

University of Maine System
Board of Trustees

Zoom Meeting
October 28, 2020

Audit Committee

Present: Committee Members: James Donnelly; Chair, James Erwin, David MacMahon, Sven Bartholomew, Kelly Martin, Mark Gardner, Emily Cain and Mike Michaud. **Non-Committee/Non-Voting Trustees:** Trevor Hustus. **System Staff:** Ellen Doughty, Tracy Elliott, Ryan Low, Gretchen Catlin, Chip Gavin and Darla Reynolds. **Other Participants:** Michael Johns - CLA, Daniel Persaud - CLA, Janis Elsemore, Ken Ralph, John Volin and Samantha Hegman.

Committee Members Absent: none

Trustee Donnelly called the meeting to order and thanked everyone for participating. The Clerk performed a roll call of the Committee members present. Because the FY2020 Annual Financial Report will be reviewed, the members of the Finance, Facilities and Technology Committee were invited to attend the meeting.

UM Department of Athletics Agreed-Upon Procedures Report – FY2019 Overview

UM Director of Athletics Ken Ralph and UM Associate Athletic Director for Compliance Samantha Hegmann provided a brief overview regarding the Department of Athletics Agreed-Upon Procedures Report for Academic Year 2019-2020, performed by O'Connor & Drew. Below is a summary of the report findings:

The report noted one finding related to Coaching Staff Limits and Contracts. UM utilize a number of part-time staff members for the Athletic Department. NCAA requires documentation by UM and the staff member that outlines their responsibilities and their adherence to NCAA policies and procedures. UM has not done this in the past; however, UM compliance staff are working on drafting a form that all temporary Athletic employees will sign outlining this requirement. NCAA also requires athletic staff who recruit off-campus pass the NCAA recruiting certification prior to off-campus recruiting. The compliance office is collaborating with the business office to develop a set of policy and procedures that will tighten up the off-campus recruiting process for the athletic department.

The Auditors stated six general recommendation relating to Camps and Clinics.

- UM had two camps that did not receive approval prior to the start of the camp. The Auditor is recommending all camps and clinics obtain approval prior to the start of the camp. The compliance office did not require prior approvals for non-prospect ages camps. Moving forward all camps/clinics are required to obtain prior approval (prospect aged or not).
- All discounts for camps and clinics be documented and approved differently than the current process used by UM. The compliance office is exploring options with the ticket office and their new ticket system to see if there is a specific discount code that can be applied that will identify it as an employee camp discount. This will be in place for the 2021 summer camp season.

- Two coaches who not complete the outside income forms. The compliance office is in the process of collecting the outside income forms and those forms will be signed off by the appropriate management.
- Eighteen of thirty-four camps did not document promotional materials used to advertise the camp. The compliance office is providing a rules education session to coaches so they understanding the required documentation necessary for sports programs camps and clinics.
- Eight international student-athlete forms were not completed. UM requires all international student-athletes to complete an amateurism form that asks similar questions.
- Not all coaches updated the off-campus recruiting trips and contacts log in a timely fashion. The compliance office is addressing the issues in their overhaul of off-campus policy and procedures.

Audit Committee Fiscal Year 2021 Work Plan & Duties and Responsibilities

UMS Vice President for Finance and Controller Tracy Elliott explained all Board of Trustees Committees annually review their Work Plans, which provide an overview of the agenda items for the Committee for the fiscal year. The only addition to Audit Committee's Work Plan is COVID updates and campus reviews for each meeting.

Annual Financial Report – FY2020

Ms. Elliott and UMS Director of Accounting Darla Reynolds presented the University of Maine System's (UMS) fiscal year 2020 (FY2020) draft Annual Financial Report. Ms. Elliott express appreciation to CliftonLarsonAllen LLP and the campus and System staff who responded to the numerous requests in order to time complete the statements during a very challenging year and to complete our first fully remote audit. She also expressed thanks to her staff and Ms. Reynolds and Assistant Director of Accounting Janis Ellsmore for their efforts with the audit.

The UMS expects an unmodified clean opinion of the UMS FY2020 annual financial statements from the external Auditing firm, CliftonLarsonAllen, LLP. The financial statements show the impacts that COVID-19 had for the final quarter of FY2020 on operating revenues when UMS suspended on-class operations in March and moved to remote instruction and work. That prudent action impacted other revenue and expense areas and how the U.S. Department of Education awarded \$17.9 million to the System as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. For FY2020 Operating Revenue less Expenses resulted in an Operating Loss of \$265 million, increasing nearly \$11 million from the prior year. The UMS operating expenses are always going to exceed operating revenues as Governmental Accounting Standards Board (GASB) requires several revenues the System uses to fund operations to be reported as non-operating. After the Operating Loss is offset with Net Non-Operating Revenues of nearly the same amount, the System actually experienced a positive \$106 thousand Income Before Other Changes in Net Position, a \$12 million swing from the prior year. This position swing is significantly driven by the \$15 million in CARES Act revenue. UMS experienced a \$13.9 million change in Net Position for FY2020 brings the year-end Total Net Position to \$832 million.

The System had good liquidity with nearly \$274 million in cash & operating investments at June 30, 2020 and total Current Assets of \$331.7 million. FY2020 Noncurrent Assets totaled \$887 million, down \$9 million from the prior year. FY2020 Liabilities were basically flat compared to the prior year for Total Liabilities of \$381.

On a motion by Trustee Michaud, which was seconded by Trustee Bartholomew, and approved by a roll call vote of all Trustees present, the Audit Committee approved this item to be forwarded to the October 28, 2020 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 FY2020 Annual Financial Report as presented.

Auditor Communication to the Audit Committee

CliftonLarsonAllen LLP (CLA) representatives Michael Johns and Daniel Persaud presented information on the 2020 UMS financial statement audit and emerging accounting issues. CLA had no material audit adjustments and found no financial reporting deficiencies in the UMS annual financial statements. They expressed an unmodified opinion of the annual financial statements in the UMS FY2020 Annual Financial Report. CLA provided a brief overview of the significant audit findings, misstatements, and evaluation information in the Required Governance Communication that was provided to the Audit Committee prior to the meeting. There were no new Accounting Standards requiring implementation for FY2020.

Mr. Johns commented that even though the Audit was done remotely there were no concerns or delays in the audit process and System staff was prepared and very helpful. Due to the pandemic, GASB delayed implementation of the new Accounting Standards for one year. Two new standards that could impact UMS going forward are GASB 84 and 87. GASB No. 84 is related to Fiduciary Activities which will be effective June 30, 2021 and GASB No. 87 related to Leases will need to be implemented by UMS effective June 30, 2022. The public-private partnerships that UMS has may have an impact on the financial statements depending on the arrangement with the partnerships. These could be lease agreements, a Service Concession Arrangements (SCAs) or they could fall under the criteria for GASB 94.

Enterprise Risk Management Update.

UMS Risk Manager Gretchen Catlin and UMS Chief Facilities Management and General Services Officer Chip Gavin provided an update to the Audit Committee regarding Enterprise Risk Management (ERM) and the risk assigned to this Committee for oversight as well as an update on Covid-19 matters. Overall, Risk Management is monitoring 19 enterprise-level risks for which a comprehensive update was previously presented to the Committee in May 2020. One risk has been assigned to the Audit Committee. That risk is # 11 – Credit rating downgrade resulting in increased cost of capital and hitting state debt cap. In response to COVID-19, the UMS's emergency command structure was implemented. This involved calling the emergency response team into action. Several communications strategies were developed to keep our students, employees, and the public informed.

Executive Session

On a motion by Trustee Michaud, which was seconded by Trustee Erwin, 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-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.
- 1 MRSA Section 405 6-E to consult with its attorney concerning legal rights and duties of the university.

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On a motion by Trustee MacMahon, which was seconded by Trustee Michaud, 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