Audit & Finance/Facilities Joint Session

Present: Committee Members: Norman Fournier, Chair of the Finance/Facilities Committee; Samuel Collins, Chair of the Audit Committee; Kurt Adams (by phone), Benjamin Goodman, Michelle Hood, Marjorie Medd, Victoria Murphy, and Charles O’Leary. Faculty Representatives: Raymond Albert and Robert Rice. Student Representatives: Nathan Grant. Chancellor: Richard Pattenaude. System Staff: Ralph Caruso, Tracy Elliott, Michael Sauda, Darla Reynolds, Kelley Wiltbank, Miriam White, and Rebecca Wyke. Other Guests: Janet Waldron, UM; Elaine Clark, UM; John Rebar, UM; Dick Campbell, USM; Renee Bourget-Place, KPMG; Steven Caron, KPMG; and Scott Warnetski, KPMG.


Trustees Fournier and Collins, Chairs, called the meeting to order and welcomed everyone.

Regional Learning Center at Tidewater Farm. Mr. John Rebar, Executive Director of UM Cooperative Extension, provided an overview of the proposed Regional Learning Center at Tidewater Farm in Falmouth. Cooperative Extension has been working for several years to identify an improved alternative location in Cumberland County that also provides access to agricultural land to foster hands-on demonstration projects. The Cooperative Extension Program is currently housed in two small buildings built as single family homes (one built in 1925 and other in 1945) on the periphery of the USM Portland campus. The current facilities do not meet Cooperative Extension’s needs in terms of working space, accessibility, and parking.

In May 2009, The Board of Trustees authorized UM to contribute toward the construction of a regional learning center in Falmouth in exchange for a 90 year ground lease with the Tidewater Conservation Foundation (TCF). Since fundraising goals fell short and the cost of construction and future operating costs were less than desirable, UM resumed efforts to find a more economical approach to establishing a regional learning center.

In August 2010, UM became aware that two condominium units in Falmouth’s Tidewater Village were available for purchase. The units provide 5,074 square feet of suitable space for Cooperative Extension’s core program requirements. They are located 250 yards from tillable agricultural land currently owned by TCF.

The purchase of the condominium units changes the original cost of $1.9 million to a cost of $983,000. Mr. Rebar indicated the proposed condominium structure will reduce the operating costs. The revised proposal is to expend $577,000 in one-time Cooperative Extension funds, $209,000 in gift funds and $197,000 in funds donated by Tidewater Conservation Foundation (TCF), to purchase and fit out two condominium units at Tidewater Village in Falmouth, Maine to provide its Cumberland County Cooperative Extension program with improved facilities and location. Three acres are available for use by Cooperative Extension for agricultural and horticultural programs at a cost of $3,000 per year along with access to a barn and fields.

Ms. Elaine Clark, UM Executive Director of Facilities, Real Estate and Planning, explained the total cost of purchase of the condominium units is $983,000 (comprising $745,878 for the building shell...
and $236,954 for creating suitable interior space) or $194 per square foot. Several other properties were reviewed but this site was the best option. The annual operating costs are $31,220 ($28,220 building operating costs and $3,000 for lease of agricultural land). The funding sources for operating costs are as follows:

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Cooperative Extension</td>
<td>$10,000</td>
</tr>
<tr>
<td>Cumberland County Extension Association</td>
<td>$6,000</td>
</tr>
<tr>
<td>UM Admissions and Development Offices</td>
<td>$15,220</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$31,220</strong></td>
</tr>
</tbody>
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Ms. Clark also explained that UM Admissions and UM Development currently lease inadequate space in South Portland, Maine for $22,000 per year and would relocate to this facility. This arrangement reduces operational costs for UM Development and UM Admissions while providing Cooperative Extension with effectively more operational dollars to provide for an improved facility. Cooperative Extension’s operational costs will stay at the same rate as currently paid with the added benefit of providing improved accessibility, working space, and parking along with access to tillable agricultural land. The UM Foundation may also take advantage of this opportunity by sharing this facility and contribute to the operating costs.

Trustee Goodman asked about the difference in square footage in the current proposal versus the last proposal submitted in July 2010. Mr. Rebar commented that this proposal has slightly less square feet but has more common areas or shared space with all the occupants because of the condominium structure. It is also closer to public transit and has an existing elevator which is important for the Cooperative Extension’s client base. Ms. Clark explained that in the proposal submitted in July the elevator and heating system space was included in the total square footage. In this proposal that space is part of the common areas and will no longer need to be included in the Cooperative Extension space; therefore, the slightly reduced square footage is adequate.

Trustee Murphy commented that she has concerns with the project because it does not focus on the Agenda for Action core priority areas of undergraduates, STEM or financial consideration. She is reluctant to approve of spending this level of money under current financial conditions on a project that does not support a reduction in tuition.

Ms. Janet Waldron, UM Vice President for Finance and Administration explained that Cooperative Extension is a key component for the current and future needs of the State of Maine by serving the citizenry in critical areas. Its mission is based on empowering families and communities through the use of science to improve the State and expose individuals to the benefits of higher education.

Trustee Hood asked what the future planned usage for the two single family homes now being used by the UM Admissions and UM Development Offices. Mr. Dick Campbell, Chief Financial Officer at USM, stated the two homes are owned by UMS and will be absorbed into USM’s use.

Ms. Clark stated the developer will be assuming the risk of the pledges that will be donated by the Tidewater Foundation in the amount of $197,000. She also explained that the facility has several common areas such as hallways, elevators, and lobby that are included in the condominium fees. The depreciation for the building systems, parking lot and grounds are also built into the condominium fees and are included in the operating costs.

Chancellor Pattenaude commented that moving the UM Admissions and UM Development operations to the Tidewater facility with the UM Cooperative Extension would increase efficiencies for all three operations.
Trustee Fournier asked if it was feasible for the $209,000 in gift funds to be raised by Cooperative Extension and for UM to issue a temporary, short-term loan to cover the costs until the funds are raised. Ms. Waldron, Ms. Clark and Mr. Rebar felt this option was feasible and acceptable and the Committee agreed with the concept.

On a motion by Trustee Fournier, which was seconded by Trustee Hood, the Finance/Facilities Committee unanimously approved the following resolution to be forwarded to the Consent Agenda for the November 15, 2010 Board meeting:

That the Finance/Facilities Committee approves this item as presented and forwards it to the Consent Agenda at the November 14-15, 2010 meeting for the Board of Trustees to authorize the University of Maine to expend $577,000 in one-time Cooperative Extension funds, $209,000 in gift funds to be raised by Cooperative Extension temporarily filled through a short-term loan from the University of Maine, and $197,000 in funds donated by Tidewater Conservation Fund, to purchase and fit out two condominium units at Tidewater Village in Falmouth, Maine, subject to approval by the Vice Chancellor for Finance and Administration and Treasurer and University Counsel and subsequent approval by the Chancellor.

Discussion of Committee Process to Review Facilities Projects. Trustee Fournier facilitated a discussion of the current process of reviewing finance and facilities agenda items. The intent of the discussion was to develop a more efficient approach to thoroughly reviewing projects and streamline the Committee meeting during the regular Board meetings. He proposed three questions to the Committee for their input:

- Is the Committee willing to meet off-cycle more frequently to review Committee agenda items such as capital projects?
- Would the Committee be interested in a two-step process to allow for more time for discussion and development of information?
- Would it be appropriate for the Committee to request from the Board final decision making authority for certain finance and facilities items based on defined criteria beyond just dollar amounts leaving for the whole Board a higher level of scrutiny on fewer items?

The Committee supported this approach and felt it would be much more productive and agreed the Committee should explore recommendations further. There was a consensus that it would make Board meetings more efficient and allow more time to discuss strategic issues.

Annual Financial Report FY2010. Ms. Tracy Elliott, Director of Finance and Controller, reviewed the FY2010 Annual Financial Report. The University of Maine System ended FY2010 with Income Before Other Changes in Net Assets of $36.5 million and with an increase in Net Assets of $55.7 million. As a result, Total Net Assets increased 8.5% to $707 million as of June 30, 2010. Of the $55.7 million increase in Net Assets, UMS experienced a positive change in Unrestricted Net Assets of $44 million. This change was possible largely because of increases in tuition rates, $10.7 million in operating investment returns, and extraordinary efforts throughout the System to cut expenses.

Other significant financial highlights for the year ended June 30, 2010 include:

- On an FTE basis, Fall 2009 student enrollment increased less than 1% to 23,711 while on a Headcount basis student enrollment fell less than 1% to 32,340.
- UMS had a 6.0% weighted average increase in undergraduate in-state tuition and fees and a 4.7% weighted average increase in room and board rates in FY2010.
• The FY2010 student comprehensive cost of education for in-state, undergraduates is $16,431, or an increase of 5.3% from FY2009. The comprehensive cost for out-of-state, undergraduates is $29,211 or a 6.2% increase from FY2009.

• Noncapital State appropriation revenue declined 2.0% from $194 million in FY2009 to $190 million in FY2010.

• Total cash gifts (capital, endowment and operating) were $17 million in FY2010, down from $24 million in FY2009. The decline is primarily due to the significant contribution of nearly $8 million in FY2009 by the USM Foundation for construction of the Wishcamper Center and the Osher Map Library.

• The financial markets rallied for most of FY2010 with pooled investments (including endowments) experiencing an 11.5% net of fees return compared to -15.7% for FY2009. The UMS and affiliates’ pooled endowment funds totaled $104 million as of June 30, 2010 compared to $95 million at June 30, 2009.

• Endowment and other investments for the University of Maine System and its component units (i.e., The University of Maine Foundation and The University of Maine Pulp and Paper Foundation) total $261 million as of June 30, 2010, an increase of $22 million from 2009.

• UMS experienced operating investment gains of $10.7 million in FY2010 or 5.6% compared with FY09’s return of -1.63%.

• Total notes and bonds payable were $201 million as of June 30, 2010, declining $8 million from the prior year.

• Capital asset additions, financed primarily by UMS revenue bonds, state capital bonds, and gifts, totaled $28 million in FY2010 as compared to $53 million in FY2009. Major construction in FY2010 included UM’s Advanced Engineered Wood Composites Center Expansion and Aubert Hall Lab Updates; UMF’s Emery Arts Center; and UMFK’s Powell Hall Renovations.

Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer reviewed the status of the gap analysis. UMS is half way through the process and is on target for its projected savings.

**KPMG Report Including Management Letter.** Ms. Renee Bourget-Place, KPMG, reviewed the results of the 2010 UMS Financial Statement Audit which indicates no material weaknesses involving internal control over financial reporting and its operation and no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Mr. Scott Warnetski, KPMG, reviewed the areas of emphasis for the Audit. He also provided an overview of the Management Letter and outlined KMPG’s observations for the UMS to improve the information technology general controls in the following areas: Information Security Governance, Data Center Physical Security, Logical Access Security, Network Vulnerability Management, and Disaster Recovery Plan. Management provided a status report regarding last year’s Management Letter related to the American Recovery and Reinvestment Act (ARAA) expenditures. UMS continues to make compliance in this area a priority including routinely assessing and addressing risks.

Ms. Wyke discussed Information Technology security issues and how UMS is improving the security areas and the timeline. Trustee Murphy stated support in the Information Technology security area and the UMS needs to move quickly to be sure the entire organization is protected.
Mr. Warnetski reviewed the A-133 Audit. The major programs included in the 2010 Audit are: Student Financial Aid, Research and Development Cluster, State Fiscal Stabilization Fund, Childcare Development Fund and Cooperative Extension Services.

**Internal Audit Services RFQ.** Ms. Wyke reviewed the Internal Audit Services Request for Qualifications (RFQ) process and results. The direction of Internal Audit within the University of Maine System and various approaches to this function were discussed at the May 17, 2010 Audit Committee meeting. The Committee and management agreed that UMS would submit a RFQ to various firms to obtain a list of qualified vendors with diverse experience. Management issued a RFQ in August 2010 and received responses from the following firms:

- Altran Control Solutions – global provider of internal audit, compliance, risk management and technology solutions with a regional office in Boston, MA.
- Baker Newman Noyes – a regional advisory firm offering comprehensive services in accounting, audit, tax and business consulting with offices in Portland ME and Manchester and Portsmouth, NH.
- Berry Dunn McNeil & Parker – an independent certified public accounting and management consulting firm providing audit, tax, information technology, and management consulting services with offices in Bangor and Portland, ME; Manchester, NH; and Boston, MA.
- Grant Thornton – a world-wide full-service public accounting firm specializing in auditing, management consulting, finance, risk management and information technology, with a regional office in Boston, MA.
- O’Connor & Drew P.C. – a full-service accounting firm specializing in accounting, tax, and consulting with an office in Braintree, MA.
- Protiviti – a global business consulting and internal audit firm composed of experts specializing in risk, advisory, and transaction services with a regional office in Boston, MA.

When external audit services are needed, management will talk with 2 or 3 firms asking each for a proposal. We will select a firm based on price, relevant experience, and availability. The Committee approved a purchasing card audit to proceed immediately and a purchasing audit to commence after June.

The UMS is implementing an e-procurement system and this will provide feedback on how the new system and procedures are working.

**Update on UMS Risk Assessment Overview.** Ms. Wyke provided an update on UMS recent risk assessment work performed at each of the seven universities. This included updating the Risk Overview matrix, identifying the top ten risks in need of attention at each campus based upon their analysis, and reporting on risk management progress. The CFOs will work collaboratively to review this work and identify the top 10 risks for the System and work together on remedial actions. The Committee had a lengthy discussion on deferred maintenance for the campuses.

Adjournment.

Ellen Doughty for
J. Kelley Wiltbank, Clerk