

UNIVERSITY OF MAINE SYSTEM
Board of Trustees

May 11, 2009

Audit Committee Meeting

Present: **Committee Members:** James Dowe, Chair, Norman Fournier, Barry McCrum, Victoria Murphy (by Polycom) and Lyndel Wishcamper. **Other Trustees:** Charles O’Leary. **Chancellor:** Richard Pattenau. **System Staff:** Darla Baker, Tracy Elliott, Ed Dailide, Rebecca Wyke, and Kelley Wiltbank. **Guests:** Janet Waldron - UM, Duaine Smith – PWC, John Hand – PWC, Steven Caron – KMPG (by phone), and Scott Warnetski – KMPG (by phone).

Trustee Dowe, Chair, called the meeting to order.

Status Report and FY09 Reviews. Mr. Duaine Smith, PricewaterhouseCoopers (PWC), presented the internal audit update including a status report of completed assessments and a proposed internal audit plan and budget for FY2010. Campus budgeting and forecasting assessments have been completed for UMF and UMA. The scope of the audits included processes, tools and controls within budgeting, forecasting and reporting functions; alignment of budgeting and forecasting with System and campus strategy; budgeting and forecasting level of detail, accuracy and timeliness; communication between Office of the Vice President for Administration and the Office of the President; budgeting and management of capital projects, revenue and expenditures; ability to enter the budget in PeopleSoft immediately following approval of the Board of Trustees; monitoring controls over grant management, specifically those with shared costs; and oversight of facilities expenditures budget. Mr. Smith stated that review at UMF and UMA were both very positive.

Results of Budgeting/Forecasting Assessment at UMF

- The campus budgeting process displays fiscal discipline and budget participants have accountability for budget compliance and appear to leverage the strategic plan when making budget decisions.
- The current revenue forecasting model leverages historical enrollment rates to predict future enrollment. A more elaborate forecasting model that identifies additional parameters to assess enrollment drivers, as well as presenting extended “what if” modeling, is currently being evaluated by the Office of Administration.
- The campus employs a very centralized budgeting process with few individuals involved in the creation of the budget. The President’s Council determines department level budget targets and communicates them to the campus community.
- In 2007 the President formed a Budget Advisory Committee which consists of members of campus staff, faculty and students. The roles and responsibilities of the committee require additional definition and the format of financial information used to share budget information with the group and the larger campus audience must continue to improve and evolve.
- The campus has historically had several unbudgeted categories where expenses were met with unbudgeted revenues. The University should include the remaining anticipated expenses in the planning process.
- Offline spreadsheets are used by some budget managers to track variance to budget because expense transactions are not always entered into PeopleSoft on a timely basis. The delays in the processing of expense transactions have led many budget managers to

track their budgets offline, in parallel with PeopleSoft data entry. This dual entry results in duplicate employee efforts and decreased utilization of the University's investment in the PeopleSoft application.

UMF has very competent staff. UMF will need more PeopleSoft training in order to reduce the duplication with the use of Excel spreadsheets and they are willing to move in this direction

Results of Budgeting/Forecasting Assessment at UMA

- The campus budgeting process displays fiscal discipline and budget participants have accountability for budget compliance.
- Approximately two years ago, the campus developed a robust strategic plan consisting of seven high priority goals. Since the creation of the plan, there has been limited formal linkage between the plan and the annual budgeting process. In addition, there is no use of metrics to measure progress against the defined strategic goals.
- The campus leverages a process largely based on prior year values to estimate future enrollments and credit hours and is interested in leveraging a more stochastic based approach. We concur with the campus' suggestion to create a part-time position in Institutional Studies to partially support this need.
- The campus employs a somewhat centralized budgeting process. While this approach is consistent with several other campuses within the System there is an opportunity to expand the responsibility of the Deans into areas such as course scheduling and part-time instruction.
- The campus leverages four committees to provide input into the budgeting process and act as communication vehicles for sharing budget related topics with the campus community. The campus should develop and document formal roles and responsibilities for each group in order to clarify budgeting accountability across the campus.
- While the current budget timeline meets the needs of the campus and the System, there is no formal documentation budget timeline or calendar with deadlines guiding the execution of the budgeting process.
- The Office of the Vice President for Finance is in the process of developing custom reports that will be pushed out to budget managers periodically to encourage them to track their individual budgets. This approach is consistent with better practice and should be continued.

FY2010 Proposed Audits and Budget. Mr. Smith recommended a combined campus budgeting, forecasting and reporting review for UMPI, UMFK and UMM during FY2010. The targeted timeframe would be June, July or August for \$45,000 for the three reviews instead of the original quote of \$45,000 for each campus. The Audit Committee agreed with that strategy.

At the suggestion of UMS management, PWC recommended a compensation and benefits review during FY2010 for \$50,000. Ms. Rebecca Wyke, Vice Chancellor for Finance and Administration & Treasurer, commented that compensation and benefits were identified as high risk areas and a more in-depth review is required in addition to what is done with the review of the financial statements. The Audit Committee agreed with the recommendation.

The Audit Committee asked PWC if there are any other areas within the UMS that require focus. Mr. Smith suggested a review of the Information Technology area risks, Information Technology

strategic plan and privacy and security issues. Ms. Wyke pointed out that several reports assessing information technology were recently performed. In particular, the Oracle Insight Report recently performed a review function of the UMS information technology which included support for properly staffing the Information Technology area.

Mr. John Hand, PWC, reviewed the Development information privacy and security review and the Development donor agreement review for UMaine. Ms. Janet Waldron, Vice President for Finance and Administration at UMaine, provided an update on the status of the Advance System database at UMaine. The Advance System is scheduled to “go-live” on May 18, 2009.

Ms. Wyke stated there are unidentified audit review funds for FY2010 and asked the Audit Committee to report back to her if there are any areas where audits should be performed.

Red Flag Rules. Mr. Kelley Wiltbank, University Counsel and Clerk of the Board, reviewed the Red Flag Rules. Pursuant to the Federal Trade Commission’s (“FTC”) Red Flags Rule, which implements Section 114 of the Fair and Accurate Credit Transactions Act of 2003, the University of Maine System (“University”) is required to develop an identity theft prevention Program (“Program”) taking into consideration the nature, size complexity of the University’s operations and account systems, and the scope of the University’s activities.

A “Red Flag” is a pattern, practice, or specific activity that indicates the possible existence of identity theft. “Identity theft” is a fraud committed or attempted using the identifying information of another person without authority. “Identifying information” is any name or number that may be used, alone or in conjunction with any other information, to identify a specific person including: name, address, telephone number, social security number, date of birth, government passport number, employer or taxpayer identification number, student identification number, a computer internet protocol address, other electronic identification or routing code, or data such as fingerprints and other unique physical representations. A “Covered Account” includes all business, personal or student accounts, or loans that are administered by the University that involve or are designed to defer payments, permit multiple payments or transactions. It may also include portals or websites where users may access and modify accounts involving financial, operational, compliance or reputational information.

Red Flags may appear from information received or observed in the following categories:

- Notifications and warnings from credit reporting agencies
- Suspicious documents
- Suspicious personal identifying information
- Suspicious covered account activity or unusual use of account
- Alerts from others

The Audit Committee is assigned responsibility for the oversight of the policies and practices related to Risk Management and the Director of Finance and Controller, or designee, shall be the Program Administrator and is responsible for implementing and updating the Program. The Program Administrator will be responsible for ensuring appropriate training, for reviewing any reports of Red Flag events, and taking the necessary steps for preventing and mitigating identity theft. Annually, the Program Administrator shall report to the Vice Chancellor for Finance and Administration on compliance with the Program addressing effectiveness of the procedures in place, significant incidents involving Identify Theft, and management’s response and

recommendations for adjustments to the Program. The Audit Committee will also receive an annual update on Program.

On a motion by Trustee Fournier, which was seconded by Trustee McCrum, the Audit Committee, which is assigned responsibility for the oversight of policies and practices related to Risk Management, adopted the Red Flag Program on behalf of the University of Maine System, as amended. The Fair and Accurate Credit Transactions Act of 2003, an amendment to the Fair Credit Reporting Act, requires the University of Maine System to adopt rules regarding warnings of actual, threatened or potential identity theft to certain covered accounts, commonly referred to as "Red Flag Rules".

KPMG 2008 Audit Plan. Mr. Steven Caron and Mr. Scott Warnetski from KPMG, the University's independent auditors, discussed the 2009 Audit Plan including information about the engagement team, audit methodology, a timetable for the financial statement and A-133 audits, and current and emerging accounting and auditing matters.

Mr. Warnetski reviewed the KPMG's Audit Team, Audit Methodology (KAM) and the Audit Timetable. The KAM is their audit methodology that facilitates and enhances audit quality. The four components of the KAM are planning, control evaluation, substantive testing, and completion. Mr. Warnetski reviewed the accounting matters that could have a material impact on the System's financial statements.

A new accounting pronouncement effective for FY2009 will include GASB 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This will be effective for fiscal year ending June 30, 2009 which establishes accounting and financial reporting for pollution remediation obligation including asbestos removal, hazardous waste clean-up, and post-remediation monitoring. Future accounting pronouncements include GASB 51 – Accounting and Financial Report for Intangible Assets and GASB 53 – Accounting and Financial Reporting for Derivative Instruments. Both pronouncements are effective for fiscal year ending June 30, 2010.

Ms. Tracy Elliott, Director of Finance and Controller, explained that the UMS will have a few issues to report under GASB 49 but nothing of significance. Ms. Wyke commented on the new accounting requirement to record the severance payments that will be paid out in FY2010 which will need to be recorded on the financial statements in FY2009 because that is when the funds were committed to be paid.

FY2007 OMB Circular A-133 Report. Mr. Caron reviewed the OMB Circular A-133 audit of the University of Maine System for fiscal year 2008. The UMS total expenditures of Federal Awards were \$236 million of which \$150 million was for Student Financial Assistance. The independent auditor's report on compliance was favorable as indicated by the unqualified opinion. There were no findings or questioned costs related to federal awards.

Trustee Dowe, on behalf of the Audit Committee, extended congratulations to all of the campuses for their work on the favorable audit.

Trustee Dowe asked KPMG to comment on how the UMS is handling its internal audit approach. Mr. Caron responded by stating the current approach is working well because management

identifies risks and compliance issues as well as monitors the policies and procedures. KPMG relies on the reported results throughout the year and not just what is reported at year end. Trustee Dowe asked KPMG if they would recommend any areas the UMS should perform internal audits. Mr. Caron suggested the facilities construction contracts as a possible internal audit and he will notify the Audit Committee with any other suggestions.

Trustee Dowe raised a concern about the System's ability to accurately track the use of the stimulus funds. Ms. Wyke assured the Audit Committee that the UMS will be carefully tracking and monitoring the use of the stimulus funds to ensure the funds are being used according to the established criteria.

Adjournment

Ellen Doughty for
J. Kelley Wiltbank, Clerk