

University of Maine System
Board of Trustees

Zoom Meeting
October 27, 2021

Audit Committee

Present: Committee Members: David MacMahon, Chair; James Erwin, Sven Bartholomew, James Donnelly, Kelly Martin, Emily Cain, Mark Gardner, and Mike Michaud. **Other Trustees:** Beth Dobson, Roger Katz, and Peggy Rotundo. **Chancellor:** Dannel Malloy. **System Staff:** Ellen Doughty, Tracy Elliott, Ryan Low, James Thelen, Robert Placido and Darla Reynolds. **Other Participants:** Michael Johns - CLA, Sara Doyle- CLA, Janis Elsemore, Samantha Hegman, Gretchen Catlin, and Linda Bournival-KMS.

Committee Members Absent: None.

Trustee MacMahon 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 Director of Compliance Samantha Hegmann provided a brief overview regarding the Department of Athletics Agreed-Upon Procedures Report for Academic Year 2020-2021, performed by O'Connor & Drew.

The report noted one finding regarding athletic apparel and equipment. O'Connor & Drew tested the apparel for ten of the University's athletic teams and noted that the jerseys used by the women's and men's basketball teams and the baseball team each contained two New Balance logos, including one that was larger than the maximum allowed by the National Collegiate Athletic Association (NCAA) regulations. The University of Maine athletic equipment staff is aware of the patch overage. They will acquire an additional patch that will be sewn over the area of the logo that exceeds the required dimensions per the NCAA. The manufacturer has been made aware of the patch not meeting the NCAA specifications, but have not changed them and is instead sending the additional coverage patch as an alternative.

The report noted six general recommendations related to athletic equipment and apparel, representatives of the university's athletic interests, and student athlete employment. The UM equipment room staff has already acquired a software system and they are in the process of implementing it within the athletic department. UM will collaborate with the athletic business office to review purchases that the M Club make, within the athletic department to ensure there are no compliance violations and reexamine the relationship between the academic counselors and the M Club. The Compliance office will collaborate with the ticket office and the development office to send educational information to donors and other parties involved (including single game ticket buyers) to notify them that they are now boosters of the athletics program. Secondly, UM will provide boosters with information about what activities are permissible and non-permissible with student-athletes. The Compliance office will also work with all necessary areas to have a formal policy drafted and added to the institution's website that outlines the rules and regulations regarding sideline and locker room access. The Compliance office has already taken steps this

academic year to ensure that athletes are filling out the necessary employment forms to address that matter.

An RFP for the UM Athletics Compliance and the Financial Agreed Upon Procedures engagement was performed in the Spring of 2021 with the University receiving 5 submissions. O'Connor and Drew was the top scorer and was awarded the engagement, which commenced on July 1st, 2021 and terminates on June 30, 2022, with the option for four additional one-year renewals.

Audit Committee FY2022 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 FY2022 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 15, 2021 Board of Trustees meeting.

Other Postemployment Benefits (OPEB) Plan Presentations

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 key results of the OPEB valuation for FY2021 and the OPEB plan funded status from 2016-2021. The OPEB funded ratio is 111% as of June 30, 2021. The purpose of the OPEB Trust is to accumulate assets to prefund OPEB liabilities. UMS developed a systematic method of prefunding to the OPEB Trust which includes annual contributions based on normal costs and an amortization payment component. The OPEB Plan is now in surplus because the funded ratio exceeds 100%, so a revised funding policy was adopted on October 14, 2021. Ms. Bournival explained the OPEB actual valuation model, plan provisions, and assumptions. Results from the Actuarial Valuation are reported in UMS' annual financial statements. As of June 30, 2021, UMS has a Net OPEB Asset of \$18 million. The expense (income) under GASB 75 for the year ended June 30, 2021 is income of \$46.4 million.

Annual Financial Report – FY2021

Darla Reynolds, UMS Director of Accounting provided a detailed overview of the Annual Financial Report for FY2021. The key factors impacting the FY2021 financial statements included a new accounting standard, bond anticipation notes and reclassification of Pell all of which did not have an impact on the bottom line. Other factors were operating and endowment investment returns, coronavirus relief funding and change in the other postemployment health (OPEB) plan, as well as the substantial impacts from the pandemic. Fortunately, for FY2021 from a purely financial perspective the positive factors outweighed the negative impacts enabling the System's financial position to increase by nearly \$113 million. However, the positive factors are not necessarily on going. For example, investment returns can fluctuate greatly from one year to another. Also, although the coronavirus relief funding was greatly appreciated it did not cover all of the pandemic related losses.

Of the \$113 million increase in net position, \$79 million occurred in unrestricted net position with the System's OPEB plan accounting for \$46 million of the increase and operating investment income accounting for \$22 million (with \$3 million budgeted for this line), leaving \$14 million from various other unrestricted activities.

Ms. Reynolds explained in more detail how the OPEB Plan impacted the FY2021 financial statements. Historically the System has experienced OPEB as an expense each year. For example, in FY2020 the expense was a \$9.5 million expense. However, in FY2021, the System experienced an OPEB income of \$46 million as changes were made to the benefits offered to retirees age 65 and over. The changes to retiree benefits also helped reduce the System's OPEB liability. For FY2021, UMS is reporting Operating Revenues of \$405 million, less Operating Expenses of \$679 million, for a resulting Operating Loss of \$274 million. Although UMS has not measured the exact dollar impact of the pandemic on Operating lines, it is definite that the pandemic played a major part in the following lines from the Operating Revenues section: \$12 million decrease in residence and dining fees, \$10 million decrease in educational sales and services and other revenues, and a \$4 million decrease in other auxiliary enterprises revenue. The impact of the pandemic on Operating Expenses would be mixed because the System would have incurred certain costs [testing, increased cleaning, personal protective equipment, etc., emergency aid to students] specific to addressing the pandemic in order to keep staff and students safe, and to support struggling students; however, the System avoided certain other costs as the result of certain activities being curtailed for FY2021.

Ms. Reynolds noted two lines on the Non-operating Revenues lines in the report. First, is the \$36.6 million of coronavirus relief funding which is up \$21 million from FY2020. The FY2021 total includes both federal funding received directly from the US Department of Education and referred to as HEERF dollars and federal funding passed through the State of Maine for testing and personal protective equipment. Since the beginning of the pandemic, 3 rounds of federal HEERF dollars have been awarded to the System for a total of just under \$104 million. Each round involved awards specifically for student emergency aid in the amount of \$45 million and awards for institutional needs in the amount of \$59 million. The second line she noted was the investment income of \$22 million for FY2021, which is up \$13 million from the prior year. Returns for FY2021 were 7.7% compared with 3.8% for the prior year. Investment income is one of the revenue lines that can fluctuate significantly from year-to-year depending on financial markets.

Ms. Reynolds explained that the University of Maine (UM) Foundation audit is usually complete in time to include in the UMS audit as a component unit. However, this year due to manpower issues experienced by the UM Foundation auditors, the UM Foundation audit was not complete as of this presentation. The UM Foundation's auditor is expected to provide the final audit to the System by mid-November so the UMS' external auditor can complete our audit and issue our final financial statements to the State of Maine by end of November. The UM Foundation has provided to UMS a draft of their financial statements. If the UM Foundation's audit is further delayed and UMS has to issue its financial statements with the UM Foundation's financial statements as unaudited, there will be a disclaimer of opinion to replace the unmodified opinion regarding the UM Foundation's FY2021 financial statements. This is reflected in the resolution presented to the Board.

Trustee Martin asked Ms. Reynolds if the UM Foundation had the availability to hire a different auditor to make sure their audit was turned into the System on time. Ms. Reynolds stated that the UM Foundation did look into hiring a new auditing firm, when they found out that their current auditing firm was not able to complete their audit on time, but could not find a suitable firm that could take on the work. The UM Foundation is working with their existing auditing firm to make their best effort to get their audit to UMS by the middle of November. UMS has contacted the State to alert them that UMS should be able to provide the completed UMS financial statement, including the UM Foundation audit by the end of November. Additionally, the UM Foundation

has since voted to change their fiscal year end to December. UMS is working with its auditors to work through how this change in the UM Foundation's fiscal year will affect the overall UMS financial report and audit going forward.

On a motion by Trustee Michaud, which was seconded by Trustee Erwin, the Audit Committee approved this item to be forwarded to the October 27, 2021 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 FY2021 Annual Financial Report as presented, except that, should the University of Maine Foundation's audit fail to be completed prior to UMS issuing its Annual Financial Report, a disclaimer of opinion would replace the unmodified opinion regarding the Foundation's FY21 financial statements which are included in these draft statements.

Auditor Communication to the Audit Committee

CliftonLarsonAllen LLP (CLA) representatives Michael Johns and Sara Doyle provided a report to the Committee, including discussion of the 2021 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 are reporting an unmodified opinion of the financial statements. However, this year due to manpower issues experienced by the University of Maine (UM) Foundation auditors, the UM Foundation audit was not complete as of this presentation. The UM Foundation's auditor are expected to provide the final audit to the System by mid-November so that CLA can complete the audit and issue the UMS final financial statements to the State of Maine by the end of November. The UM Foundation has provided a draft of their financial statements to UMS. If the UM Foundation's audit is further delayed and UMS has to issue its financial statements with the Foundation's financial statements as unaudited, there will be a disclaimer of opinion to replace the unmodified opinion regarding the Foundation's FY2021 financial statements.

CLA explained the purpose, process, and timing of the required communication letter. The purpose of the letter is to provide an update on the audit since the planning meeting.

The auditors noted that \$29 million in HEERF funding is recognized as revenue in FY2021 and briefly described the reporting and testing of these revenues. CLA also noted that there is \$57 million in authorized awards remaining from HEERF II and III, of which \$26 million is restricted for student emergency aid.

CLA outlined Governmental Accounting Standards Board (GASB) Statement No. 87 – *Leases*, which is effective June 30, 2022. GASB 87 establishes a single model for accounting for leases by lessees and lessors. It will result in changes to current lease accounting (financial statements and notes). Lessee and Lessor accounting will be affected. The auditors recommended that the System start several activities to prepare for GASB 87 including: reviewing service agreements for embedded leases, inventorying all leases (including embedded leases and leases in which the System is the Lessor), and identifying a software solution. Additionally, CLA provided some information about other future accounting standards that may have an effect on the System.

Covid-19 Update

UMS Risk Manager Gretchen Catlin provided a UMS COVID-19 update. The University of Maine System and its institutions have continued to monitor, plan, and respond to the COVID-19 pandemic for the 2021-22 academic year and beyond. UMS has delivered in-person instruction and experienced robust campus life during fall 2021 semester without significant pandemic-related interruptions to this point. UMS has achieved a current vaccine verification rate of approximately 90 percent of its in-person fall population as of October 12, 2021, a rate backed by a vaccination requirement for students, staff and faculty announced by the Chancellor on August 4, 2021 as one of several responses related in part to the Delta variant surge. UMS and campus leadership continue to monitor varied metrics regarding COVID-19 transmission within the UMS community and beyond, including health care infrastructure capacity, waste water disease detection, new case rates, active case rates and more to help inform understanding of the pandemic in the broader community and within the University community.

Test-trace-and-isolate continues to be a key practice at the University System, with 11,098 fast, high-quality PCR tests completed for the period from August 1, 2021 through October 12, 2021 and an overall positivity rate during that period of 1.2 percent. Asymptomatic testing has been required for those not fully vaccinated and also open to those who are fully vaccinated. As of early October, the positivity rate within the University's own testing had been reduced to 0.83 percent for the weekly testing period ending October 10, 2021. The positivity rate for all testing in Maine as reported by the Maine CDC on its public website has been generally in the 4 percent to 7 percent range during that same period. Protocols beyond test-trace-and-isolate continue to be deployed and escalated or de-escalated depending on the data, overall situation and specific circumstances. For example, the face coverings requirement for all persons when indoors at UMS facilities was recently extended until the end of the Fall semester. Special approval and evidence of vaccination continues to be required for international System travel, with details varying by destination. On October 6, 2021 UMS announced that effective October 15, 2021, evidence of full vaccination or a negative test would be required for those attending events of more than 250 people and may be required at other times. These protocols are subject to further change and adjustment as circumstances warrant.

October 15, 2021 also marks the deadline after which any student who has not met the COVID-19 vaccination policy requirement will not be permitted to participate in in-person University System experiences or activities. The University System will continue to work diligently with these non-compliant students to avoid that situation to the extent possible. The University System has reached agreements with all six bargaining units to provide for vaccination verification or testing of staff in support of that pandemic effort. Hundreds of staff continue to participate in the pandemic response along with the thousands of students, staff and faculty who continue to be stalwart in adhering to the various public health protocols as evidenced, for example, by the 97 percent (so far) vaccination verification rate of residential students.

Trustee Cain asked what the timeline for making the decision to continue the mask mandate into the Spring semester would be. Chancellor Malloy stated that the System is working on setting a deadline as to when any decision about continuing the masking protocol for the Spring semester would be made and that they are working on getting the information announced in a timely manner.

Enterprise Risk Management Update

Ms. Catlin provided an update to the Audit Committee regarding Enterprise Risk Management (ERM) and the risk assigned to this Committee for oversight. Overall, Risk Management is monitoring 19 enterprise-level risks, of which one of those risks has been assigned to the Audit

Committee for oversight. Due to pandemic related activities, review of the Enterprise Risk Matrix was paused in FY2021. Risk Management is resuming providing ERM updates to the Board Committees in FY2022. The next update will take place on January 3, 2022 at the Human Resources and Labor Relations Committee meeting.

Executive Session

On a motion by Trustee Cain, which was seconded by Trustee Donnelly, 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. And

On a motion by Trustee Michaud, which was seconded by Trustee Martin, 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.

Heather Massey for
Ellen N. Doughty, Clerk