EXECUTIVE SUMMARY
AUDIT RESULTS
JUNE 30, 2014
• GASB – Governmental Accounting Standards Board. This board is responsible for establishing standards of accounting and financial reporting for U.S. state and local governments.

• FASB – Financial Accounting Standards Board. This board is responsible for establishing standards of accounting and financial reporting for U.S. nongovernmental organizations, including for-profit and not-for-profit organizations.

• AICPA – American Institute of Certified Public Accountants. The AICPA sets ethical standards for the CPA profession and sets U.S. auditing standards for private companies, nonprofit organizations, federal, state and local governments.
DISCUSSION AGENDA

- Review of required communications letter
- Review of financial statement audit plan and results
- GASB statements to be implemented in the next two years
- Emerging issues - GASB’s technical plan
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SIGNIFICANT AUDIT AREAS

- Cash and investments
- Receivables and service and grant revenues
- Capital assets/facilities, bonds payable and related expenses
- Payroll liabilities and related expenses
- Accounts payable and related expenses
CASH AND INVESTMENTS

Significant Internal Control Procedures
• Review of investment and cash management policies.
• Review of Investment Committee minutes for information on investment activity and performance.
• Observed and reviewed reconciliations of cash and investment accounts.
• Controls over physical access.
• Internal Control Reports from selected investment custodians – SSAE 16.

Significant Substantive Procedures
• Confirmation of cash accounts and investment market value.
• Review of selected bank reconciliations.
• Valuation testing.
• Obtaining investment manager reports and comparing to investment return results.
• Test of allocation of return.
• Test of spending draws to approved policy.
• Test of unitization.
Significant Internal Control Procedures

• Tested controls over delinquent balances in student accounts receivable.
• Obtained and reviewed Internal Control Report for 3rd party loan administrator.
• Observed and tested grant revenue draws done by System office.

Significant Substantive Procedures

• Predictive tests of E&G revenue.
• Analysis of aging and allowance for reasonableness and consistency with established policies.
• Test of contributions.
• Confirmation of State appropriations.
• Tests of grant revenue and receivables to award documents and support for expenditures if on reimbursement basis.
• Analytical procedures.
Significant Internal Control Procedures

- Tested Board of Trustees advance approval for large projects.

Significant Substantive Procedures

- Tests of capital additions to supporting invoices and approvals.
- Tests of detail supporting capital projects in process.
- Review of related financial commitments.
- Confirmation of indebtedness.
- Depreciation reasonableness and recalculation for selected assets.
- Review of interest expense/capitalized interest and required bond reporting.
- Review of entries and financial statement changes from GASB 65 implementation.
- Analytical procedures.
PAYROLL AND RELATED ACCRUED EXPENSES

**Significant Internal Control Procedures**

- Tested a sample of approvals for change in status of employees.
- Tested requirement that hourly employees’ hours are approved electronically by supervisor prior to payment.
- Budget vs. actual review – personnel costs by position.

**Significant Substantive Procedures**

- Review of prior year actuarial reports and comparison of underlying data for pension plans.
- Review of current year actuarial report for other postemployment benefits (OPEB) and testing of census data.
- Review of report provided by insurance company that calculated the liability for health insurance claims that had been incurred but not yet paid.
- Review of calculation for special retirement incentive accrual.
- Various analytical procedures.
ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Significant Internal Control Procedures

- Observed exception report displaying checks larger than $25,000 which is given to the Financial Analyst, Assistant Director of Budget and Financial Analysis or Director of Accounting for at least two to review.

- Observed that purchases of $125 or more generally require a purchase order.

- Tested new vendors to ensure that there were no duplicate addresses or addresses of key procurement personnel.

- Tested a sample of PCard transactions for various internal controls based on the System’s updated Administrative Practice Letter (APL).

Significant Substantive Procedures

- Performed a search for unrecorded liabilities.

- Tested a sample of PCard transactions for allowability.

- Analytical procedures.
The System adopted one new GASB Pronouncement during 2014:

• GASB 65 - *Items Previously Reported as Assets and Liabilities*
  
  o Requires certain items that were previously treated as assets and liabilities to now be treated as deferred inflows and deferred outflows of resources.
  
  o In addition, requires some items previously treated as assets to be expensed in the period incurred.
  
  o For UMS, the primary changes were:
    ▪ Deferred amounts from bond refundings are now reported as deferred items. In the past, they were typically netted against bonds payable.
    ▪ Bond issuance costs are now expensed as incurred.
  
  o Initial application required a restatement to beginning net position as of July 1, 2012 of $2,052,000.
NEW GASB PRONOUNCEMENTS TO BE IMPLEMENTED IN NEXT TWO YEARS

- GASB 68, *Accounting and Financial Reporting for Pensions*
- GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (FY15)*

These new standards attempt to align the recognition of pension expense with the period in which the related benefits are earned. Consequently, the measurement process involves three essential steps:

1) Project future benefit payments for current and former employees and their beneficiaries.
2) Discount those payments to their present value.
   - Will require use of a blended discount rate if it is not expected that plan assets will fully fund pension obligations.
3) Allocate the present value over past, present, and future periods of employee service.
4) Contributions made subsequent to the measurement date will be treated as a deferred outflow of resources.
• Fair Value Measurement and Application
  o Further development of definition, measurement and disclosure of accounts currently reported at fair value.

• Accounting for Other Postemployment Benefits (OPEB)
  o Establishes standards for measuring various components of System pension plans and increases disclosures of such plans.

• Fiduciary Responsibilities
  o Will clarify whether business-type activity engaging in fiduciary activities should present fiduciary fund financial statements.

• Leases
  o Reexamine issues associated with lease accounting, and consider aligning GASB lease accounting with FASB.

• Other smaller projects
  o Asset retirement obligations
  o Blending requirements for certain business-type activities
  o Irrevocable charitable trusts
• Completed fieldwork on various campuses:
  o Visited UM, USM, UMA

• Tested the following as major programs:
  o Student Financial Assistance Cluster
  o Research and Development Cluster

• Resolution of items requiring follow-up.

• Expect to receive the schedule of expenditures of federal awards in December.

• Final reports expected to be issued in January.
This information is intended solely for the information and use of the Board of Trustees, Audit Committee and management and is not intended to be, and should not be, used by anyone other than these specified parties.