

THE UNIVERSITY OF NEW MEXICO
Board of Regents' Audit and Compliance Committee Quarterly Meeting
May 20, 2025 – Meeting Minutes

Regent Committee Members Present: Jack Fortner, Christina Campos, Paul Blanchard (Quorum)

Other Regents Present: William Payne, Victor Reyes, Paula Tackett, Patricia Williams

Other Attendees: Garnett Stokes, Terry Babbitt, Teresa Costantinidis, James Holloway, Francie Cordova, Daniel Jones, Ariadna Vazquez, Scot Sauder, Susan Rhymer, Beck Rivera, Ajay Gupta, Randy Romes and Dave Strzyzewski (CLA virtual), John Bunnell and John Evron Mendoza (KPMG), Josh Lewis (Moss Adams), Paul Garcia (CRI), Emily Morelli, Victor Griego, Chien-chih Yeh, Antonio Baca, Connor Anderson, Jeremiah Sanchez, Amy O'Donnell. Note: This was a meeting with multiple committees at the same location going and out. It is not possible to know who else from the UNM community attended this particular meeting.

Chair Fortner called the meeting to order at 9:32. He confirmed there was a quorum.

By unanimous consent, the meeting went into Executive Session at 9:33 AM per the agenda.

By unanimous consent, the meeting returned to Open Session at 10:06 AM.

ACTION ITEMS:

- Certification that only those matters described in the agenda item #1 were discussed in Executive Session.
- The Committee approved the agenda.
- The Committee approved the minutes from the meeting of February 5, 2025.
- The Committee unanimously approved the following audit reports:

UNMHS Offshore Vendor Readiness Assessment
UNMMG Payroll
2024-02 Audit of the Dissolution of the ASMF
- The Committee unanimously approved the third year of the KPMG, Moss Adams, and CRI External Financial Audit Contract.

INFORMATION ITEMS:

- Susan Rhymer, Deputy Controller, addressed the Committee regarding approval of the third year of the KPMG, Moss Adams, and CRI External Financial Statements Audit Contract. She requested the Committee's approval of this contract for the fiscal year 2025 external audit of the University's annual financial statements. The contract was for two fiscal years, 2023 and 2024, with an option for year three, which the University did exercise for fiscal year 2025. UNM received approval confirmations from both the State Auditor's Office and the Higher Education Department. The cost of the audit for the third year is \$1,235,000 plus New Mexico Gross Receipts Tax. This represents an approximate five percent (5%) increase from the prior fiscal year.

The Controller's Office will place the FY26 financial statement audit work out for bid, as FY 2025 is the final year of the contract.

- Staff from KPMG, Moss Adams, and CRI presented the FY2025 External Financial Statement Audit Entrance Conference information. John Bunnell from KPMG is the lead engagement managing director for this audit. He oversees the audit for UNM, excluding clinical operations, the single audit, and the UNM Foundation audit. Also present is John Evron Mendoza, lead audit manager from KPMG, Josh Lewis from Moss Adams, and Paul Garcia from CRI. Mr. Lewis oversees the clinical entities (4 financial statements): UNM Hospitals, Sandoval

Regional Medical Center (which has a standalone report), Behavioral Health, and UNM Medical Group. Mr. Garcia oversees the component units: UNM Alumni Association, Lobo Club, Lobo Development, Lobo Energy, Rainforest Innovations, KNME, KUNM, and the UNM NCAA agreed-upon procedures.

Mr. Bunnell stated the teams work together to try to make the audit as seamless as possible. Auditing standards require them to have specific communication with those charged with governance of the audit. They are always working with management to try to move up work and avoid that last-minute crunch in August, September, and October. The key is, overall, the firms are working together to provide the audit of the basic financial statements in accordance with generally accepted auditing standards as well as governmental auditing standards.

While they do look into internal controls, they do not issue an opinion on internal controls. They also issue the audit of the schedule of expenditures with federal awards, the SEFA of the single audit. There is an extreme amount of continuity across all three audit firms which helps UNM and the various components throughout the audit process in not having to retrain anybody or help get them up to speed. Each of the firms has appointed a client service partner, so if there are ever any concerns or questions, these three partners with the respective firms are also there as a resource.

Mr. Bunnell explained the respective audit strategy and plan at a very high level for each of the three areas that they are looking at. The first is for UNM, excluding the medical components as well as component units, but including the UNM Foundation.

There is a long list of items that they do look at in the audit, be it because of a result of the balances being large, subjectivity associated with the reported balance, or complexity. With the Foundation, they include the investments, as there is a substantial amount of work that goes into that. With UNM, they are looking at the long-term debt, future liability, and state appropriations. Since they oversee the overall consolidation of the basic financial statements, accounting transactions with the various units between one another is important because of consolidation of the component unit financials that has to take place at UNM. As UNM is a state organization, they are required to perform specific procedures and work with the State Audit Rule. Lastly, the single audit is over the federal expenditures.

Mr. Lewis explained that with clinical entities, there are some very industry specific areas. They spend a lot of time on the patient revenue cycle. Third party billing is complex, so they spend a lot of time both on the gross charges' component of that cycle as well as the payment adjustment cycle. One component that is related to that is highly complex and large. It is the valuation allowance on patient account receivable. They spend a significant amount of time there, including a look back to the prior year to see how accurate the prior years' estimate was. There are a couple of areas where they leverage other experts within their team. One area is IT. As they are going through controls and processes, they leverage the IT team to help look at that. In the third-party settlements they have cost report reimbursement specialists help test those estimates as well.

Similarly to the University side, there are a lot of intercompany transactions. Some are between the healthcare entities, so they verify what shows up appropriately on each of the entities' financials. If there are transactions with the Health Sciences or parts of the University, they check if they have seen same thing on both sides. And then the financial reporting as well. They spend a lot of time with that, going through the financial statement that management pulls together. And then the mortgage loan and bonds payables. There is a lot of activity with that, with the new tower, so they are doing a lot of work around the compliance with those being appropriately presented and discussed.

Mr. Garcia stated for the component units, they walk through all processes for each component unit. They focus on the revenue recognition; each component unit has their own revenue streams, so a big part of the test work is revenue and expense work. They also focus on big projects, capital assets that each entity might have. There are a lot of transactions with UNM. They work with UNM to make sure the transactions match what they show. They review financial reporting and presentation of finance tables. For NCAA, they review agreed upon

procedures to make sure they are aligned with what they should be doing and meeting their standards. And then for KNME and KUNM, they have attestation reports. Those come later in the year, so they start with the first five component units, and then in November they do KNME and KUNM and usually issue those in December.

Auditing standards require certain communication to those charged with governance, one of those being materiality. It is important to point out that when they do an audit of financial statements, it is done using reasonable assurance, not absolute assurance. They are not looking at 100% of transactions. It is judgmental. There is auditor judgment that considers both qualitative and quantitative. The materiality assessment will help drive the audit strategy as far as risk assessment, as well as what balances are going to be substantially tested. There is materiality that goes into determination of the financial statement audit and how they perform and plan.

There is an overall timeline of each of the component units and timing of the audit work, a similar timeline as the last several years. The key is the delivery of the draft financials to UNM, because at that point, UNM Controller's Office has to take all the individual components and aggregate that into the consolidated basic financial statements. All are due this time on September 15th, with a report issued by October 30th, in line with the State Auditor requirements. There are a couple that are outside that on the December time frame as Mr. Garcia noted.

They are required to report any significant risks that are identified during the audit to those in charge of governance. One is management override of controls. It is a significant fraud risk, so red flags go up. This exists in every entity. It is not something specific to UNM; it is at all organizations.

There are some changes to report. There is a plan change in the accounting policy related to the measurement of the OPEB liability. The GASB guidance allows for that measurement date to be anywhere from end of the fiscal year up to 30 months prior to. UNM has historically used a measurement date of the beginning of the fiscal year. As part of a change in the actuary that UNM is using, UNM actually just determined that that it is going to change that to the end of the year to coincide with some other valuations that are done by the actuary. The audit teams are already in discussion with the Controller's Office to make sure that is appropriate but expect that will be taken care of this year.

They do involve others throughout the various audit engagements, and standards require it to be communicated to this Committee. They involve internal actuaries to help with the pension and OPEB liability calculations, and also IT professionals, as Mr. Lewis mentioned. With investments, they use a pricing desk to help value the securities, also the cost report specialists that are involved in clinical operations, and the Global Delivery Center (GDC), under their direct supervision, to help provide administrative assistance.

They communicate new accounting guidance that is going to be effective in upcoming years. Overall, it is fairly quiet in the new guidance this year; there are two standards that UNM will be adopting. One is compensated absences. They are already in discussion with the various components on that adoption, as well as with the Controller's office on how that will look at the consolidated level, just to make sure that it is worked on cohesively throughout the organization. There are also certain risk disclosures this year for GASB 102 that should be of minimal impact.

In order to be able to provide a financial statement audit, the firms have to be independent of the organization. They all take independence extremely seriously. Each organization has a system of quality controls to help make sure they are maintaining independence with UNM and the respective component units. When talking about independence, they have to be aware of any employment relationships or business relationships within the management, the organization, or regents.

Part of the required communication is to communicate responsibilities. Management's responsibilities include maintaining effective records and being able to compile the financial statements. The auditor's responsibility is

timely communicating with management and those charged with governance. Of course, the biggest responsibility is forming, expressing, and issuing an audit.

If there's anything members of the Committee would like to speak about, they are happy to communicate, just reach out after the meeting. As part of every audit historically - and they will do it again this year - they actually set up a specific meeting with the Committee Chair and members of management and go through inquiries. Again, just part of the normal procedures is making sure that they have designed appropriate audit procedures over the course of the engagement.

- Victor Griego, Internal Audit Director, provided his quarterly report. He stated due to the meeting's time constraints he would only provide a high-level overview. For the audit plan status as of FY 2025, 13 audits are on the audit plan. Nine (9) have been completed or are in planning and field work, one (1) has been assigned, and three (3) are unassigned. Eight of the 12 audits from the FY 24 plan have been completed or are in process.

Internal Audit has currently completed the audit of the Anderson School of Management Foundation, which was presented in closed session. The department has just completed the audit of the Community Health Work Initiative (CHWI), which is pending some final touch-ups on the report and management responses to the recommendations. There is an education abroad audit and an international travel audit in the middle of field work procedures, and Internal Audit anticipates having those done and presented at the August Audit Committee meeting. Internal Audit is also in field work for the full administrative Athletics audit. It is a full-blown audit as well, and planning has been initiated for an IT disaster recovery audit. All these audits are the result of the University-Wide Risk Assessment, Three-Year Audit Plan, and the IT Risk Assessment.

Mr. Griego provided the status of Ethics Point complaints for fiscal year 2025. As of May 9th, Internal Audit is addressing 77 complaints - 32 have been completed, 34 are in process, and 11 are unassigned. These are all financial-related complaints that have been reported through Ethics Point or received via phone or email.

The last thing is required communication on external reviews. There are 11 external reviews or audits for this reporting cycle. The Human Resources Service Administration has completed two audits for total awards of \$1.2 million. There are no reported findings or recommendations related to those audits. There is one audit completed by the Department of Justice for a grant of \$300,000 awarded to El Centro de la Raza. There are no reported findings or recommendations from this audit. And other than that, there have been eight (8) other audits that have been initiated by different funders, including the City of Albuquerque, Public Allies, Patient Centered Outcome Research Institute (PCORI) and the Kellogg Foundation.

- Francie Cordova, Chief Compliance Officer, provided her status report to the Committee. She provided an update on the Title IX Coordinator search status, which is still none. She thanked the Regents and stated she really appreciated those who attended. They have been getting a candidate trickle. They have worked their hardest for six months now and she hopes at the next meeting they will have a new Coordinator to introduce.

Next Ms. Cordova provided updates on their work plan. They have been working on the foreign contracts and gifts policy that has been on the work plan for a couple of years now. It is finally complete, and it is enroute, if not on, President Stokes' desk. This policy is in regard to Section 117 of the Higher Education Act, which requires universities to report gifts from foreign sources and contracts from foreign sources that exceed a certain amount. There is some action in Congress to reduce that amount to \$50,000 from \$250,000 and an executive order from President Trump that requires increased oversight in this area. In fact, right after that executive order, they launched an investigation of Harvard and Berkeley. It is really timely that UNM has gotten this policy written. The policyholder will be the Controller's Office.

CEEEO has created an electronic reporting tool that can be used to collect information for reporting. Hopefully, it will be replaced with a vendor tool, probably Huron. The equal opportunity policies are forever in flux. They have been interim policies for a long time because of federal craziness back and forth. This summer, they are

working to move them from interim to a full best practice state. By fall, they will have those policies written. It will include equal opportunity, sexual harassment, and sexual assault, Clery, and the pregnancy policy.

Another item that has been on their work plan for what feels like ten years, but it is probably only a few years, is getting a conflict of interest and commitment policy that is consistent with State policies. It will have full disclosure for all UNM employees, faculty, and staff. It will have more information to help people figure out when they have conflicts or what has to be reported, and for plan managers to be able to create plans that mitigate any sort of risk that might be created. Legal and CEEO have been socializing it to UNM's executive leaders and to other stakeholders. It will also be going to public comment very soon.

Minors on campus public comment closed yesterday. This policy really is going to enhance how UNM tracks and figures out where minors are on campus, because there are zillions of them. They have now created an online portal and started importing all the camps and programs. Ms. Cordova stated that she hopes the Committee will go to loboyouth.com. If they ever need to figure out who is the person responsible for a certain kid at any moment, or if there is a fire somewhere, people would know what kids were in that building. This portal would be the way to track them, rather than trying to look through people's desk drawers, etc.

Ms. Cordova clarified these youths are under 18 and not dual enrolled with UNM or not otherwise chaperoned by their own school. They are at UNM for music camps, STEM courses, pipeline courses, Johnson Gym classes or athletic camps, that kind of thing. If they are dual enrolled and under 18, they are not covered by this policy.

Regent Reyes asked a question about the Title IX Coordinator - at this point, how long has UNM been without one? Ms. Cordova replied it is six months, but nothing is suffering. They are still keeping everything running. They are getting weary but are getting closer to finding the solution and getting someone. Regent Reyes asked how many investigators that coordinator position oversees. Ms. Cordova stated UNM started with two and now has four investigators and a compliance manager. Regent Reyes asked who the investigators report to absent the Coordinator. Ms. Cordova replied to the Equal Opportunity Director, Heather Jaramillo.

- Chien-chih Yeh, Audit Manager, provided the status of audit recommendation follow up reports for this reporting cycle. There are a total of 14 recommendations for this cycle. One for the Office of the Medical Investigator (OMI) was implemented since the last meeting, and the implementation is verified. This recommendation will now be closed in the tracking system.

The other six pages (13 recommendations) are still open recommendations. Either they are not due yet, or they have provided a status update in terms of the progress they made. For example, OMI provided updates on the status of recommendations four, five and six. Recommendations may be due in the next month or two, but IA received some very thorough updates. Auditors reach out closer to the implementation date, auditees provide the status update, and they know IA will come back to verify the implementation if they believe it has been implemented. For the NSP audit recommendations three, four, and five, management has implemented phase one, and they are on track to finish by June 30th. IA will go through the recommendation action, make a status determination, and present that information to the committee next time.

- The meeting adjourned at 10:39 AM.

Approved:


Audit and Compliance Committee Chair