Committee Members: Kurt Adams, Chair; Marjorie Medd and Eleanor Baker. System Staff: Tracy Elliott and Rebecca Wyke. Other Participants: Sarah Belliveau - BerryDunn.


Present at UMPI: Samuel Collins.

Present on Phone: Michelle Hood and Renee Bourget-Place – KPMG.

Committee Members Absent: None

OMB Circular A-133 Audit.
Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer introduced Renee Bourget-Place from KPMG, who outlined the results of the FY2011 audit. KPMG audited the major programs as required, and did not audit compliance of the Perkins Loan program because that program is audited by a third party. Highlights of the report include:

- University of Maine System Federal expenditures were $336 million of which $215 million was for Student Financial Assistance. Total Federal expenditures increased $34 million over the prior fiscal year, including a $15 million increase in Student Financial Assistance.
- The independent auditor’s report on compliance included a favorable (unqualified) opinion.
- There were two financial aid related findings, one of which was a significant deficiency (but not a material weakness) related to Direct Loan reconciliations not being performed timely at UM and UMF. The other finding related to Pell Grants and a single data error at UM. Regarding the Direct Loan reconciliation issues, a computer program put in place for March 2012 reconciliations makes this process more efficient and effective.
- Regarding the Pell Grant error, UM immediately corrected the error and promptly refunded the related $800 over-award to the Federal government. Further, UM reviewed its procedures, and enhanced the control structure by developing refresher training and reference materials.

The UMS met all criteria to qualify as a low-risk auditee. Chair Adams asked for clarification on the deficiency found by the audit and whether this is a common error. Ms. Bourget-Place said
this is the first year that these universities have done direct lending, but the error is not common in other states. Chair Adams said he thought the response from the universities was adequate, and asked other Committee members whether they concurred, which they did. Ms. Tracy Elliott, Director of Finance and Controller, said the USM has worked collaboratively System-wide to create a computer program to help universities comply with this requirement easing some of the complexity and challenges of the reconciliation process.

Ms. Bourget-Place outlined the management corrective action plan from the UMS, UM and UMF.

**FY2012 Audit Planning and Accounting Updates.**
Ms. Renee Bishop and Ms. Amanda Butterfield from BerryDunn, the new UMS audit firm, outlined its audit planning summary. Ms. Butterfield said the audit will concentrate on areas that have the greatest risk of material misstatement:

- Investments, including deposits with bond trustees
- Accounts receivable and revenue (primarily related to collectability and revenue recognition)
- Capital assets (primarily related to capital projects started or finished in 2012)
- Accounts payable and accrued expenses – including pension and other retirement benefit obligations.
- Indebtedness
- Federal financial assistance programs (OMB Circular A-133)

Ms. Bishop outlined the significant accounting estimates and judgments made by management. Based on its preliminary planning, it anticipates those estimates to be as follows:

- Allowance for doubtful accounts, student accounts and loans receivable and pledges receivable.
- Liabilities for self-insured plans, pension and other retirement benefit obligations.
- Cost allocations.

Ms. Sarah Belliveau of BerryDunn said it anticipates the following federal award programs will be tested for compliance under OMB Circular A-133:

- US Department of Education – Student Financial Aid Cluster
- US Department of Education – TRIO cluster

BerryDunn will also evaluate Type B programs (those with greater than $300,000 but less than $3,000,000 in federal expenditures) to determine whether they are high or low risk.

The financial statement audit will be conducted beginning with planning now and concluding in late October, and draft reports will be ready the week of October 22, 2012. Ms. Bishop then highlighted the new accounting and auditing standards and other professional guidance, including:

- GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities
- GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- GASB Statement No. 61 – The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34
• GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements.
She outlined the other GASB projects on pensions, financial projections, fair value measurement and application and other postemployment benefit accounting and financial reporting. These GASB projects are in preliminary stages and not at the exposure draft level. Trustee Fournier asked about the effect of GASB 65 on the UMS bottom line. Ms. Bishop said bond issuance costs would be considered expense rather than capitalized so it will have an impact on assets and liabilities. Any impact is not anticipated to be material.

Ms. Belliveau summarized the proposed changes to OMB Circulars, including the A-133. She said the overarching theme to the changes is that OMB is trying to increase oversight on higher-dollar, higher-risk awards by raising the thresholds for different groups receiving federal awards. The amount of expenditures would determine the number and detail of audits an organization would receive.

Ms. Bishop asked about other issues the auditors should focus on. Trustee Adams asked that they look at purchasing cards and Trustee Baker asked that payroll be considered as well.

**Internal Audit Update.**
Ms. Elliott updated the Committee on Corrective measures taken since last year’s purchasing card audits at UMA, UMFK and UMM. She said that each campus has taken action to respond to the issues discovered during the internal audit process, including increased training, oversight and more timely reporting and documentation. Ms. Elliott said the System Office is sending a monthly report summarizing the number of transactions needing approval to the campuses each month. Trustee Baker asked whether the campuses not highlighted in the report were taking similar actions. Ms. Elliott said the audit reports were sent to all CFO’s so that they would be aware of issues reported and so that they could correct issues on their campuses. Vice Chancellor Rebecca Wyke said the new procurement system was put in place a year ago, and the plan now is to go back and tighten the rules on purchasing card use and to revisit the goals and structure of the program redirecting transactions to the eprocurement system as appropriate.

Trustee Adams asked Ms. Janet Waldron, Vice President for Finance and Administration at UMaine, whether compliance with purchasing card requirements was part of the employee review process. Ms. Waldron said it is not part of the personnel evaluation process, but when there are violations of the policy, disciplinary action is taken if necessary.

Ms. Waldron introduced Mr. Steve Abbott, Athletic Director at UMaine, who joined the meeting. She outlined the results of a review on UM’s application of procedures in accordance with NCAA Bylaws. The auditors compared the actual revenues and expenses in the Athletic Department budget for the year ended June 30, 2011 to the respective figures for the year ended June 30, 2010 and identified and reviewed variances of greater than $24,000 and 10%. The auditors made a number of recommendations and Ms. Waldron and Mr. Abbott outlined the university’s response.

Ms. Elliott asked for a status report on the written compliance manual. Ms. Waldron and Mr. Abbott said the book is being worked on, with about two chapters a month being written.
Trustee Collins asked for the total impact of compliance issues on Department resources. Mr. Abbott said they have a compliance director with staff, and a business office that also deals with compliance. In addition, staff and coaches have to pass an exam each year. He said the NCAA and its member universities are working to streamline some of the rules. Trustee Collins asked about recruitment and whether the dollar percentage dedicated to it was low in comparison to peers. Mr. Abbott said it is low, and more investment could have immediate benefits to the program. Trustee Baker asked whether there was any concern about the finding on coach’s vacation time and how much was on the books. Mr. Abbott said it is a concern, and the Department is looking at ways to address it. Ms. Waldron said the issue reported here was in part due to timing as UM had taken corrective action after the fiscal year end. Management has revised coaches contracts so that two weeks’ vacation time will be deducted annually. Ms. Waldron stated the vacation balances will be reviewed and corrected in the payroll system before June 30, 2012.

Trustee Fournier asked whether there was any overlap between this audit and what BerryDunn will be doing. Ms. Bishop said there could be some overlap, but not in the same detail. Trustee Fournier asked whether the NCAA audit has to be conducted by a specialized firm, or could it be done by BerryDunn. Ms. Bishop said that BerryDunn has done NCAA audits, but O’Connor & Drew, the firm currently engaged by UM, has a significant number of NCAA related audits which adds value given the specific nature of the NCAA related financial and compliance audits. Trustee Adams asked how big a sample of guarantees received in payment for playing away games was used in the audit. Mr. Abbott said the sample included all of the away games.

Other Discussion and Wrap Up.
Trustee Adams asked whether there were other items that members of the committee or staff wanted to discuss. None were raised.

Adjournment.

Peter Cook for
J. Kelley Wiltbank, Clerk of the Board