

University of Maine System  
Board of Trustees  
Wells Conference Center, Room 1, University of Maine Orono

October 29, 2018

## **Audit Committee & Finance, Facilities, Technology Committee Joint Meeting**

**Present: Committee Members:** James Donnelly, Chair, Norman Fournier, Michelle Hood (by phone), Karl Turner (by phone), Mark Gardner (by phone), James Erwin, Kelly Martin and David MacMahon. **Other Non-Voting Trustees:** Gregory Johnson (by phone) Lisa Eames (by phone), and Trevor Hustus (by phone). **Chancellor:** James Page. **Presidents:** Eric Brown, Glenn Cummings, Joan Ferrini-Mundy, and John Short. **Faculty Representatives:** Patti Miles and Clyde Mitchell. **System Staff:** Chip Gavin, Adam Green, David Demers (by phone), Ellen Doughty, Robert Neely, Darla Reynolds, and James Thelen. **Other Participants:** Claire Strickland, Ken Ralph, Max Lebowitz, Emily Parker –BDMP, Renee Bishop – BDMP, and Beatrice Fevry.

**Committee Members Absent:** None.

Trustee Donnelly, Chair, called the meeting to order and thanked everyone for participating.

**Audit Committee Work Plan & Duties and Responsibilities.** Trustee James Donnelly provided a brief update of the Audit Committee FY2019 Work Plan. Annually, a work plan for the Audit Committee is developed and is intended to cover both action items required for governance of the University of Maine System and those topics of importance and interest to the Board. The Audit Committee FY2019 Work Plan was reviewed with the Committee in preparation for its adoption at the November 18-19, 2018 Board of Trustees meeting.

**UM Department of Athletics Agreed-Upon Procedures Report.** UM Chief Business Officer, Ms. Claire Strickland provided a brief overview regarding the UM Department of Athletics Agreed-Upon Procedures Report for Academic Year 2017-2018. Ms. Strickland introduced the new UM Athletic Director, Mr. Ken Ralph and the UM Associate Athletic Director for Compliance, Mr. Max Lebowitz.

Ms. Strickland stated that O'Connor & Drew, an independent auditing firm, provided three recommendations to UM Athletics pursuant to the Association of College & University Auditors (ACUA) National Collegiate Athletic Association (NCAA) Division I Compliance Audit Guide. The first recommendation related to the below noted audit finding:

### **Finding (F18-01):**

*Playing and Practice Seasons*

Bylaw 17.1.7.9.2 states:

*No class time shall be missed at any time (e.g., regular academic term, mini term, summer term) for practice activities except when a team is traveling to an away-from-home contest and the practice is in conjunction with the contest.*

We selected a sample of student-athletes in baseball, field hockey, soccer and softball to test whether any student-athlete missed class time in conjunction with the non-championship segment of their respective sport. We noted five student-athletes on the softball and field hockey teams who appear to have missed class time based on conflicts between their class schedules and the playing

and practice schedules entered into the University's ARMS software. We were advised by the assistant coaches of softball and field hockey that they released the student-athletes early to attend class, but the coaches did not update the practice times in ARMS accordingly.

Recommendation:

We recommend that Compliance emphasize the importance of accurate countable athletic related activity ("CARA") logs with all coaches. All CARA hours need to be entered accurately by the coaching staffs of the University including, but not limited, to early dismissal/late arrival for student-athletes to attend class to ensure compliance with this NCAA bylaw. The University should inquire if the ARMS software has the capability to notify coaches and Compliance when there is a possible conflict between class and practice time.

Management's Response:

Management agrees with the recommendation. The Compliance Office will address the issue of accurate time-keeping for all CARA activities at the upcoming monthly rules education session. The coaching staff will be reminded to review all individual CARA events prior to certification to ensure that accurate records are submitted for each student-athlete. ARMS (Automated Records Management System) software developers have been contacted to see if the software can be used to notify coaches and Compliance Officers of conflicts. The feature does not exist at this time but will be taken under consideration. In the meantime, coaches and their staffs will use the ARMS Team Calendar, which allows CARA events to be included with class schedules. This will help to identify and prevent any conflicts between practice and class time.

The auditors also provided two general recommendations for UM Athletics for the purposes of providing general best practices. First, that UM require the Department of Sports Medicine to provide notification in the Automated Records Management System (ARMS) confirming that each student-athlete has passed a physical prior to the start of their first respective season at the University. Second, in order to maintain accurate information related to practice sessions, the UM track and field coaching staff should input all practice times into ARMS, including which student athletes attended each specific practice. The UM Athletic Department agreed with all of the report recommendations and are developing processes to continue to maintain compliance with the NCAA bylaws.

**Annual Financial Report FY2018.** UMS Director of Accounting, Ms. Darla Reynolds provided the following overview of the **draft** FY2018 Annual Financial Report to the Audit Committee. The auditor's opinion is unmodified or clean. This year the System adopted the Governmental Accounting Standards Board (GASB) Statement No. 75 for other postemployment benefits (OPEB). The final impact of implementing this accounting standard was a nearly \$90 million decrease in unrestricted net position as of June 30, 2017.

In FY2018 Operating Expenses exceeded Operating Revenues and the System experienced an Operating Loss of \$234 million; however, Ms. Reynolds noted that nearly \$234 million of revenues for FY18 that the System considers 'operating', are required under GASB standards to be reported as Nonoperating. Once these Nonoperating Revenues are applied against the Operating Loss, the System ended FY18 with a much smaller Loss Before Other Changes in Net Position of \$588 thousand.

Operating Revenues increased \$9.8 million or 2% from the prior year, for an FY2018 total of \$458 million. The FY2018 net student fees revenue is \$256 million, up \$10.6 million or 4%. Net student

fees revenue is impacted by a variety of factors including enrollment, rates for tuition and fees, rates for residence and dining, financial aid eligibility, and dollars available for financial aid awards.

Operating Expenses, which totaled \$692 million for FY2018, are up \$24 million or 4% from the prior year. Looking at Operating Expenses on a natural classification basis, compensation (which is the System's largest operating expense) was \$310 million, an increase of \$8 million or 2.6% compared to the prior year. Benefits at \$124 million, increased \$8 million or 7% compared to FY2017. OPEB accounts for \$7 million of the increase in benefits.

The combined total of scholarship allowances and student aid expense for FY2018 is \$141 million dollars, up \$13 million or 10% from the prior year. The increase includes a \$13 million increase in institutional unrestricted aid, a \$2 million increase in aid from the Federal Pell Grant Program, and a \$2 million decrease in State of Maine aid.

Nonoperating Revenues of \$233.5 million, decreased \$2.3 million or 1% from the prior year. Total Other Changes in Net Position of \$16 million for FY18, changed just \$1 million from the prior year. **All of the financial activity in FY2018 results in a Change in Net Position of \$15.834 million.**

The System has good liquidity at June 30, 2018, with \$253.8 million in cash & operating investments and total current assets of nearly \$307 million, which is up \$3 million or 1% from the prior year. Total noncurrent assets of \$911.5 million at June 30, 2018, decreased less than 1% from the prior year.

Liabilities which totaled \$395.9 million at June 30, 2018, reflect a decrease of \$13.3 million from the prior year. This is largely due to a \$14 million decrease in total long-term debt as the System made scheduled debt payments in FY2018. Accrued liabilities of \$127.6 million at June 30, 2018, includes a variety of liabilities including the following related to the System's OPEB and defined benefit pension plans: OPEB \$78 million, Defined Benefit Pension Plan \$9 million, and Incentive Retirement Plan for Faculty and Professional Employees \$22 million.

Deferred Outflows of Resources and Deferred Inflows of Resources primarily relate to the System's OPEB and defined benefit pension plans. Total Net Position at June 30, 2018 was nearly \$814 million, increasing \$16 million from FY2017. Unrestricted Net Position increased \$7 million from the prior year.

**Auditor Communications to the Audit Committee.** Berry, Dunn, McNeil & Parker, LLC (BerryDunn) representatives Ms. Renee Bishop and Ms. Emily Parker provided a report to the Committee about the 2018 UMS financial statement audit and emerging accounting issues. The objective of the audit was to express an opinion about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. No adjustments were proposed and the auditor expects to express an unmodified opinion.

Ms. Parker provided an overview on the process that BerryDunn uses when performing the UMS annual financial statement audit. She also provided information on the responsibility of the auditors and UMS during the auditing process. The significant audit areas are cash and investments, program services fees and related receivables, grants, payroll and related liabilities,

accounts payable and expenses, and capital assets and expenditures. The Federal Uniform Guidance Audit is still in progress and the major programs are the student financial assistance cluster and the TRIO cluster. Ms. Parker explained that these two areas were tested on numerous campuses with a variety of procedures.

Ms. Bishop provided information on the upcoming new GASB pronouncements. GASB 83 - *Certain Asset Retirement Obligations*, will be effective FY2019 with no significant impact to UMS expected. GASB 84 – *Fiduciary Activities*, will be effective FY2020 and will require a significant amount of management resources to evaluate all fiduciary funds, and consider for inclusion in the financial statements of the System. GASB 87 – *Leases*, will be effective FY2021 and will be an increase in assets and liabilities for the System. Based on current operating leases, this is currently not expected to exceed \$1 million. GASB 90 – *Majority Equity Interests*, will be effective FY2020 with no significant impact to UMS expected.

**External Audit Services RFP Update.** Ms. Reynolds provided a brief summary on the external audit services request for proposal (RFP) process and timeline. Having completed the last year of its contract with Berry Dunn McNeil and Parker, LLC, UMS will issue an RFP in early November to select an auditor to perform its Financial Statement and Uniform Guidance audits for fiscal years FY2019 through and including FY2025. Finalists will be invited to interview with the Audit Committee in January 2019 with the Committee making a recommendation for Board of Trustees consideration and approval at its January 27-28, 2019 meeting.

**Enterprise Risk Management Update.** UMS General Counsel & Chief of Staff, Mr. James Thelen, UMS Chief General Services Officer, Mr. Chip Gavin and UMS Risk Manager, Mr. Adam Green provided an update regarding the proposed enterprise risk management tracking procedures and reporting schedule. In 2017 a task force, made up of Trustees and several key UMS staff members was developed to re-envision an outdated risk management matrix from 2010 and to develop an updated reporting protocol. Mr. Green reported that the findings of the task force were that the 2010 matrix was cumbersome and time consuming. The task force developed recommendations on ways that the risk management audit process could be streamlined and a plan for a new reporting schedule. Mr. Gavin recommended that starting in January 2019 annual topic specific briefings will be developed for each of the Board Committee meetings. Additionally, in Spring or early Summer of calendar year 2019 the first full annual report will be presented to the Audit Committee with recommendations for updates to process from initial implementation, in preparation for a report at the July 2019 Board of Trustees meeting.

Additional information on the meeting can be found on the Board of Trustees website:  
<http://staticweb.maine.edu/wp-content/uploads/2018/10/AuditFFT-MtgMat-102918-rev103018.pdf?0d0f03>

Adjournment.

Heather A. Massey for  
Ellen N. Doughty, Clerk