

UNIVERSITY OF MAINE SYSTEM
Board of Trustees

May 17, 2010

Audit Committee Meeting

Present: **Committee Members:** James Dowe, Chair, Eleanor Baker (by phone), Norman Fournier, and Victoria Murphy. **Other Trustees:** Marjorie Medd and Paul Mitchell. **Chancellor:** Richard Pattenau. **System Staff:** Darla Reynolds, Tracy Bigney, Tracy Elliott, Rebecca Wyke, and Kelley Wiltbank. **Guests:** Janet Waldron – UM, John Hand – PwC (by phone), Renee Bourget-Place - KPMG (by phone) and Steven Caron – KPMG (by phone).

Absent: Kevin McCarthy and Lyndel Wishcamper

Trustee Dowe, Chair, called the meeting to order.

Status Report and FY10 Reviews. Mr. John Hand, PricewaterhouseCoopers (PwC), presented the internal audit update including a status report of reviews completed. Campus budgeting and forecasting assessments have been completed for UMFK, UMPI and UMM. The Compensation and Benefits follow-up review was deferred. Instead management provided a status report on progress made. The UM Development information privacy and security review and the UM Sponsored Research review are now complete.

Budgeting and Forecasting Assessment at UMFK, UMPI and UMM. Mr. Hand explained the scope of the assessment which included review of processes, tools and controls within budgeting, forecasting and reporting functions; alignment of budgeting and forecasting with System and campus strategy; budgeting and forecasting level of detail, accuracy, and timeliness; communication between the Office of the Vice President for Administration and the Office of the President; budgeting and management of capital projects, revenue and expenditures; and monitoring controls and grants management. The results of the assessment are as follows:

- The budget managers demonstrate fiscal responsibility and accountability when managing their budget. The three campuses are highly reliant upon their local Chief Financial Officer to support a top-down budgeting process, with few participants providing only ad-hoc input in the overall development and management of the budget.
- The accuracy of enrollment and credit hour forecasts are integral to the overall campus budget.
- There are varying levels of linkage between the campuses strategic plan and the annual budgeting process.
- UMFK and UMPI should consider developing a group similar to UMM's Planning and a Budgeting Committee to provide substantial input into the budgeting processes and act as a transparency vehicle for communicating budget related topics to the campus community.
- Some revenue and expense items are not being fully budgeted at the three campuses.
- The campuses should continue to look quantitatively at the supply of courses offered against the student demand for these offerings to encourage efficient allocation of campus resources.

There was a lengthy discussion on the MaineStreet system and its impact on the smaller campuses through the lack of staffing and training. Ms. Wyke explained the MaineStreet Competency Center's role.

Trustee Dowe suggested that it would be beneficial to have periodic updates from the campuses on the audit results including the corrective actions they are developing.

UM Development Information Privacy and Security Review. Ms. Janet Waldron, Vice President for Administration and Finance at UM explained the scope of the UM Sensitive Data Element Identification Project which included identifying and documenting sensitive data elements (SDE) within the Development Organization's processes and applications. The review also summarized regulatory and industry requirements that may apply to the University of Maine based on how it and its affiliated third party development organizations collect and use prospect data. The summary of the key observations are as follows:

- Establish a universal framework or processes to guide how sensitive data is collected, stored, shared or destroyed at UM.
- Formally assign an individual with the role and responsibilities of a chief information security officer.
- Assign formal data owners the stewardship of prospect data.
- Develop formal guidelines to govern how users access anonymous and/or high-profile prospect data.
- Formalize policies that govern how sensitive prospect data should be shared with third parties
- Review and finalize the draft System security policy. (The Information Security Administrative Practice Letter was finalized and posted to the website in June 2009.)

Chancellor Pattenaude suggested that the lessons learned at UM will be shared with the other campuses. Ms. Wyke commented that all of the campuses agreed to implement the Advance System with the same processes and methodology that UM used. It is hoped that the other campuses will be using the Advance System by September.

Trustee Dowe asked what follow-up the Audit Committee wanted for the Advance System. Ms. Wyke suggested the follow-up will include a post go-live audit and an update on the implementation from all of the campuses.

KPMG 2010 Audit Plan. Ms. Renee Bourget-Place and Mr. Steven Caron from KPMG, the University's independent auditors, discussed the 2010 Audit Plan including information about the engagement team, audit methodology, a timetable for the financial statement and A-133 audits, and current and emerging accounting and auditing matters.

Ms. Bourget-Place reviewed the KPMG's Engagement Team, Audit Methodology (KAM), Audit Responsibility, and the Audit Timetable. The KAM is their audit methodology that facilitates and enhances audit quality. The four components of the KAM are planning, control evaluation, substantive testing, and completion. Ms. Bourget-Place reviewed the accounting matters that could have a material impact on the System's financial statements. A new accounting pronouncement effective for FY2010 will include GASB 51 – *Accounting and Financial Report for Intangible Assets*, GASB 53 – *Accounting and Financial Reporting for Derivative Instruments* and the Health Reform and Education Reconciliation Act. GASB 51 requires all intangible assets to be reported as capital assets. GASB 53 requires the fair value of derivatives to be reported on the Statement of Net Assets and the Health Reform and Education Reconciliation includes changes to student loan delivery system, increases in Pell funding, College Access Grant program, and workforce development provisions.

Ten To-Do's for Audit Committees in 2010

Ms. Bourget-Place discussed the ten to-do's for the Audit Committee should consider and carry out in their 2010 agendas.

1. Retain control of the Audit Committee agenda.
2. Understand the risks posed by cost reductions made in response to the economic crisis.
3. Focus closely on all financial communications.
4. Continue to monitor fair value issues, impairments, and management's assumptions underlying critical accounting estimates.
5. Rethink the Audit Committee's role in risk oversight – with an eye to narrowing the scope.
6. Make sure Internal Audit is properly focused and fully utilized.
7. Prepare for the potential impact of key public policy initiatives on compliance, risk, and governance processes.
8. The economic crisis continues to put pressure on compliance and anti-fraud programs.
9. Help link change and risk and monitor critical alignments.
10. Take a fresh look at the Audit Committee's composition and leadership.

FY2009 OMB Circular A-133 Report. Mr. Caron reviewed the OMB Circular A-133 audit of the University of Maine System for fiscal year 2009. The UMS total expenditures of Federal Awards were \$266 million of which \$174 million was for Student Financial Assistance. The independent auditor's report on compliance included a favorable (unqualified) opinion. There were two findings – one related to financial aid at USM and UMA and one related to subrecipient monitoring in the Research & Development cluster at USM.

Trustee Dowe, on behalf of the Audit Committee, extended congratulations to all of the campuses for their work on the favorable audit.

Update on Risk Assessment

Compensation and Benefits Update. Ms. Tracy Bigney, Chief Human Resources and Organization Development Officer, provided an update regarding the Compensation and Benefits Risk Assessment prepared by PwC in 2007. In September 2007, PwC presented a report and risk assessment matrix. The UMS Office of Human Resources reviewed the status of the risk assessment in November 2007, September 2008, June 2009 and April 2010 and has taken steps to strengthen processes and mitigate the risks identified. Management updated the matrix with the current status and actions taken. UMS continues to monitor the risk assessment and to take steps to further implement efficiencies and reduce risks. Actions have focused on the higher risk areas. Technical resources have not been available to implement several technology dependent recommendations, such as work flow. Other procedural protections have been put in place to reduce risks when the technology is not currently feasible. Compensation and benefits is an area that must be constantly scrutinized due to the dollars involved and therefore the magnitude of risk. Major directions for efficiencies and risk reduction in the future include:

- Increased use of technology for work flow and self-service by employees and managers
- Decreased numbers of off cycle payroll runs and special checks
- Decreased number of paper checks and direct deposit advices
- Continued staff development: two staff currently enrolled in the Certified Employee Benefits Specialist program; one staff member has attained the Certified Payroll Professional (CPP) status, and three staff have attained Fundamentals of Payroll certification and are working

toward the CPP credential. Payroll staff are active in the Maine Association of Payroll Professionals, which is affiliated with the American Payroll Association.

- Upgrade of the HR and payroll system to PeopleSoft 9.1 version to maintain technical and compliance enhancements.

General Campus Updates

Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer provided a general campus risk assessment update. The UMS in 2006 developed a matrix to identify different areas of risk and each campus developed a process of measuring against the matrix and indicating its top risks. The campuses are in the process of reassessing their risks and this information will be provided to the Board when the data is compiled. The common themes from the campuses are:

- financial sustainability including enrollments, revenues, and the quality of education given the financial constraints
- student health and safety as well as the risk of increased incidents of violence, threats and harassment
- compliance with legal requirements including security and confidentiality of information
- aging of facilities infrastructure and the backlog of deferred maintenance
- staffing and work overload and how it relates to succession planning

Internal Audit Direction. Ms. Wyke discussed the Internal Audit direction and options. About six months ago the Audit Committee discussed the internal audit function and recommended to re-bid the internal audit function. The options were to look at a single company for the entire internal audit function or a list of vendors that could be used based on areas of expertise or bring the internal audit function back in house. The Committee agreed with management's suggestion to re-bid and develop a list of qualified vendors. Trustee Dowe thanked PwC for their assistance with the UMS internal audit function. Mr. Hand commented that PwC has enjoyed working with the UMS.

Trustee Dowe commented that he would encourage the Audit Committee to select companies that are connected with the State of Maine. Trustee Murphy commented she agrees with developing a group of qualified firms with diverse experience and if possible to use Maine firms. Trustee Fournier agreed with Trustee Murphy's comments. Ms. Wyke commented that local and national firms will be on the list as well as PwC.

On a motion by Trustee Fournier, which was seconded by Trustee Murphy, the Audit Committee agreed to accept the recommendation of management to re-bid the internal audit function to develop a list of qualified vendors with a preference for Maine based firms.

Trustee Dowe stated that it has been a pleasure to work with the Audit Committee. Trustee Murphy, on behalf of the Audit Committee and the Board of Trustees, thanked Trustee Dowe for his leadership and dedication in taking the Audit Committee to a new level and preserving the integrity of the UMS by his suggestions and pro-active attitude about moving forward in a focused way.

Adjournment

Ellen Doughty for
J. Kelley Wiltbank, Clerk