

University of Maine System
Board of Trustees

Zoom Meeting
May 19, 2022

Audit Committee

Present: Committee Members: David MacMahon, Chair; Sven Bartholomew, Kelly Martin, Emily Cain, Mark Gardner, and Mike Michaud. **Chancellor:** Dannel Malloy. **Presidents:** Joan Ferrini-Mundy. **System Staff:** Ellen Doughty, Tracy Elliott, Ryan Low, Robert Placido and Darla Reynolds. **Other Participants:** Michael Johns - CLA, Brenda Scherer - CLA, Liz Cook – CLA, Ken Ralph, Matthew Curtis, Buster Neel, Jonathan Henry, Jamie Santiago and Caulie Burns.

Committee Members Absent: James Donnelly and James Erwin.

Trustee MacMahon called the meeting to order and thanked everyone for participating. The Clerk performed a roll call of the Committee members present.

June 30, 2021 Single Audit Results

Brenda Scherer, National Director for Student Financial Aid from CliftonLarsonAllen (CLA), and Liz Cook, Manager from CLA highlighted the fiscal year 2021 Single Audit results. Major programs tested in the 2021 Audit include: TRIO Cluster, Coronavirus Relief Fund (CRF), Student Financial Assistance Cluster (SFA) and Higher Education Emergency Relief Funds (HEERF).

The overall audit result was an unmodified opinion on compliance.

The Audit results for the CRF and the TRIO Cluster had no materials weakness, no significant deficiencies and no reported recommendations.

The Audit results for the SFA had no material weaknesses with the following four minimal findings considered significant deficiencies: common origination disbursement reporting, eligibility and certification approval report, student refund checks outstanding for greater than 240 days and a national student loan database system error. Two other items were discovered and noted in the management letter because of the dollar amounts associated with them. The first was the return to Title IV (R2T4) calculation. One of the campuses had a manual process due to modular classes but only 5 students were affected. The second is the review processes related to Pell reconciliations. The reconciliations were being reviewed but were not documented; therefore, the auditors did not have any proof.

UMS Director of Accounting Darla Reynolds explained that corrective measures will be put in place for student refund checks, so they do not reach the 240 days requirement. After reviewing best practices, corrective action plans were developed. The corrective action plans were included in the meeting materials. All of the checks have been resolved except one, which should be resolved within the next couple of days. UMA Chief Business Officer Buster Neel stated that UMA has reviewed their entire process. UMA has had substantial staff turnover in the effected departments and the continuity going forward will help. They have also developed documentation for this process. UMA Director of Financial Aid Jamie Santiago explained that

all financial aid documentation from the Sites and Centers as well as the Augusta campus is process in the Financial Aid Office in Augusta. Trustee MacMahon noted that this was the only repeat finding in the Audit and expressed appreciation that UMA has performed a review of their financial aid process and made corrective actions.

The Audit results for the HEERF had no material weaknesses nor any significant deficiencies. The recommendations were related to reporting. The reporting process for HEERF was very complicated. CLA raised these issues as a reminder to ensure that UMS has timely and accurate reporting. They also recommended a second review of the reports before they are uploaded to the website.

June 30, 2022 Audit Planning

Michael Johns, Principal with CLA reviewed the scope of services and deliverables for the June 30, 2022 Audit. CLA will provide their opinion on the System's financial statements for the years ending June 30, 2022 and 2021. They will also provide a report on internal controls, compliance and other matters in accordance with government auditing standards. They will also report on major federal programs in accordance with the Uniform Guidance, and issue a governance communication letter and, if necessary a management letter.

The audit planning meeting today is part of the audit process. CLA uses a collaborative approach, which includes seeking input from management and governance, to develop an audit plan that focuses on areas of risk and areas of significance to stakeholders. Any items of significance, warranting communication with governance, that arise throughout the audit process will be promptly communicated. CLA works for governance and works with management to accomplish the audit. The Board's input is valued as they develop the audit plan and approach. Mr. Johns asked the Committee if there were any specific areas the Board recommends as a focus of the audit. The Committee members did not raise any areas of focus. Trustee MacMahon asked if the Harold Alfond Foundation (HAF) grants and funding will be part of the audit. Ms. Reynolds responded that HAF funds will be part of the CLA test samples and the HAF award agreements will be shared with CLA.

Ms. Reynolds explained a new funding source for UMS this year is the \$35 million from the State under the Maine Jobs and Recovery Plan. This federal funding is flowing through the State as part of the Covid relief funds. She is not sure what impact those funds will have on the FY2022 Single Audit. It should be more of an impact on FY2023.

Mr. Johns explained that there are new audit standards in place for this year and it will impact the auditor's opinion letter. The changes include the following: the opinion will be presented first, it is a requirement that the auditor is independent and meet other ethical responsibilities, expansion of the description of the auditor's responsibilities and it will include the responsibilities of management and the auditor related to going concern. Additional changes in the audit will include a requirement for the auditor to communicate to governance any significant risks; there is a focus of attention for the auditor on risks of misstatements in the financial statement disclosures; communicating views on significant unusual transactions and potential impact of uncorrected misstatements in future periods; enhanced requirements for related party transactions; and annual reports may need to be included in the audit review.

Mr. Johns shared with the Committee higher education trends and challenges. These include cybersecurity, changing demographics, program profitability, changing technology expectations, inflation, facilities, enrollment planning and succession planning and key position turnover.

New accounting standard GASB 87, *Leases* applies to the UMS both as a lessee and as a lessor. The new standard will require the UMS as a lessee to record the leased asset and a related liability in its Statement of Net Position (SNP) rather than recognizing the lease payments as an expense in the Statement of Revenues, Expenses, and Changes in Net Position as was done in accordance with prior accounting standards. As a lessor under the new standard, the UMS will record a lease receivable and related deferral in its SNP. Ms. Reynolds explained that her team has been working on GASB 87 requirements for the past year.

University of Maine Foundation in the University System's FY2022 Financial Statements

UMS Director of Accounting Reynolds discussed the University of Maine Foundation as a component unit in the University of Maine System's ("UMS") in the FY2022 financial statements. This is a follow-up from the October 2021 Audit Committee meeting at which the Committee discussed the impact of the University of Maine Foundation (Foundation) annual audit to the UMS audit.

In accordance with generally accepted accounting principles, the UMS has included the Foundation as a component unit in its financial statements since FY2004. For the UMS to receive an unqualified or clean audit opinion, the data for the Foundation must be audited and the audit opinion issued by the Foundation's auditors must be unqualified. In all years that the UMS has included the Foundation's data, their audit opinion has been unqualified.

Historically, the Foundation has had a fiscal year end of June 30 and their annual audit has been conducted by their auditors during the same time frame that the UMS' audit occurs. Over the past several years the Foundation has increased its holdings in alternative investments for which June 30 market values tend to be delayed. Subsequently, the Foundation has found it increasingly challenging to complete its audit by the deadline for inclusion in the UMS's financial statements which are due to the State of Maine by November 1st.

To address this increasing challenge, the Foundation's Board of Directors voted last fall to change the Foundation's fiscal year from June 30th to December 31st, effective December 31, 2021. This change will enable the Foundation to obtain the needed investment values and complete its audit in advance of the date by which the UMS needs the data. For this transition year, the UMS' FY2022 financial statements will include audited data for the Foundation for the six months ended December 31, 2021 in comparison with the previously audited data for the twelve months ended June 30, 2021.

UM Department of Athletics Agreed-Upon Procedures (AUP) Report

University of Maine Athletics Director Ken Ralph and UM Associate Athletic Director for Business Matthew Curtis provided a brief overview regarding the report on Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.17 for the year ended June 30, 2021 performed by O'Connor & Drew. This report addresses evaluation of the Statement of Revenues and Expenditures of the UM Department of Athletics for compliance with specific NCAA Bylaw requirements. No findings were discovered in the report and UM remains in compliance with all NCAA and university policies and procedures.

One question that was raised related to athletic student aid for the summer courses and adjustments associate with recording of financial aid for those courses. Mr. Curtis explained that moving forward a deadline will be established for any decisions relating to the summer courses.

After that deadline date adjustments will not be made. This will focus on decisions for courses in June, July and August to have financial aid recorded in the correct fiscal year.

Executive Session

On a motion by Trustee Cain, which was seconded by Trustee Michaud, and approved by a roll call vote of all Trustees present, the Audit Committee agreed to go into Executive Session under the provisions of:

- 1 MRSA Section 405 6-A to discuss the evaluation of personnel and the consideration and discussion of appointments, evaluations, employment and duties.
- 1 MRSA Section 405 6-C to discuss the condition, acquisition or disposition of real property or economic development if premature disclosure of the information would prejudice the competitive or bargaining position of the UMS.

On a motion by Trustee Gardner, which was seconded by Trustee Cain, and approved by a roll call vote of all Trustees present, the Audit Committee concluded the Executive Session.

Additional information on the meeting can be found on the Board of Trustees website:
<https://www.maine.edu/board-of-trustees/meeting-agendas-materials/audit-committee/>

Adjournment.

Ellen N. Doughty, Clerk