University of Maine System
Board of Trustees
at the University Maine System, Rudman Board Room
with Polycom locations at USM

May 16, 2011

Audit Committee

Present: Committee Members: Samuel Collins, Chair; Eleanor Baker (by polycom), Norman Fournier, Marjorie Medd (by polycom), Victoria Murphy (by polycom), Charles O’Leary and Lyndel Wishcamper (by polycom). Chancellor: Richard Pattenaude. System Staff: Tracy Elliott, Darla Reynolds, Kelley Wiltbank and Rebecca Wyke. Guests: Renee Bourget-Place and Scott Warnetski from KPMG.

Absent: Kurt Adams.

Trustee Collins called the meeting to order.

FY 2011 Audit Plan. Ms. Renee Bourget-Place, Partner, and Mr. Scott Warnetski, Senior Audit Manager, with the audit services firm, KPMG, discussed the 2011 Audit Plan. The Plan includes information about the engagement team, their audit methodology, a timetable for the University’s financial statement and the A-133 audits, and current and emerging accounting and auditing matters. The preliminary major programs to be included in the FY2011 A-133 audit include the following areas: Student Financial Aid at UM, USM, and UMF; Research and Development; State Fiscal Stabilization Fund; and Supplemental Nutrition Assistance Program.

KPMG provided information about:

- Ten To-Do’s for Audit Committees in 2011
- Moody’s higher education outlook for 2011
- Moody’s special report – Governance and Management: The Underpinning of University Credit Ratings

FY2010 OMB Circular A-133 Report. Ms. Bourget-Place reviewed the OMB Circular A-133 Report of the University of Maine System for fiscal year 2010. UMS is required under the A-133 coverage rules to have an audit of the Student Financial Aid cluster of programs every year. Unless compliance rules dictate otherwise, all other significant programs must be audited at least every three years. The other significant programs included in this audit were Research and Development, Cooperative Extension Services, the American Recovery and Reinvestment Act (ARRA) – State Stabilization, and the Childcare Development Fund Cluster.

Highlights of the report include:

- University of Maine System Federal expenditures were $302 million of which $200 million was for Student Financial Assistance. Total Federal expenditures increased $36 million over the prior fiscal year, including a $26 million increase in Student Financial Assistance.
- The independent auditor’s report on compliance included a favorable (unqualified) opinion.
- One significant deficiency was identified. The finding related to overbilling of indirect costs through cost sharing. Since the report issuance, an automated solution has been developed and campus personnel have begun implementing the new methodology.
- The report Summary Schedule of Prior Audit Findings presents the current state of prior
years’ audit findings which include updates for FY2007 and FY2009.

**Internal Audit Update.** Ms. Tracy Elliott, Director of Finance and Controller, provided an Internal Audit update. As approved by the Audit Committee at its November 2, 2010 meeting, management solicited proposals for purchasing card audits and interviewed representatives from two Maine firms. Both firms appeared to be equally qualified with similar approaches to performing the work. Therefore, based on better pricing, the University of Maine System selected Berry, Dunn, McNeil & Parker (BDMP) to perform this audit service.

BDMP has been gathering information and conducting field work at the University of Maine at Augusta, the University of Maine at Machias, and the University of Maine at Fort Kent during the month of May. They will audit purchasing card activity for the period of July 1, 2010 through mid April 2011. The work is expected to be completed by the end of this fiscal year. There were 140 cardholders and just over $1 million in purchasing card activity at these three campuses during fiscal year 2010.

The next internal audit to be conducted will be of the procurement system. The UMS implemented an e-payables system in 2010 and this audit will provide an opportunity to review controls, procedures, and effectiveness of the new system.

**Department of Athletics Agreed-Upon Procedures Report FY2010, UM.** Ms. Janet Waldron, University of Maine Vice President for Administration and Finance, and Mr. Steve Abbott, Athletic Director at UMaine, explained the FY2010 University of Maine Department Athletics Agreed-Upon Procedures report. O’Connor & Drew performed the work in accordance with NCAA bylaws and the report presents 28 areas of revenue and expense testing procedures, results, recommendations, and Management’s responses. A Statement of Revenues and Expenditures for the Athletics Department showing Operating Revenues and offsetting Expenses of $16.3 million each for a net ($22,650) bottom line was included in the report.

Overall the report was positive; however, recommendations were made in three areas:

- Ticket Sales – regarding properly accounting for complementary tickets issued for football.
- Program Sales, Concessions, Novelty Sales and Parking - regarding an expired concession agreement and properly controlling cash collections for parking.
- Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities - regarding vacation time entry.

UMaine management committed to addressing the recommendations and will update the Committee on their progress. O’Conner and Drew has also issued a draft UM Athletics compliance report for UM management response and it will be provided to the Committee once it is finalized.

Adjournment

Ellen Doughty for
J. Kelley Wiltbank, Clerk of the Board