

University of Maine System
Board of Trustees
at the University Maine System, Rudman Board Room

June 12, 2017

Audit Committee

Present: Committee Members: Michelle Hood, Chair, Samuel Collins (by phone), Norman Fournier, Mark Gardner (by phone) and Karl Turner (at USM). **Chancellor:** James Page. **System Staff:** Tracy Bigney, Tracy Elliott, Ryan Low, Janis Manning, Darla Reynolds and Patsy Thomas. **Presidents:** John Short (at UMFK). **Other Participants:** Renee Bishop (BerryDunn), Emily Parker (BerryDunn), and Claire Strickland.

Committee Members Absent: James Erwin.

Trustee Hood called the meeting to order and thanked everyone for participating.

Uniform Guidance Audit – Fiscal Year 2016 (FY2016). Ms. Renee Bishop, Principal, and Ms. Emily Parker, Senior Manager, with Berry Dunn McNeil and Parker LLC (BDMP) presented highlights of the Uniform Guidance audit of the University of Maine System for fiscal year ended June 30, 2016.

University of Maine System Federal expenditures were \$257 million for fiscal year 2016, of which \$186 million was for Student Financial Assistance, and \$40 million was for Research and Development (R&D). The total Federal expenditures decreased by \$11.1 million from the prior fiscal year. The decrease from FY2015 to FY2016 is primarily the result of the following:

- \$9.2 million decline in Student Financial Assistance funds
- \$3.0 million decline in Department of Health and Human Services grants
- \$1.9 million decrease in Department of Commerce funds

The above reductions are offset by increases in Department of Education Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) funding of \$1.85 million

BDMP's audit opinion on compliance was favorable (unmodified) and no material weaknesses were identified. Major programs tested in FY2016 were the Student Financial Assistance Cluster, GEAR UP and Cooperative Extension.

One compliance finding was discovered for the GEAR UP program regarding sub-recipient contracts. For one campus, twelve out of the fourteen contracts supplied to sub-recipients did not clearly identify the Catalog of Federal Domestic Assistance number and the name of the federal agency, which are key elements. Management has already corrected the issue by instituting the use of a sub-award template for all sub-recipients.

BerryDunn – Audit Committee Presentation. Ms. Bishop and Ms. Parker reviewed their Audit Committee Presentation. Discussion items included required communications, significant areas for the University of Maine System fiscal year 2017 financial statement and Uniform Guidance audits, timeline, new accounting pronouncements, emerging issues, and planning questions. Regarding emerging issues, the materials included an article from Inside Higher Ed titled, *White House budget includes tens of billions in cuts to student aid and research.*

The significant audit areas for FY2017 include the following areas: cash and investments, accounts and grants receivable and related revenue, bond financing and plant related expenditures, accounts payable and expenses, payroll and related liabilities [including pension and Other Postemployment Benefits (OPEB)], and federal financial assistance programs.

Ms. Bishop reviewed the new Governmental Accounting Standards Board (GASB) pronouncements and other emerging items that might be pertinent to UMS as follows:

- GASB 80 – *Blending Requirements for Certain Component Units* - Effective June 30, 2017, retroactive restatement
- GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - Effective June 30, 2018, retroactive restatement
- GASB 81 – *Irrevocable Split-Interest Agreements* - Effective June 30, 2018, retroactive restatement
- GASB 86 – *Certain Debt Extinguishments* - Effective June 30, 2018, retroactive restatement
- GASB 85 – *Omnibus 2017* - Effective June 30, 2018, retroactive restatement
- GASB 84 – *Fiduciary Activities* - Effective June 30, 2020, retroactive restatement

Ms. Tracy Elliott, Director of Finance and Controller, reminded the Committee that GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions* – will require recognition of the full liability which will be material for UMS. As of July 1, 2015, the most recent actuarial valuation date, the Actuarial Accrued Liability for benefits was \$197 million and the Actuarial Value of Assets was \$94 million, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$103 million or a funded ratio of 48%. Therefore, UMS could have to recognize a net liability of about \$100 million in the *Statement of Net Position* (depending on actuarial assumptions and other factors at the time of the calculation) with a corresponding reduction in Unrestricted Net Position.

Ms. Bishop and Ms. Parker reviewed the following emerging issues:

Federal Funds - Continuing Regulation, Threats to Funding:

- ‘Borrower Defense’ rule
- Safeguards Standards from Graham Leach Bliley Act (GLBA)
- President’s Proposed Federal Budget for FY2018 includes:
 - *Significant cuts to Federal Work Study and changes to the allocation formula*
 - *Elimination of Student Educational Opportunity Grants*
 - *Cuts to GEAR UP and TRIO Programs*
 - *Cuts to National Institute of Health, National Science Foundation, Department of Energy*
 - *Elimination of NOAA Sea Grant*
 - *Elimination of overhead (indirect) payments*
 - *Elimination of Public Service Loan Forgiveness (PSLF)*
- Denial of Grants by the Education Department for formatting errors (Upward Bound)

Additional Taxation Threats:

- FICA for student and foreign employee workers
- Employee tuition benefits
- Endowment excise taxes

- Changes to tax-exempt bond financing

Sustainability:

- Increased scrutiny on value of higher education
- Decreasing population
- Heightened difficulty of attracting international students and professors
- Inflation

Accreditation Financial Standards Changes:

- Consideration of reporting by campus for College systems

UM Department of Athletics Agreed-Upon Procedures Update. Ms. Claire Strickland, Chief Business Officer at the University of Maine, provided a brief overview regarding the report on Agreed-Upon Procedures performed by O'Connor & Drew (O&D).

Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.16.1 for the year ended June 30, 2016

This report addresses evaluation of the Statement of Revenues and Expenditures of the UMaine Department of Athletics for compliance with specific National Collegiate Athletic Association (NCAA) Bylaw requirements. Ms. Strickland reviewed four areas where O&D made observations and recommendations for improvement.

Ticket sales:

One area related to comparison of tickets sold during the reporting period, complimentary tickets provided during the reporting period and unsold tickets to the related revenue reported by the University in the statement and the related attendance figures.

One football game selected for testing along with all other football games, did not contain a reconciliation report documenting the number of tickets sold and complimentary tickets given out. Without the reconciliation report, O&D was unable to agree to the amount of tickets sold and complimentary tickets given out.

O&D recommended that management request that the ticket office perform a reconciliation for all games when tickets are sold. Management has addressed this area and a clean process is in place with reconciliations for all games.

Program Sales, Concessions, Novelty Sales and Parking:

O&D compared the amount recorded in the revenue reporting category to a general ledger detail of program sales, concessions, novelty sales and parking as well as any other corroborative supporting documents and attempted to recalculate totals. This resulted in noted variances related to sales tax.

O&D recommended that management further investigate these variances and ensure procedures are in place to charge and remit the correct sales tax amount. The area where this was an issue has been transitioned to Auxiliary Services and the issue has been corrected.

Royalties, Licensing, Advertisements and Sponsorships:

O&D obtained and inspected agreements related to. O&D was unable to obtain and review the trademark licensing agreement which is held at the university. For that reason, they were unable to obtain an understanding of the relevant terms and conditions for the trademark licensing revenue.

It was recommended that management request further documentation regarding the trademark licensing agreement to obtain an understanding of the revenue brought in from the agreement. Management has since obtained this agreement.

Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities:

O&D obtained and inspected a listing of coaches employed by the University and related entities during the reporting period. O&D compared and agreed the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the University. O&D also obtained and inspected payroll summary registers for the reporting year for each selection. They compared and agreed payroll summary registers from the reporting period to the related amounts paid and the expense recorded by the University in the Statement during the reporting period. Additionally O&D compared and agreed the totals recorded to any employment contracts executed for the sample selected and recalculated totals.

O&D found that one employee erroneously received an additional \$400 that should have been paid to a different university employee during fiscal year 2016.

Management explained that this was a random payroll error. UM has worked with payroll to make sure such errors do not happen again.

Executive Session

On a motion by Trustee Fournier, which was seconded by Trustee Gardner, the Audit Committee agreed to go into Executive Session under the provision of 1 M RSA Section 405 6-A to discuss the evaluation of personnel and the consideration and discussion of appointments, evaluations, employment and duties.

On a motion by Trustee Fournier, which was seconded by Trustee Gardner, the Audit Committee agreed to conclude the Executive Session.

Adjournment.

Elissa Ivey for
Tracy B. Bigney, Clerk of the Board