regent Koch added that the Committee can ask for certain audits.

Mr. Kennedy informed the Committee that their responsibility is to provide reasonable but not absolute assurance relative to the financial statements, indicating they comply with GAAP and are materially correct and free of misstatement. They will also report to the individual audit committees/boards of the reporting units. They use a risk-based approach and will test certain internal controls of processes, in areas such as cash receipts, bond activity, investments, payroll, non-payroll expenditures, grants and contracts, accounts receivables, patient revenues, and information technology. They will test that issues resulting in findings last year are fully resolved, and look for any non-routine transactions. Mr. Kennedy stated they also look at NCAA activities such as contracts. They will ask the State Auditor if he is going to require that they perform a stand-alone audit on the VEBa plan; otherwise they are not planning on it at this point because there have only been deposits, not activity. There is a new accounting standard, GASB 68, relating to pensions. The underlying impact to UNM is unfunded pension liability at the state level now gets pushed down to UNM, so that UNM has to reflect their share of that unfunded liability. The number will be large but will be primarily a bookkeeping exercise. Rating agencies have recently come forward and said they are not going to view this negatively relative to the ratings for the most part. Also, now, the liability will be affected by the performance of investments. Private accounting has had similar accounting for close to 10 years; it’s primarily getting governmental accounting up to speed.

For clinical operations, Moss Adams will focus on revenue cycle, as that is where most risk of error occurs. They will also look at accounts receivables, payroll, cash, investments, information technology, etc. The largest contingencies tend to be in malpractice. To a large degree, those liabilities are indemnified by the State and do not show up on the balance sheet. There is bond refunding that may or may not occur before June 30. If it happens prior to June 30, they will look at that this year.

Chairman Hosmer noted that IT issues evolve fairly quickly. He asked for an assessment of their current IT auditing expertise. Both firms replied that they have staff members who audit IT year round and they consider themselves to be on the cutting edge both in tools and knowledge. However, their focus is limited – mostly to IT access controls. Moss Adams stated they have subject matter experts.

In terms of timeline, KPMG and Moss Adams hope to start field work in the next couple of weeks. They plan to have a draft audit report to the Committee at the October meeting and the report delivered to the State Auditor in mid-October.

- UNM Internal Audit and UNM Health System Internal Audit provided the Committee with an orientation presentation. The Audit and Compliance Committee was created based on Regents' Policy 1.2. It is a standing committee of the Board of Regents. One member of the Committee should be a financial expert. The Committee meets at least four times per year and follows the Open Meetings Act. Regent Koch commented on the Open Meetings Act. If there are four
members present, there is a quorum. To that end, this is the only committee that is to have only three members. That way, there is never a violation of the Act. This independent Audit and Compliance Committee’s responsibility includes review of the University’s financial reporting, internal controls, risk management, performance of external audit, compliance with laws and regulations, internal policies, whistleblower program, and the compliance program. The Internal Audit department was established under Regent Policy 7.2, performs a comprehensive internal audit function, and has unrestricted access to all functions, records, property, and personnel. Internal Audit has the authority to obtain assistance from other departments. To maintain independence, the Internal Audit Department and Compliance Office report functionally to this Committee and administratively to the President’s Office. Internal Audit is free from any interference in determining the scope of audits, and is empowered to obtain information as needed.

Purvi Mody, Executive Director, UNMH Compliance and Audit, informed the Committee that her office reports functionally to the audit committees of each health system entity. Audit reports are presented to these committees, then to the HSC Audit and Compliance Committee, and then to this Committee. As of March 2015, her department reports administratively to Steve McKernan, CEO, UNMH. Previously, the department reported to Ella Watt, CFO. They have full access to each of the Committee members and to the Board. They perform a separate risk assessment at each of the entities. In 2013, REDW performed a three-year Hospital risk assessment that they are following. In June, 2015 there will be a new risk assessment for the Hospital. Chairman Hosmer stated they were previously financially based. Should we expand them to include operational risk assessment? For the University as a whole the heaviest risks we face in the future are operational.

Ms. Mody stated that SRMC is now under a 501 community risk assessment and are required to do that. The Hospital is starting to incorporate some of that. Regent Koch noted they have the authority to do that now in this Committee. Regent Fortner feels that type of assessment might be performed by Administration. Regent Koch stated that is not the case because of the independence. Chairman Hosmer added that risk and risk assessment is owned by this Committee. That does not mean that Internal Audit is a necessary instrument in mitigating that risk. It could be that this Committee reaches a risk assessment with all of the appropriate experts and their says the individual who owns that risk is the Provost, or Enrollment Management, etc., and the task may be passed on to the appropriate area. This Committee’s task would then be to monitor how the plan is working. Chairman Hosmer would like to see this going forward in the next cycle. Mr. Patel stated that Internal Audit did an in-depth, thorough risk assessment last year and included some operational risk. They met with leadership all over campus to talk about their risk, including operational risks. Ms. Gonzales stated that she is partnering with Internal Audit and a big focus of what she is doing is risk assessment. That risk assessment is broader and works with all of the compliance partners to identify risks, which might be more operational. Ms. Mody addressed a previous question about the Cancer Center audits. She stated her office audits the clinics, and Main Campus Internal Audit covers the research areas. Mr. Patel provided information as to what the Internal Audit function is and is not authorized to do. Chairman Hosmer stated the Committee could read the materials and if they have any questions they will ask. Regent Koch noted that when the Committee was formed, they went into great depth as to how to set it up, and that it was clear what the function is. Chairman Hosmer stated the orientation provides very useful information to the Committee members. Mr. Patel wrapped up the presentation by stating that Internal
Audit departments are required to comply with the standards and ethics of the Institute of Internal Auditors and also comply with guidelines of the American Institute of CPAs. To make sure Internal Audit is following the standards properly and is producing a quality work product, the department is required to have a peer review every five years. The last peer review was approved by this Committee in March, 2013. The Peer review was conducted by the Audit Director of NM State University and the former Audit Director of University of Texas Pan American. Per a request from Regent Koch, Mr. Patel provided the new members with a quick synopsis of his professional background.

Ms. Gonzales provided the Committee with Compliance Office orientation material and an overview of her professional background. She stated a big part of her role is assuring there are appropriate controls in place so that units can perform correctly, appropriately, ethically, etc. She works proactively with management to mitigate institutional risks. In light of what happened at Penn State, a lot of higher education institutions that only had compliance offices for their healthcare systems, began centralizing compliance areas. The Freeth Report that resulted from the Penn State investigation recommended creation of independent compliance functions for universities. You would now be hard pressed to find a large university that does not have a Chief Compliance Officer. President Frank commissioned a review of UNM’s compliance function. That review recommended centralized compliance through a Chief Compliance Officer with decentralized delegation to compliance partners. Ms. Gonzales has a compliance committee of individuals responsible for the various compliance obligations. She uses the seven elements of federal sentencing guidelines to help structure their work.

In August 2013, there was an article that talked about “Welcome to Compliance U.” The article talked about the incredible increase in the amount of compliance obligation. It has become quite a burden for universities. There will need to be a significant cultural change in higher education to adapt to that. Key partnerships for her compliance office include HSC Compliance, Internal Audit, University Counsel, the Policy Office, etc. Ms. Gonzales introduced Compliance Specialist Eileen Sanchez who spends a great deal of time researching new compliance obligations affecting universities. They document any reporting requirements and policy implications, and send reports to the compliance partners. Compliance partners come to the quarterly meetings. Regent Fortner asked where the current Department of Justice investigation falls. Ms. Gonzales replied that it spans a number of places, including Office of Equal Opportunity, Student Affairs, and University Counsel (they are not a compliance partner, but have an advisory role to the Compliance Committee).

Her goals this year include developing a risk identification and mitigation reporting process, developing and maintaining a compliance directory, revising the Whistleblower policy, and launching a new ethics and anonymous compliance reporting system (completed). There is now a new hotline vendor available 24/7 (Ethicspoint from Navex Global began on March 26, 2015) with enhanced reporting capabilities. Starting at the next meeting, Ms. Gonzales will begin providing metrics from the hotline reporting. Her office is doing the triage for all phone calls and website complaint entries. If individuals are named in the complaint, the vendor makes sure those individuals are not sent the complaint information. Investigators can online chat with persons who report (even anonymously). They need to work on creating consistent investigator protocol. There are so many individuals doing the investigating, depending on the area to which the complaint is triaged. There is a new compliance hotline poster and their website contains a great deal of information and resources. It can be found at compliance.unm.edu.
Stuart Freedman, HSC Chief Compliance Officer provided an orientation presentation to the Committee. He informed the committee that compliance is sort of a “new profession.” It is only about 25 years old. The most mature compliance programs have been in the financial sector because of Wall Street problems. But healthcare has also been the subject of this attention for quite a while. The sentencing guidelines that Ms. Gonzales referred to are really at the core of compliance. In addition, they reach out to enforcement agencies to see what they have to say. The one that governs healthcare is the Office of the Inspector General under Health and Human Services. They have created some model compliance program guidelines, so they follow that. They also look at enforcement actions. Having lived through an enforcement action at another University in 1998, Mr. Freedman stated you don’t want to go through that five year, burdensome requirement. The Health Care Compliance Association (HCCA) was founded in 1997. In, 2001, the Enron scandal shook many businesses. Lately, a big issue has been the Veteran’s Administration. In 2004, sentencing guidelines were updated. In 2012, the Freeh Report was a shocking jolt to academia.

Compliance creates a culture. Culture reflects behavior of all employees. It is about changing behavior. They make a concerted effort to do live training as well as on line, and to get out in front of people. It is important to connect and discuss emerging risk. They do investigations, but do not discipline people. There are differences and similarities between compliance and internal audit. Internal audit does independent assessments; compliance creates a culture. Internal audit does not step in the shoes of management; compliance helps and assists. Internal audit looks at best practices; compliance looks at rules and regulations. Both are independent. Both report to their chief executive officer and to the Boards, with direct access. Billing compliance is their highest risk. HSC Compliance recently had a peer review as well. They participate with American Association of Medical Colleges (AAMC) and University Health Consortium (UHC). They had two reviewers who came for two and a half days; one from the University of Pennsylvania’s Children’s Hospital, and the other is the Chief Compliance Officer from the University of Connecticut. They found two best practices that are now published on AAMC’s website. One involved their Code of Ethics program, and the other their Healthcare Provider Compliance Committee. They have physician champions who talk to their colleagues about compliance. They surveyed their employees in 2012 and 2013 and will do so again soon. Employees brought forward concerns about retaliation. They need to break down that feeling of distrust. Mr. Freedman stated he would like to come back in front of the Committee at a later date and talk about emerging risks and the program going forward in 2015.

- Mr. Freedman provided the Committee with materials regarding what he reported to the HSC Board of Directors for November and December of 2014. It is the first one they published, and includes those very important seven elements as well as meetings, training, reporting data, etc. The next HSC Board meeting is May 1, 2015, and Mr. Freedman will be reporting the first two months of 2015 to them at that time. Chairman Hosmer asked Mr. Freedman if they track training requirements not met. He replied they do track how many employees take the two on line trainings – Ethics and Privacy. They also count how many times they do the live training.

- Ms. Gonzales shared the materials for her quarterly report. She stated that in the interest of time, she would just stand for questions. Most of the information was covered in her earlier orientation presentation. There were no questions.
Chien-chih Yeh, Audit Manager, presented the audit follow up items. There were two reports Implemented and Pending. Chairman Hosmer asked if there are any burning issues. Mr. Yeh replied there are not; things are moving along nicely. Chairman Hosmer confirmed that when they see this report at the next meeting, there will be new implementation dates for the Clery items.

Mr. Patel briefly reviewed his Director’s Report, confirming the dates are set for the remainder of FY15. He explained the Hotline complaint data and stated Ms. Gonzales will start reporting the data starting with the June meeting. There are 71 open complaints as of the end of February. As stated previously, there is a new contractor as of March 26, 2015, Navex Global. The current financial report is enclosed in the materials; Internal Audit expects to close out the fiscal year with a reserve of about $8,000 to $10,000.

By unanimous consent, the meeting went into Executive Session at 11:08 for the reasons stated in the agenda.

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);

d. Proposed FY15 Audit Workplan exceptions at Sections 10-15-H(2 and 7), NMSA (1978); and,

e. Vote to re-open the meeting.

The meeting returned to open session at 12:35 PM, with certification that only those matters described above were discussed in Executive Session. Due to time constraints, two Hospital audit reports will be deferred to the next meeting in June.

The Committee approved the following UNM audit by unanimous consent:

UNM-Taos Audit of Financial and Operational Efficiency, Report 2015-02

Motion to adjourn 12:38 PM. (Motion: Regent Koch, Second: Regent Fortner).

Approved:

[Signature]
Audit and Compliance Committee Chairman