

THE UNIVERSITY OF NEW MEXICO
Board of Regents' Audit and Compliance Committee Quarterly Meeting
May 4, 2023 – Meeting Minutes

Members Present: Jack Fortner, Chair, Paula Tackett, Vice Chair, Kim Rael (quorum).

Other Attendees: Garnett Stokes, Norma Allen, Terry Babbitt, Teresa Costantinidis, Bonnie White, Loretta Martinez, Ari Vazquez, Christine Landavazo, James Holloway, Duane Arruti, Jeff Gassaway, Francie Cordova, Susan Rhymer, Jared Udall, Darlene Fernandez, Rick Goshorn, Samuel Dosumu, Amie Ortiz, John Kennedy (KPMG), John Bunnell (KPMG), Josh Lewis (Moss Adams), Lauren Kistin (Moss Adams), Paul Garcia (CRI), Alan Bowers, Jr. (CRI), Ajay Gupta (CLA), Dave Strzyzewski (CLA), Randy Romes (CLA), Sandy Giangreco Brown (CLA), Joseph Lane, Mallory Reviere, Blaine Moffatt, Victor Griego, Chien-chih Yeh, Amy O'Donnell.

Chair Fortner called the meeting to order at 9:02 AM He confirmed there was a quorum.

ACTION ITEMS:

- The Committee approved the agenda, as amended during the meeting, with Item #7 postponed to the August meeting.
- The Committee approved the minutes from the Special Meeting of March 31, 2023.
- The Committee approved the upcoming 2023 dates: August 3, and October 19. There will be a new start time of 1:00 PM.

INFORMATION ITEMS:

- Advisors' comments: None.
- Norma Allen, University Controller addressed the Committee regarding the external financial statements' FY23 audit entrance conference. John Kennedy, Lead Audit Partner from KPMG introduced the audit team and noted that this entrance conference is a required part of the yearly audit process. KPMG is the lead audit firm. Mr. Kennedy has years of experience auditing higher education for Cal State, SMU and here at UNM. He is excited to be back auditing at UNM. Chris Ray is the concurring partner for KPMG. He heads up the healthcare and higher education practice in the West. He is in Los Angeles. Every audit has a second partner to conduct a review behind the team to make sure they are doing the right things and they are involved in decisions.

Josh Lewis from Moss Adams will be the lead for the clinical entities. He leads the Moss Adams central region's healthcare practice. He has also worked with auditing the clinical entities at UNM back in 2015-2016.

A.J. Bowers from Carr, Riggs, and Ingram (CRI) is a UNM alum. He grew up in New Mexico and oversees their audit practice in New Mexico and West Texas, specifically as relates to local and state government with a focus on higher education. He has worked on most of the colleges in the state of New Mexico. His team will focus on component units at UNM.

Mr. Kennedy explained that they would present a high-level overview of the audit and how the teams will divide up the responsibilities. UNM is the umbrella organization. Although KPMG is the lead, all of the individual team members are available and active. KPMG will sign the opinion overall and all the entities that roll up into it. Each entity has a standalone audit and it is quite the effort. KPMG will have the Main Campus and the Foundation. Moss Adams will have the clinical entities, UNM Hospital, Behavioral Health, Sandoval regional Medical Center, and UNM Medical Group. Stacy Stelzriede will be the quality control reviewer for Moss Adams' portion of the audit. CRI will have the component units. Rob Lemmon will be their quality control reviewer.

President Stokes asked where the academic environment of Health Sciences is in the audit. Ms. Allen responded that falls under KPMG.

Mr. Kennedy introduced and described the experience of the team members in the room. He noted that the audit is prescribed by the New Mexico State Auditor and requires certain audit procedures. The State Auditor has them do some extra steps related to travel, fixed assets, etc. There may also be cases where the State Auditor receives hotline tips about concerns at the University. The audit is also done in accordance with national standards - accepted governmental standards. The external auditors also perform what is called a single audit over Federal grants. They issue a separate opinion on that. There were some COVID-19 funds that UNM received, and that is a part of the audit.

They have just gotten started on the audit for FY23. The contract was recently signed. So, they have not yet scoped in this year's grants. It will probably be less than six (6), but more than three (3) million dollars. The teams will report back to the Committee on the results of that process. They don't audit down to the penny or dollar. They set a materiality level. They set certain thresholds based on where they think it would matter to a user of the financial statements. There are quantitative and qualitative elements to that determination.

Regent Rael asked if there is any type of transaction that is exempt from materiality because it is so risky or is perceived fraud. Mr. Kennedy responded that they consider risk as part of their process. There is nothing that is exempt, but if they identify anything, the State Auditor has said that is material and gets reported. In some case the number might not be material, but the risk could make it material.

Mr. Kennedy reviewed the timeline of the audit. It really starts the week of this Committee meeting for the University side, the academic side. They have one or two individuals working right now and that will be ramped up to three next month. In the summer, they will have five to six, and at times there will be eight staff members, not including the managing partners. The requirement is to deliver to the State Auditor by November 1st. The audit results will be presented to this Committee at the October meeting, currently scheduled for October 19th. Other parts need to be delivered to Norma Allen and her team by September 15th to start the lengthy consolidation process.

For Moss Adams, Mr. Lewis explained that they have multiple, smaller entities. He reported their entrance conferences with all but one of the entities are on this day of this meeting and the following day. Between June and August, they will get their planning done and the test work finished up. They will start with the main 5 areas.

CRI stated they will be a bit flexible early on with deadlines due to the transition of teams but will need to hold tighter to the later deadlines to make sure they are on-time for the consolidation.

Mr. Kennedy stated it is over 7,000 work hours. It is a significant amount of time. Investments are key at the University and at the Foundation, alternative investments in particular. They spend quite a lot of time on those because they are riskier. They will spend time on other post-employment benefits, VEBA and the self-insured healthcare plan. It gets reviewed separately as a part of the process.

Moss Adams will spend a bit of extra time on third-party billing. Chair Fortner asked if they look at Medicare and Medicaid billing, pay and reimbursements. Mr. Lewis explained they do testing of cash receipts. They will pull samples for individual patients and tie-out the payments and adjustments. That could be for Medicare, Medicaid, a managed care plan or a commercial plan. One thing they do specific to Medicare/Medicaid, relates to estimated third-party payer settlements. It's very complex. They have a very robust cost report team within their firm. They spend a lot of time on the valuation of accounts receivable. That is the largest estimate of any healthcare provider. Nobody pays you what you bill them, and everybody pays you something different. UNM staff closes the books, and then the audit team has the benefit of a few

months of hindsight to see how the cash collections are coming through. They also do a look back to the previous year.

Chair Fortner asked what they do as far as auditing malpractice claims. Mr. Lewis replied they will look at actuarial reports that are prepared and get an understanding of the policies that cover the University – state policies and commercial. Malpractice has additional accounting considerations. The risk does not transfer until a claim is made. They tie out what the actuaries are using to actual information from typically the insurance brokers around claims logs over several years. Chair Fortner asked if the date is the date a claim is filed or date of a lawsuit. Mr. Lewis replied it's the date the claim is filed, because if the insurance is dropped today, there is no more coverage after and it's only covering what is filed when the policy is in place. Malpractice works differently.

Mr. Bowers stated that for CRI it is a little different because there are so many entities. They focus on revenue transactions.

KPMG uses actuaries for pricing securities. They use IT professionals for certain elements of the IT environment. That is the same for the other audit teams as well. One thing Mr. Kennedy stated they are introducing this year is a matrix in terms of key milestones as a snapshot to keep tabs on the timeline and communications. They will have weekly team meetings and the all hands meetings throughout the process. After State Auditor approval, the audit gets published on the State Auditor's website.

Regent Rael stated there is a new State Auditor. Are there any new process changes that have been communicated? Mr. Kennedy replied that there are not yet, but he has heard that they want to streamline some processes. They have all new staff. There is some carryover, but there has been a lot of turnover.

Mr. Kennedy stated there are some new accounting standards coming, but from what they have seen so far, they should have limited impact. The one that might, is, subscription-based technology. If you have long-term agreements for software use, you put a liability to be amortized on the books to show you have a legal commitment. It also puts an asset to depreciate on the books. It looks like a loan, essentially. The audit teams want to make sure there is consistency on how it is reported and that there is a standard approach.

The audit teams also have to maintain independence. Mr. Kennedy reviewed the responsibilities of the UNM management and of the audit teams. They ended the presentation with providing the team contact information.

- Chair Fortner introduced Internal Audit Director, Victor Griego. He stated they had a good meeting the previous Saturday. Mr. Griego presented his Director's Report. Mr. Griego noted the October date will accommodate the exit conference for the external audit teams. This Committee approves the external financial audit before it goes to the State auditor for their approval.

The department currently has two vacant senior auditor positions that the department is trying to fill. The department is also trying to fill a student intern position. So, Internal audit is a bit short-staffed at the moment.

Internal Audit (IA) just completed a full migration of its specialized audit software, *TeamMate*. It was a very comprehensive migration from TeamMate AM to TeamMate+. The process included migrating about 300 projects. So, that was a big process and cost about \$34,000. Funding came from departmental reserves. For non-labor costs, that's a pretty large one for this department.

Mr. Griego provided an overview of the audit plan status for FY23. The department recently completed an audit of the Valencia Branch that will be presented in the closed session of this meeting. Internal Audit has also completed an audit of Project ECHO. It was a substantial audit that is in the report writing process and

quality control. Mr. Griego stated the department and University compliance partners are in the middle of completing the University-Wide Risk Assessment. It will be presented to this Committee in August.

Mr. Griego updated the Committee on the status of complaints as of January 31st. The department has received 40 complaints this fiscal year. The complaints are financial in nature, i.e. misuse of funds, fraud, etc. The department has completed and closed 23 of those complaints. Five of those were substantiated and 18 were unsubstantiated.

Mr. Griego is still assisting CEEO as a system administrator for the Ethics Point system. They are currently trying to strengthen the processes for user management and training. Regent Rael asked how long UNM has been using Ethics Point and is the University satisfied with it? Francie Cordova, Chief Compliance Officer replied that it has been since 2015, and they are satisfied with it. It is an enterprise-wide tool; the Hospital also uses it. The biggest challenge now is user control and consistency of data entry. UNM is getting about 1,000 complaints a year now that are housed in the Ethics Point system. Mr. Griego stated it is a really robust system.

Regarding the afore-mentioned risk assessment, Internal Audit had been working with both the Main Campus and HSC Compliance offices on the FY23 University-Wide Risk Assessment. They distributed a survey which addressed financial compliance, and operational and IT risk. That closed on March 17th. The data was exported and provided to the team for analysis. Each area will conduct their own risk assessment methodology and development of work plans. The internal audit work plan is required by IIA standards and Regents Policy 7.2. The work plan is presented to this committee for approval. It is a three-year work plan; the risk assessment is every three years.

The Health System internal audit function is outsourced to a third party, CliftonLarsonAllen. They perform audits on the clinical operations – UNMH, SRMC and UNM Medical Group. They will be presenting audits in closed session.

Mr. Griego reported on the status of external audits and reviews from funding agencies. Internal Audit obtains information on contracts and grants for each external audit process for contracts and grants. For this reporting period, there are two (2) audits in process. One is with Sandia National Labs auditing purchase orders on Main Campus and HSC. The audit period is 7/1/2019 – 6/30/2021. They submitted a final report and UNM is in the process of corrective action. The other external audit is City of Albuquerque. They are auditing various grants that cover various periods. They have issued one finding and UNM is awaiting the final exit letter for the audit to be closed.

- Chien-Chih Yeh, Internal Audit Manager presented the audit recommendation follow-up report for this quarter. Every quarter, Internal Audit uses this report to track any outstanding recommendations from previous reports approved by this Committee. When the Committee approves an audit, recommendations go into a tracking system. Internal Audit reports back to the Committee on where they are at as far as implementing the recommendations.

There is only one report, the “pending” report for this reporting cycle. There were no items implemented since the last report. The first pending recommendation is from the Reserves audit. It is from several years ago. Internal Audit has been monitoring this item regarding a deficit reduction plan, and the goal is to eliminate the deficit in this area. They are hoping to be able to clear it by the end of this year. The item will remain open until Internal Audit can verify the actual result. Then it will be closed.

The second item is from the Los Alamos Branch audit. It was done during COVID. It is the last piece left that is outstanding. They were able to complete a couple of components of the finding. Internal Audit has scheduled a meeting to revisit the remaining one. There will be an update at this Committee's next quarterly

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meeting. Regent Rael asked what the columns are on the report. Mr. Yeh reviewed them with the Committee. Los Alamos did request an extension on the due date and Internal Audit approved the extension.

Regent Rael asked a question regarding where Student Publications had a deficit, was a BAR done that year to cover the deficit in that year? Mr. Griego responded that at the end of 2017, they had an accumulated deficit where expenses exceeded revenues. It was about \$270,000. A lot of it was due to a reduction in sales. In accordance with Policy 7000, if you have a deficit, you should have a deficit reduction plan in place. They have been paying it down. It is decreasing. Management at the Provost's Office Shared Services stated that they will either be using one-time funding to eliminate it or continue to pay it down. It is expected to be eliminated at the end of this fiscal year. Ms. Allen added that in the CAR system, a department enters its deficit reduction plan. Either it will be funded with new revenue sources, money coming in from another unit, or by reducing expenditures. The Budget Office oversees the deficit reduction plan. They have a plan, but it might not come to fruition. The plan has to be tweaked and monitored.

By unanimous consent, the meeting went into Executive Session at 9:52 AM per the agenda.

- a. Discussion of draft Internal Audit Reports pursuant to RPM 1.2.
- b. Discussion of limited personnel matters pursuant to exception at Section 10-15-1(H)(2) NMSA (1978) and pursuant to RPM 7.2;
- c. Vote to re-open the meeting.

The meeting returned to open session at 10:57 AM with certification that only those matters described above were discussed in Executive Session.

The Committee unanimously approved the following Board-approved CLA audit reports presented in this meeting:

- Incident to Coding UNMMG
- IT Asset Tracking UNMMG
- HR Onboarding UNMH
- HR Onboarding SRMC

The Committee unanimously approved the following UNM Internal Audit report:

- 2022-04 Audit of UNM Valencia Branch Campus Operations

The meeting adjourned at 11:01 AM.

Approved:



Audit and Compliance Committee Chair