

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

November 1, 2017

## **Audit Committee Joint Session with Finance, Facilities & Technology Committee**

**Present: Committee Members:** Michelle Hood, Chair; Samuel Collins (at UMPI), Lisa Eames (by Phone), James Erwin (at USM), Norman Fournier, Mark Gardner (at USM), Kelly Martin (at UMFK), and Karl Turner (at USM). **Faculty Representative:** Clyde Mitchell. **System Staff:** David Demers, Ellen Doughty, Tracy Elliott, Chip Gavin (at USM), Ryan Low, Darla Reynolds and Miriam White. **Presidents:** Ray Rice (at UMPI). **Other Participants:** Pam Ashby (at UMFK), Renee Bishop (BerryDunn), Emily Parker (BerryDunn), Ben Shaw (at UMPI), Buster Neal (at USM) and Claire Strickland.

**Committee Member Absent:** James Donnelly.

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

**UM Department of Athletics Agreed-Upon Procedures Report.** Ms. Claire Strickland, Chief Business Officer for the University of Maine, provided a brief overview regarding the Department of Athletics Agreed-Upon Procedures Report for Academic Year 2016-2017 which was performed by O'Connor & Drew.

The five areas that were reviewed for compliance were:

- Initial Eligibility Certification
- Financial Aid Administration
- Extra Benefits- Athletic Apparel and Equipment
- Extra Benefits- Representatives of the University's Athletic Interests
- Student-Athlete Employment

O'Conner & Drew made recommendations related to one finding as outlines below:

Finding:

Extra Benefits -Athletic Apparel and Equipment

Bylaw 12.5.4 (b) states:

*The student-athlete's institution's official uniform (including numbered racing bibs and warm-ups) and all other items of apparel (e.g., socks, head bands, T-shirts, wrist bands, visors or hats, swim caps and towels) shall bear only a single manufacturer's or distributor's normal label or trademark (regardless of the visibility of the label or trademark), not to exceed 2-114 square inches in area (rectangle, square, parallelogram) including any additional material (e.g., patch) surrounding the normal trademark or logo. The student-athlete's institution's official uniform and all other items of apparel shall not bear a design element similar to the manufacturer's trademark/logo that is in addition to another trademark/logo that is contrary to the size restriction.*

As part of the testing by O'Conner & Drew, the apparel of ten of the University's athletic teams were tested. It was noted that the manufacturer's logos on the jerseys used by the women's basketball team, and on some of the women's ice hockey jerseys, exceeded the maximum allowed by NCAA regulations.

A similar finding was noted in our report dated October 22, 2014 that covered the 2012-2013 academic year and our report dated August 18, 2011 that covered the 2009-2010 academic year. In each instance the finding was related to a different team than the two noted above.

**Recommendation:**

The University should review its agreements with the manufacturer to ensure future adherence to this regulation and take the appropriate measures to effectively rectify the matter. We also suggest that the Compliance Office establish a procedure whereby new equipment is examined for compliance with applicable NCAA requirements.

**Management's Response:**

Management agrees with the recommendation. The Compliance Office met with the Head Equipment Manager and has confirmed that the jerseys cited in this finding have been corrected. The Equipment Room has either replaced the jerseys (as part of the department's normal policy related to equipment replacement), or has made the necessary adjustments to the jerseys to make them compliant with NCAA requirements. Staff will continue to measure all manufacturer logos on new jerseys to ensure the correct size.

In addition, O'Connor and Drew made best practice recommendations in three areas regarding inventorying equipment and apparel given to student-athletes, educating boosters on the NCAA rules pertaining to them, and on developing policies related to sideline and locker room access. Management agreed with and has either implemented, or is in the process of implementing, all recommendations.

**Annual Financial Report – Fiscal Year 2017.** Ms. Tracy Elliott, Vice President of Finance and Controller, presented an overview of the University of Maine System's (UMS) Fiscal Year 2017 (FY2017) **draft** Annual Financial Report. The report will be presented to the Board of Trustees for approval at its meeting on November 19-20, 2017.

The UMS ended FY2017 with *Income Before Other Changes in Net Position* of \$4 million and *Total Other Changes in Net Position* of \$17 million, for a *Change in Net Position* for FY2017 of \$21 million.

The *Total Net Position* at June 30, 2017 was \$888 million increasing \$21 million from FY2016. Changes in each Net Position category were:

| <b>Net Position Category:</b>             | <b><u>Increase (Decrease)</u></b> |
|-------------------------------------------|-----------------------------------|
| • <i>Net Investment in Capital Assets</i> | \$(1) million                     |
| • <i>Restricted Nonexpendable</i>         | \$1 million                       |
| • <i>Restricted Expendable</i>            | \$6 million                       |
| • <i>Unrestricted</i>                     | <u>\$15 million</u>               |
| <b><i>Change in Net Position</i></b>      | <b><u>\$21 million</u></b>        |

**Auditor Communications to the Audit Committee.** Berry, Dunn, McNeil & Parker, LLC (BDMP) representatives Ms. Renee Bishop and Ms. Emily Parker reported to the Committee on the 2017 UMS financial statement audit and emerging accounting issues.

The objective of this audit was to determine if the basic financial statements as a whole are materially fairly stated. No adjustments were proposed and the auditor expects to issue an unmodified opinion.

The auditors performed procedures on a test basis including looking at the following.

Significant areas:

- Cash
- Investments
- Program service fees (e.g., tuition, room and board) and related receivables
- Payroll and related liabilities, including pension and OPEB
- Accounts payable, other liabilities and related expenses
- Capital assets and expenditures
- Debt
- Grants and similar programs

In addition, surprise procedures were conducted in the following five areas procurement test for large projects, test of travel card controls, test of payroll paid to source documents, test of duplicate addresses, and test of cash and receivable reconciliations at one location.

The following emerging issues were also reviewed:

| <b><i>GASB No.</i></b> | <b><i>Name</i></b>                                                                        | <b><i>Effective Date</i></b>               | <b><i>UMS Year</i></b> | <b><i>Impact</i></b>                                                                                                                                                                                             |
|------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 75                     | <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i> | Fiscal years beginning after June 15, 2017 | FY 2018                | Based on the actuarial valuation performed as of June 30, 2017, the impact would be an increase in liabilities of \$77,000,000 and a restatement to beginning net position as of June 30, 2016 of \$102,000,000. |
| 81                     | <i>Irrevocable Split- Interest Agreements</i>                                             | Periods beginning after Dec 15, 2016       | FY 2018                | Increase in assets and restricted net position (management estimates between \$3 and \$4 million). The team is still working to identify all agreements that must be recorded under the new standard.            |
| 83                     | <i>Certain Asset Retirement Obligations</i>                                               | Periods beginning after June 15, 2018      | FY 2019                | No significant impact expected.                                                                                                                                                                                  |
| 84                     | <i>Fiduciary Activities (e.g. UMS Defined Benefit Pension Plan &amp; OPEB)</i>            | Periods beginning after December 15, 2018  | FY 2020                | Will require a significant amount of management resources to evaluate all fiduciary funds, and consider for inclusion in the financial statements of the System.                                                 |
| 85                     | <i>Omnibus 2017</i>                                                                       | Periods beginning after June 15, 2017      | FY 2018                | No significant impact expected                                                                                                                                                                                   |

|    |                                           |                                       |         |                                                                                                                                             |
|----|-------------------------------------------|---------------------------------------|---------|---------------------------------------------------------------------------------------------------------------------------------------------|
| 86 | <i>Certain Debt Extinguishment Issues</i> | Periods beginning after June 15, 2017 | FY 2018 | No significant impact expected                                                                                                              |
| 87 | <i>Leases</i>                             | Periods beginning after Dec 15, 2019  | FY 2021 | Increase in assets and liabilities for the System. Based on current operating leases, this is currently not expected to exceed \$1 million. |

**External Audit Services for FY2018 - Berry Dunn McNeil and Parker, LLC.** Ms. Elliott explained that through a competitive procurement process, the UMS engaged BDMP to perform audit services commencing with fiscal year ending June 30, 2012 (FY2012). The contract allowed for a set 5-year period with two 1-year extensions. We are now approaching the final extension year under this contract. Management requests that the Audit Committee approve the engagement of BDMP for FY2018, after which UMS will begin a Request for Proposal (RFP) process.

This final-year extension would be based on the terms of the RFP issued in 2011 and BDMP’s pricing provided in 2012. The quoted fees for the FY2018 audits assume no significant changes in scope, requests from management or federal regulatory changes requiring significant auditing or reporting requirements and total \$255,400 as detailed below:

|                                         |                  |
|-----------------------------------------|------------------|
| Financial Statement audit               | \$189,900        |
| Uniform Guidance (formerly A-133) audit | <u>65,500</u>    |
| Total                                   | <u>\$255,400</u> |

The fees for the Uniform Guidance audit assume the major programs to be tested for compliance in FY2018 will be the student financial aid cluster and the Trio (talent search, upward bound & educational opportunity centers) cluster (depending on thresholds or other criteria). The fee will be adjusted if additional programs must be audited. The estimated fee adjustment for each program would be calculated as originally quoted at approximately \$7,500 for FY2012 with inflation of 2-3% a year thereafter. If the auditor determines that an additional program(s) will need to be audited, such determination will be communicated to management in advance of commencing work, along with a set additional fees for the work to be performed.

On a motion by Trustee Fournier, seconded by Trustee Erwin, the Board of Trustees, acting through the Audit Committee, approves the extension of Berry Dunn McNeil and Parker, LLCs appointment as the University of Maine System’s external auditors for Fiscal Year 2018.

Adjournment.

Elissa Ivey for  
 Ellen N. Doughty, Interim Clerk of the Board