

UNIVERSITY OF MAINE SYSTEM

Board of Trustees

at the University of Maine System

October 31, 2008

**Audit & Finance/Facilities Committee Joint Session**

**Present:** **Committee Members:** James Dowe, Chair - Audit Committee; Norman Fournier, Chair - Finance/Facilities Committee; Marjorie Medd, Paul Mitchell, Victoria Murphy (via Polycom), and Lyndel Wishcamper. **Other Trustees:** Tamera Grieshaber (by phone). **Chancellor:** Richard Pattenaude. **Faculty Representatives:** Robert Rice, Bert Jacobs, and Bruno Hicks (for Ray Albert – by Polycom). **Student Representatives:** Marie Follayttar (by Polycom), Ken Hoyt, and Cynthia Nesbit. **Staff:** Tracy Bigney, James Breece, Eduard Dailide, Tracy Elliott, Darla Reynolds, Kelley Wiltbank, Miriam White, and Rebecca Wyke. **Others Attending:** Theodora Kalikow (by Polycom), Richard Cost (by Polycom), Donald Zillman (by Polycom) Tom Potter (by Polycom), John Murphy (by Polycom) Dick Campbell, Janet Waldron, Claire Strickland, Bill Geller, Charles Bonin, John Hand and Duaine Smith from PricewaterhouseCoopers, and Steve Caron and Scott Warnetski from KPMG.

**Absent:** Susan Gendron, Barry McCrum, and Charles O’Leary.

Trustees Dowe and Fournier, Chairs, called the meeting to order and welcomed everyone.

**Annual Financial Report FY2008.** Ms. Tracy Elliott, Director of Finance and Controller, provided an overview of the Annual Financial Report for FY2008. The University of Maine System ended the FY08 Fiscal Year positively with total net assets increasing from \$632 million as of June 30, 2007 to \$641 million as of June 30, 2008, a 1.4% increase. The Fall 2007 student FTE enrollment declined 1% to 24,056 and the UMS had a 10.5% weighted average increase in undergraduate in-state tuition and fees and a 6% weighted average increase in room and board rates in FY08.

Due to difficult market conditions, the Endowment Fund loss was approximately -\$3 million in FY08 as compared to income of \$17 million in FY07. The pooled Endowment totaled \$115 million as of June 30, 2008. The combined Endowment and other investments for the UMS and its component units total \$302 million as of June 30, 2008. The investment income on operating investments was \$3.7 million in FY08 as compared to \$10.5 million in FY07. Capital asset additions, financed primarily by UMS revenue bonds, state capital bonds and gifts, totaled \$68 million in FY08 as compared to \$81 million in FY07, reflecting the continued improvement in facilities across the state. The major capital projects in planning stage or in progress in 2008 total \$123.6 million. Major construction in progress in FY08 included the University Commons and Osher Map Library Building expansion at USM, a new residential hall at USM’s Gorham campus, and recreation and dining facilities at UM.

The State Appropriation increased from \$192 million in FY07 to \$201 million in FY08, a 4.7% increase and continued to be approximately 31% of the total operating and net non-operating revenue for the UMS. The tuition and fees and residence and dining fees are the primary sources of operating revenues and in 2008 totaled \$215 million, an 8% increase from 2007. The total cash gifts were \$19 million in FY08 as compared to \$18 million in FY07.

New for this fiscal year was the implementation of GASB Statement 45 which requires accrual-based accounting for postemployment benefits other than pensions. The 2008 annual required contribution (ARC) was \$15.8 million. The System funded the ARC for 2008 through direct payment of claims costs and \$9 million to be contributed to a trust before December 31, 2008.

Mr. Steve Caron, KPMG, noted that the \$43 million increase in FY07 compared to the \$9 million increase in FY08 largely is a result of operation and Endowment Fund performance and GASB 45 recognition. He stated that the Endowment loss is consistent with the market conditions and the UMS had better performance in the Endowment Fund than most other higher education organizations. Mr. Caron said the financial statement audit went very well, the campuses were well organized and there were no questions about integrity or incompetence issues, the financial information was very comprehensive, and there were no findings or internal control issues.

Trustee Murphy asked if there are any contingency plans in place to control costs for FY2009. Ms. Rebecca Wyke, Vice Chancellor for Finance & Administration and Treasurer, responded by explaining the Chancellor's System Wide Services Spending Control Measures to slow spending at the System Office. In addition each President has been directed by the Chancellor to set tight spending controls.

**KPMG Report Including the Management Letter.** Mr. Steve Caron, KPMG, reviewed the results of the 2008 audit. KPMG's 2008 report on compliance and on internal control over financial reporting indicated no material weaknesses and no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Mr. Scott Warnetski, KPMG, outlined the areas of emphasis on the audit. The areas of emphasis included education, research, facilities, investments and the implementation of new accounting standards – GASB 45, Other Postemployment Benefits and GASB 50, Pension Disclosures.

Mr. Warnetski outlined high level recommendations to help UMS management and the Board determine and implement strategies to ensure the future of the System is on solid footing. KPMG's Budget-Performance Maturity Model categorizes cost savings and revenue enhancement opportunities within four levels of maturity. These levels of maturity consider the long-term impact of the opportunity from a budgetary/financial perspective relative to the performance improvement that might be achieved through implementation. The maturity levels are Quick Wins, Controls, Structural, and Strategic. Quick Wins are those that have immediate financial impacts. Controls are efforts to reinforce existing or implement new control mechanisms designed to secure existing revenue streams and control the flow of expenditures. Structural changes are fundamental and have longer-term impacts. Strategic initiatives have a long-lasting impact on savings/revenues and can greatly improve efficiencies and operational performance.

Ms. Wyke commented that the Board will receive a forecast in November. This forecast will include FY08 year end actuals, FY09 annual budget, and FY09 year end projections, FY08 actuals as of 10/31/07, FY09 budget as of 10/31/08, and actuals as of 10/31/08. This forecast is not the same as monthly or quarterly budgeting. She believes that monthly or quarterly budgeting is the best method for the campuses and the Board to understand the System's

financial position. Monthly or quarterly budgeting would provide time to anticipate and react quickly to address issues. The PeopleSoft software was not implemented to address this type of budgeting and there may be an additional cost to address the software issue and for the campuses to comply with a more granular level of budgeting. Ms. Wyke expressed that she would like to work towards the goal of a more detailed or granular budgeting level to facilitate accountability and sustainability but the System will need to have the proper tools in place.

Mr. Warnetski reported that during last year's Audit, KPMG recommended closing the books a little earlier to allow an appropriate amount time for the audit to be completed prior to the Audit Committee meeting. This year's audit was completed a week earlier than last year but there could be some improvement in more timely closing the books and preparing the financial statements.

Trustee Dowe stated that System management is working on assigning responsibility for measures to control costs and will report back to the Board.

Trustee Medd commented that a summary statement of the cost saving measures separated by KPMG's model of "Quick Wins, Controls, Structural, and Strategic" opportunities should be reported at each Board meeting and Committee meetings. Trustee Dowe thanked Ms. Elliott and Mr. Caron and Mr. Warnetski from KPMG for their efforts with the Audit.

**Internal Audit Update FY2008-2009.** Mr. Duaine Smith and Mr. John Hand, PricewaterhouseCoopers, provided an internal audit status report for FY2008 and 2009 including discussion of the budgeting and reporting processes at UM. The FY2008 Internal Audit activities that have been completed include the Compensation and Benefits Risk Assessment; the USM budgeting, forecasting and financial reporting; and the Go-live Readiness Assessment for Student Systems. The UM budgeting and forecasting assessment was deferred to FY2009.

During FY2009, a budget will be completed for UM, UMF and UMA. The Audit Committee agreed with the FY09 status of internal audit schedule. It was suggested the Audit Committee may want to have a follow-up to the campus budget review completed at USM in FY2010. These will provide the Committee comparable data.

Mr. Smith reviewed a summary of findings grid which demonstrates how the budgeting process at the University of Maine compares with higher education and government benchmarks standards in several categories. The categories include fiscal responsibilities, alignment with strategy, use of driver based concepts, budgeting participation, length of time, level of detail, budgeting tools, and reporting & analysis. Mr. Smith discussed the categories that could be improved. One of the areas of improvement is the Length of Time category. It currently takes 4 to 6 months to complete the budget and optimally the budget should be completed within 2 to 3 months. The Budgeting Tools and the Reporting & Analysis categories indicate that the use of on-line, automated, standardized reporting would make the budget process more efficient and effective.

Ms. Janet Waldron, Vice President for Administration and Finance at UM, explained that the findings reported by PWC on the audit include both UM observations and UMS comments and observations.

PWC recommended that the UMS have a more granular budgeting process to include at least quarterly or monthly budgeting. Trustee Wishcamper asked Ms. Wyke about the System Office findings and how the System will handle these recommendations. Ms. Wyke responded by stating she will work to address the recommendations working towards a more granular approach for the budget and will come back to the Committee with a plan for going forward.

A lengthy discussion ensued with the campus Chief Financial Officers on the budgeting processes.

Ms. Waldron reviewed the UM Risk Assessment: Risk Universe. UM with the assistance of PWC developed an inventory of the business risks by functional area. The inventory of risks was performed through the use of a risk assessment survey and the creation of a risk universe. Interviews were conducted with key university personnel during December 2007 and January 2008 to help management assess the risk areas. This assessment was formed by and expanded upon the prior work of the Risk Assessment and Review Advisory Committee. The results of this assessment should be used by the University to determine the appropriate level of resources to assign and monitor controls in these respective areas.

**Year-End Financial Reporting FY2008.** Ms. Wyke reviewed the year-end financial reporting for FY2008. The UMS unrestricted operating results for fiscal year 2008 saw our increase of \$591 thousand. Three campuses, UMFK, UMM, and USM, had a deficiency and System-wide Services had a deficiency which was a result of loss of investment income and incremental post-employment health funding. Ms. Wyke commented that energy was a cost driver on the campuses during FY2008.

Mr. Dick Campbell, Chief Financial Officer at USM, provided a brief overview of the budgeting process at USM and the progress the campus has made in reducing the budget deficiency. USM conducted rigorous budget reviews this spring and a number of internal budget adjustments have been made.

Mr. Tom Potter, Chief Financial Officer at UMM, commented that they are balancing their educational and general (E & G) side of the budget and that the problem areas at UMM are auxiliaries. Enrollments in residence halls have increased, the child care center was closed, and the fitness center has been realigned.

Ms. Waldron, spoke about how UM managed energy costs resulting in a 2.1% cost savings. She stated that some of the cost savings resulted from switching from oil to natural gas and the extensive conservation efforts throughout the campus.

Chancellor Pattenaude stated that Portland Hall at USM was sold this week.

### **Campus Budget and Strategic Direction Presentations.**

University of Maine at Farmington President Theodora Kalikow, University of Maine at Presque Isle President Donald Zillman, and University of Maine at Fort Kent President Richard Cost provided presentations on their campus budget and strategic directions.

Adjournment.

Ellen Doughty  
for J. Kelley Wiltbank, Clerk