

University of Maine System  
Board of Trustees

Zoom Meeting  
October 26, 2022

**Audit Committee**

**Present: Committee Members:** Mike Michaud, Chair; Sven Bartholomew, Kelly Martin, David MacMahon and Trish Riley. **Other Trustees:** Emily Cain. **Chancellor:** Dannel Malloy. **Presidents:** Joan Ferrini-Mundy. **System Staff:** Ellen Doughty, Tracy Elliott, Ryan Low, Darla Reynolds and Carolyn Dorsey. **Other Participants:** Michael Johns - CLA, Samantha Hegmann, Linda Bournival – KMS Actuaries, Joanne Yestranski and Kelly Sparks.

**Committee Members Absent:** James Donnelly and Lisa Eames.

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

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

UM Associate Athletic Director for Compliance Samantha Hegmann 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 academic year 2021-2022 performed by O'Connor & Drew. The following findings were reported that were primarily related to various forms:

**Transfer-Eligibility Certification**

*The Student Athlete Statement for six of the University's athletic teams and noted that one student-athlete did not complete and submit the form prior to participation in intercollegiate competition. Additionally, we noted one of the student-athletes did not sign the form at all. Also, three student-athletes did not complete and submit the Drug-Test Consent form prior to participation in the first practice for their respective sport. Additionally, one student-athlete signed the form after their athletic season was completed.*

Since the audit, the Compliance department has added a full-time Compliance Coordinator. One of their main responsibilities will be the maintenance of the beginning of the year paperwork. Additionally, the Compliance Department will develop a notification process prior to the first practice. This will alert coaches which athletes have not completed the necessary paperwork and cannot participate in practice activities. We will also extend that notification to support staff (trainer, strength coach etc.). For the 2022-2023 academic year, the beginning of the year packet was modified to include fewer forms required for student-athletes to complete.

**Playing Practice Seasons**

*When reviewing the medical examination records for the Football team, one student-athlete did not have their examination or evaluation administered prior to participation in preseason practice. The season practice logs for seven of the teams were reviewed and noted Men's Basketball had 20.5 hours of countable activities during the week of 1/17/2022 to 1/23/2022. Additionally, we noted a Track and Field practice on 2/21/2022 with a documented practice time of 3-8pm.*

The Compliance department recommended to the athletic training staff that they double check all paperwork prior to the student-athletes having practice clearance. Coaches submit practice schedules and/or practice outlines when they submit their playing and practice season declaration in ARMS. The Compliance department will do a better job reviewing schedules to see if there could be any room for error. Additionally, UM reviewed the logs and CARA compliance violations in a timely manner and compare them to the schedules they provided.

The report had four general recommendations:

- The University should ensure that the NCAA Transfer Tracer is completed by the prior institution for each transferring student-athlete before continuing with the transfer process. This will ensure the information regarding both academic and athletic eligibility is accurate for each transfer student-athlete. The Compliance Department has already started taking action to rectify this recommendation.
- The ticket office should create a workflow in ARMS for all complimentary admissions requests to ensure requests are completed in a consistent manner. This will allow Compliance to determine if all complimentary admissions are in compliance with NCAA bylaws. The Compliance department has already worked with the ticket office to implement better practices for the coach complimentary ticket request.
- The track and field coaching staff should input all practice times into ARMS, including individual student-athletes' attendance for each specific practice. The University has recently hired a new head track and field coach and will be onboarding a new assistant as well. The Compliance department has been working with the new coaching staff to ensure they are inputting their CARA hours accurately and individually.
- All activities including student-athletes should be documented in ARMS to ensure the University is in compliance with the eight-hour limit. The Compliance department has been working with basketball and football staff to ensure that their summer participation is input correctly and up to date.

### **Audit Committee FY2023 Work Plan**

UMS Vice President for Finance and Controller Tracy Elliott explained that all Board of Trustees Committees annually review their Work Plans, which provide an overview of the agenda items for the fiscal year. The Audit Committee FY2023 Work Plan and Committee Responsibilities document was included in the meeting materials for review and will be forwarded as an information item to the November 13-14, 2022 Board of Trustees meeting.

### **Other Postemployment Benefits (OPEB) Plan Presentation**

Linda Bournival of KMS Actuaries, LLC provided an overview of the UMS OPEB Plan's actuarial results including key financial results and information about the Plan's Trust assets and funded status. Other Postemployment Benefits (or OPEB) are benefits (other than pensions) that U.S. state and local governments provide to their retired employees which primarily involve healthcare benefits, but may also include life insurance, disability, and other services.

Ms. Bournival provided an overview of the periodic review of the OPEB Plan experience, review of the assumptions and methods, and reviewed the financial statement disclosures. In 2021 a new HRA exchange program was introduced for the OPEB Plan. The Actuarial Valuation Model includes the following elements: UMS submits to KMS the employee and retiree data and substantive plan of benefit provisions (all communications to retirees); KMS selects actuarial

assumptions and actuarial results are used for the funding and the accounting disclosures; and 2022 is a “roll forward” year.

The Plan provides Medicare-eligible retirees and spouses with the Aetna Medicare Advantage Plan with the plan cost being shared between UMS and the retirees. Effective January 1, 2021 retirees may elect coverage under the Alight Retiree Health Exchange which provides a HRA of \$2,100 for retirees and \$800 for spouses. This plan has catastrophic prescription drug coverage. KMS works with UMS to develop the fund strategic for the Plan, which again this year has a long-term expected return on assets of 7.25% and includes an inflation assumption of 2.4%. Health care trend rates and demographic data are also considered in the valuation assumptions. UMS has an OPEB Trust which is used to accumulate assets to prefund the OPEB liabilities. Criteria of the Trust is the assets are dedicated to providing benefits to retirees, are legally protected from creditors of UMS and employer contributions must be irrevocable. UMS has a systematic method of prefunding to the OPEB Trust with the funding policy and the discount rate being reviewed annually.

In October 2022, a revised funding policy was adopted. The funding policy was reviewed because the prior year the policy was funded at 111% and this year the fund was underfunded. For FY2022, OPEB Trust Assets had an ending balance of \$156 million and the total OPEB Liability ending balance of \$173.8 million. The funding ratio as of June 30, 2022 is 89.77%. As of June 30, 2022, the financial statement disclosures under GASB 75 indicate an expense of \$3.4 million.

Responding to a question on from a committee member if there will be savings over time in moving to the exchange and are we meeting our expectations, Tracy Elliott explained that there was a one-time hit in the year of implementation because actuarial requirements would recognize the savings in the year of the plan change. Therefore, \$49 million was a one-time impact and UMS would not expect that going forward. UMS had a \$37 million return from the OPEB assets that are invested in the Managed Investment Pool and a \$49 million one-time savings, which is the present value of all of the future years of savings. UMS did not have that same experience this year with a loss of \$23 million.

### **Annual Financial Report – FY2022**

UMS Director of Accounting Darla Reynolds provided a detailed overview of the Annual Financial Report for the year ended June 30, 2022. The report is in draft form waiting for Board approval later today. There are three sets of financial statements: System-Wide, Discretely Presented Component Unit and UMS Fiduciary Activities. The external auditor has provided an opinion of each of these sets. The external auditor offered an unmodified or clear opinion. The UM Foundation financial statements covered only a six-month period ending Dec. 31, 2021 due to a change in the fiscal year.

There was a new accounting standard on leases that took effect in FY2022. Therefore, the financial statements reflect the impact of this accounting standard for FY2021 and FY2022 because UMS is now required to state all of its leases in the statement of net position. Previously only the leases that met criteria for capitalization were included in the statement of net position and all other leases are part of the statement of revenues, expenses and changes in net position. The impact of stating the leases is reflected in a reduction in the net investment in capital assets of just under \$1.2 million.

The FY2022 statement of revenues, expenses and changes in net position reflects a total in operating revenues of just under \$467 million (which is an increase of \$61 million from the prior year but less than per pandemic levels) less operating expenses of \$811 million (which is an increase of 19% from the prior year) for a resulting operating loss of \$344 million. UMS operating expenses will always exceed operating revenues as the Governmental Accounting Standard Board (GASB) require certain revenues that the System relies on to fund operations be recognized as non-operating. The total net position for FY2022 is \$970 thousand, a 3% increase from the prior year. For FY2022 there were substantial increases from the prior year in the nonoperating revenues as a result of the increase in State appropriations and the coronavirus relief funds. Also, for FY2022 there were changes in other changes in net position as a result of the increase in capital grants and gifts (primarily due to the donations for the UM Ferland Engineering Education and Design Center) and a loss of \$26 million in the endowment return. UMS has good and improved liquidity for a total of \$314 million, a \$25 million increase from the prior year in cash, cash equivalents and operating investments, which is 81% of total current assets. Total noncurrent assets increased 2% from the prior year to \$975 million. Total liabilities increased 15% from the prior year to \$387 million due to increased construction activity, OPEB liabilities and new leases.

Vice Chancellor for Finance and Administration and Treasurer Ryan Low stated that the results of the work and decisions from the Finance, Facilities and Technology Committee and the Board are not prevalent for several years. He is encouraged because UMS is now starting to see some of those positive impacts, which are starting to be reflected in the financial statements with diversification of funding for capital requests. The efforts to educate our appropriators about the System needs is reflected in the increase in appropriations as well as the increase in state capital investments.

An issue was raised that in FY2022 UMS distributed more scholarship funding than what the System gained in tuition and fees revenue. Vice Chancellor Low responded by stating the campus profile documents clearly display that history over a 13-year period. With an increase in scholarship funding, the number of student loans is decreasing but it does present some fiscal challenges and this data does vary from campus to campus. This is an area that he will continue to discuss on a campus-by-campus basis as they develop the FY2024 budget. Chancellor Malloy commented that this is a difficult harvesting mechanism because if UMS wants to attract students it's important to tell them at the time of their acceptance what their financial aid package will look like and it is a bit of a guessing game as to what percentage of students will take that package. However, the trend of paying students to join UMS versus our competition has put a great deal of pressure to include those offers early and more substantially. Vice Chancellor for Research and Innovation and University of Maine President Joan Ferrini-Mundy stated that this is an area they are watching very carefully at UM and UMM.

On a motion by Trustee MacMahon, which was seconded by Trustee Riley, the Audit Committee approved this item to be forwarded to the October 26, 2022 Special Board of Trustees meeting for approval of the following resolution:

That the Board of Trustees accepts the recommendation of the Audit Committee and approves the FY2022 Annual Financial Report as presented.

**Auditor Communications to the Audit Committee**

CliftonLarsonAllen LLP (CLA) representative Michael Johns provided a report to the Committee, including discussion of the 2022 UMS audit results, required communications letter,

and emerging accounting issues. CLA provided an overview of their financial statement audit process and risk assessment. The audit results showed no material audit adjustments and no material weaknesses identified. The auditors reported an unmodified opinions of the financial statements. CLA did not audit the component unit, the UM Foundation, because they engaged with a separate auditor; therefore, their opinion as it relates to the UM Foundation is based purely on the audit report submitted by the other firm. Mr. Johns explained that some best practice recommendations in the IT area and a deficiency and a significant deficiency in the financial reporting controls will be reviewed in the Committee's executive session.

Mr. Johns explained the Gramm-Leach-Bliley Act, which will become effective on December 9, 2022 which requires the System to explain their information-sharing practices and to safeguard sensitive data.

### **Executive Session**

On a motion by Trustee MacMahon, which was seconded by Trustee Martin, 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 Riley, which was seconded by Trustee MacMahon, 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