THE UNIVERSITY OF NEW MEXICO  
Board of Regents’ Audit and Compliance Committee Meeting  
May 5, 2016 – Meeting Minutes


Chairman Fortner called the meeting to order at 9:07 AM in ROBERTS ROOM, Scholes Hall, UNM.

ACTION ITEMS:

- The Committee unanimously approved the meeting agenda and the minutes from the meeting of March 3, 2016.
- The Committee will check their calendars and advise the Internal Audit Director regarding the proposed meeting dates of August 4, 2016 and October 20, 2016 (Exit Conference for FY16 External Audit). The meeting will start at 9:00 AM, to precede ASAR. Chairman Fortner noted the August date may need to be changed to August 11, 2016. He will keep Internal Audit informed.

INFORMATION ITEMS:

- Chairman Fortner asked for advisor comments. Faculty Senate President Posse had no comments. GPSA President Texanna Martin introduced incoming GPSA President Glenda Lewis.
- The only follow-up item from the March meeting is that the Minors on Campus Policy number 2205 was finalized on March 8, 2016. It is on the Policy website and there is an online training course available. Regent Hosmer inquired about the revised Whistleblower policy; it is put on the back burner for few months pending main campus re-organization of the compliance function. Regent Hosmer asked for a rough target date. Mr. Patel replied that it will hopefully be by the end of the calendar year, but that depends on the status of the reorganization. It will not be in time for the October meeting but should be completed for the following quarterly meeting, likely in March.
- KPMG and Moss Adams presented the Entrance Conference for the FY16 External Audit. Liz Metzger, University Controller, introduced John Kennedy, Partner, KPMG, and DeVon Wiens, Partner, Moss Adams. Mr. Kennedy and Mr. Wiens described their audit teams and walked through the plan for the audit work. KPMG will perform the audit for the academic portions of the University 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 Fortner asked if this is an audit of the complete University and complete Health Sciences Center. In response to Chairman Fortner’s question, Mr. Kennedy and Mr. Wiens responded that the KPMG portion of the audit encompasses academic portions which does include Health Sciences Center academic units, main campus, north and south campuses for the University as whole, including all component units. Moss Adams audits the clinical entities. They will also issue individual audit reports for the component units as required by the State Auditor
rule and for bonding purposes. There are four separate audit reports. All of that rolls up into the University audit. Regent Lee asked if they then randomly test systems within that. Mr. Wiens responded that is correct; they do not test every transaction. However, every transaction has an equal likelihood of being picked.

Regent Lee stated she knows there are multiple funding streams and things are transferred; so does the audit test inter unit transactions? The external auditors indicated that they do test in and out transactions going back and forth between units. Ms. Metzger, University Controller, explained that auditors will review intercompany transactions, transfers in and out, and that due to and due from entities match. However, this audit does not cover external reporting to legislative bodies and other external parties. That type of audit would require a separate agreed upon procedure engagement.

Regent Lee asked about external compensation provided for services within the healthcare system. She inquired as to if they have a way of tracking if those payments go to specific service provided. Mr. Wiens explained there are multiple funding sources that are all considered revenue from outside sources. All streams are tested, and they are tested using samples.

Mr. Kennedy stated it is a risk-based approach. They test controls and compliance with grant programs. The State Auditor does have influence over and oversight of the process. Fieldwork has begun, and the draft audit report will be presented in October. The teams will communicate with the Committee Chairman at various times throughout the audit and will notify them if significant matters arise. The Chairman requested that the audit team also communicate with Regent Hosmer during the course of this audit.

Mr. Wiens stated historically, since he has been involved, the internal controls for the clinical operations have been very strong. They have not had to expand testing based on any control issues. Mr. Kennedy stated there are strong controls on the academic side of operations as well. Mr. Kennedy noted that Innovate ABQ is new, so they have not audited that in the past; it will be included in this audit.

It is management’s responsibility to present the financial statements. For non-payroll expenditures, the external auditors will look at the procurement process for correct documentation and approvals, etc. They also test functions of IT systems such as access controls and firewalls. Regent Hosmer asked what determines a sample size. Mr. Kennedy responded that it depends on the nature of the item being tested. For example, with respect to controls, it is usually a minimum sample of 25 and may go up from there. If the risks go up, the samples become larger. Alternative investments is an area they spend a lot of time on because there is more risk in that area. They look at non-routine transactions. GASB 68 will not be as cumbersome this year. Mr. Wiens noted on the clinical operations side they spend a lot of time looking at the patient revenue cycle. The NCAA sends out a list of agreed upon procedure items that they look at as well.

There are some new accounting standards, including GASB 72 – Fair Value Measurement and Application. This item requires a fair amount of effort to gather the information regarding fair value of investments. GASB 73, 76, and 79 are mostly administrative issues for the external auditors.
Helen Gonzales presented her final Main Campus quarterly compliance report since she will retire from that position effective June 30, 2016. Ms. Gonzales informed the Committee that although June 30\textsuperscript{th} is her last day in this position, she will be assisting the President’s Office part time for a few months during the transition. Ms. Gonzales reported that most compliance offices say it takes about five years to be fully functioning and complete the implementation phase. In the last three years, UNM has developed a framework and structure designed in a manner to comply with the federal government requirements for compliance offices. There is still a way to go but there is a program structure and model based on a compliance partner model - individuals who are responsible for specific compliance obligations in their areas. There are over 500 documented compliance obligations right now. The Compliance Office houses a database with all of the compliance obligations as well as a calendar of reporting obligations. There is also a very robust whistleblower hotline.

Most universities that did not have a centralized compliance function developed one after the issues at Penn State. The UNM Compliance Office has looked at compliance functions at other universities and other organizations to research what may be the appropriate compliance portfolio. Clarifying roles and responsibilities between units is important. The Compliance Office spent one-and-a-half to two years and an extensive amount of work developing two Regents’ policies with very specific discussion about compliance and audit. This Committee (new members) may want to review those policies. One important idea is, what is functional versus administrative reporting? The policy states there is functional reporting to the Board and administrative reporting to the President. It is not clear if people understand what that means. There is only a Regents’ policy, not an administrative policy on compliance. It would be helpful to have a dialog to ensure the Regents’ expectations are being met.

Ms. Gonzales recommended some changes to help enhance UNM’s compliance program, such as to incorporate fundamental compliance activities into the core of the compliance office, clarify roles and responsibilities for compliance issues, have a mechanism for collaboration, etc. It will be helpful to ensure that a culture of compliance exists and continue to encourage executive buy-in and support. Also, Ms. Gonzales stated it would also be helpful to have an independent investigative body, one that does not specifically exist today. It would be a separate unit that does investigations. Right now, we send investigations to the unit that creates procedures around those issues but they often have a stake in the outcome. It is important to revise the whistleblower policy, as mentioned earlier in the meeting, to certainly reflect the University’s non-retaliation. There should be an aggressive timeline on that. Regent Fortner asked if it is in the current policy. Ms. Gonzales replied that it is but does not reflect current practice - how complaints come in and where they go.

Internal Audit and Compliance has collaborated very well over the last three years, but Ms. Gonzales noted that an enterprise risk process would be a good move. Regent Hosmer stated he thought the risk process is built into the annual audit cycle. Mr. Patel replied that the bi-annual risk assessment that Internal Audit focuses on is for financial risks. Enterprise risk assessments are more extensive and include things like operational and reputational risk. Regent Hosmer added that he thinks the University’s greatest risks and the one with the most exposure may be enterprise risks.

Ms. Gonzales provided the Committee with a report demonstrating hotline volume of contacts. From April, when the Compliance Office took over the hotline, to December (9 months) the
report shows volume is increasing. This should be a good sign; one that shows people are more comfortable contacting the hotline.

- Internal Audit Manager Chien-chih Yeh provided the Committee with a list of outstanding audit recommendations and updated the status of those recommendations. Regent Lee asked about the Director for the Harwood Museum. Amy Wohlert, Chief of Staff, stated the Harwood Foundation has hired a new Director. Regent Lee asked if an inventory has been completed. Mr. Yeh replied that the Director just started so they need to give him some time.

- Mr. Patel reviewed his Internal Audit Director’s Report. Internal Audit has completed nine reports; four are in fieldwork, and two are in report writing. Four are assigned with total of 19 projects for FY16. Mr. Patel reported he expects to end the fiscal year with approximately $50,000 in reserves. The Department interviewed four students and will hire three student interns.

- Mr. Patel provided the Committee with current, updated information regarding four third party audits/reviews underway. The Federal Emergency Management Agency and Sandia National Laboratory completed their reviews and indicated that they do not have any findings. They complimented the UNM system of controls and management. That is good news.

By unanimous consent, the meeting went into Executive Session for the reasons stated in the agenda. The meeting went in to closed session at 10:03 AM.

  a. Discussion of draft Internal Audit Reports, and discussions of information subject to attorney-client privilege pursuant RPM 1.2
  b. Discussion of limited personnel matters pursuant to exception at Section 10-15-1.H(2) NMSA (1978);
  c. Schedule of Audits in Process and FY16 Audit Work plan, pursuant to RPM 1.2
  d. Vote to re-open the meeting.

The meeting returned to open session at 11:38 AM, with certification that only those matters described above were discussed in Executive Session.

The Committee unanimously approved the following UNM audits:

- Audit of Health Sciences Center Bake Sales – Cash Controls, Report Number 2016-10; and

The meeting adjourned at 11:41 AM (Motion: Regent Lee; Second: Chairman Hosmer).

Approved:

[Signature]
Audit and Compliance Committee Chairman