

University of Maine System  
Board of Trustees

Zoom Meeting  
October 25, 2024

## **Audit Committee**

**Present: Committee Members:** Mike Michaud, Chair; Kelly Martin, David MacMahon, Owen McCarthy, Will Kemler and Trish Riley. **Other Trustees: Chancellor:** Dannel Malloy. **Presidents:** Joan Ferrini-Mundy **System Staff:** Tracy Elliott, Robert Placido, Ryan Low, Darla Reynolds, Elizabeth Stickler and Samantha Hegmann **Other Participants** Michael Johns and Brian Crowley, CLA CliftonLarsonAllen LLP

Trustee Michaud 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 Report**

Samantha Hegmann, Associate Athletic Director for Compliance for the University of Maine, provided a brief overview regarding the enclosed Department of Athletics Agreed-Upon Procedures Report for Academic Year 2023-2024, prepared by WithumSmith+Brown, PC.

### **Key Points Presented:**

**Audit Scope:** The audit reviewed five to six compliance areas:

- Academic performance program monitoring (student-athlete progress toward degree, enrollment verification)
- Financial aid administration (scholarship awards, cost of attendance compliance)
- Rules education (monthly training for coaches on NCAA regulations, tailored to seasonal topics)
- Extra benefits and student-athlete vehicle verification
- Amateurism clearances
- Coaching staff limits and contracts (off-campus recruiting compliance)

**Findings and Improvements:** Ms. Hegmann noted that the annual audit helps identify process gaps and improvement opportunities. Several recommendations resulted from staffing changes when the Assistant Director of Compliance left, revealing some tasks that were not being completed.

### **Corrective Actions Implemented:**

- Hired Fortify College Athletics, a third-party consultant, to assist with major NCAA matters, waivers, rules education, and violations
- The consultant provides sport-specific rules education with more one-on-one coach contact
- Updating overall Athletics Department policy and procedure manual
- Compliance coordinator created comprehensive slide deck of policies and procedures for coaches
- Implemented three-strike policy for off-campus recruiting compliance violations (two warnings, then financial penalties or loss of recruiting days)
- Hired new Director of Compliance Services to oversee off-campus recruiting
- Monitoring coordinated with business office on expense reporting

**NCAA Requirements:** Ms. Hegmann noted that the NCAA will require compliance audits at least every four years under the new holistic student-athlete model. UMaine is ahead of this requirement by conducting annual audits.

### **Discussion**

**Trustee MacMahon** asked about the cost of the consultants hired.

Ms. Hegmann responded that she did not have the exact cost but noted there is a four to five-year contract with the firm (formerly O'Connor and Drew, now Withum), which conducts both compliance and financial audits annually.

**Tracy Elliott** offered to provide the specific cost information.

This report can be found and referenced in the meeting materials.

### **Audit Committee FY2025 Work Plan**

Chair Michaud briefly reviewed the work plan for fiscal year 2025 with the committee of which one meeting will be held. That work plan is outlined below:

Fall Meeting (typically includes three items):

1. UMaine agreed-upon procedures report (required for Division I programs)
2. University's annual financial report presentation
3. External auditors' report with required communications and discussion of accounting standards changes

Spring Meeting (typically includes four items):

1. Results of federal funds single audit
2. External auditor comments on single audit, including findings and corrective action plans
3. External auditor required communications
4. Audit plan for upcoming fiscal year and emerging accounting standards
5. UMaine Athletics agreed-upon procedures reports for financial or compliance matters

### **Discussion**

Chair Riley raised the question of whether specific activities should be added to the committee's work plan related to risk management, particularly regarding resources needed for research management and emerging issues like artificial intelligence.

Chair Michaud agreed this was an important consideration given the significant federal funding the System receives and the complexity of compliance requirements, especially with subrecipients. He noted that the committee had previously conducted such reviews but paused at the request of former leadership during staffing changes.

Ms. Elliott indicated she would check with current leadership and add risk management activities back to the work plan for the November Board meeting..

### **Annual Financial Report – FY2024**

The University of Maine System's (UMS) fiscal year 2024 (FY2024) draft Annual Financial Report is presented for the Audit Committee's review. Darla Reynolds, UMS Director of Accounting, provided an overview of the results at the October 25, 2024, Audit Committee meeting.

### **Presentation Highlights**

#### **Audit Opinion (Slide 4):**

- Unmodified (clean) opinion on three sets of financial statements:

- System financial statements
  - University of Maine Foundation (discretely presented component unit)
  - System's fiduciary funds
- Opinion still in draft status pending final quality review by auditors

#### **New Accounting Standards (Slide 5):**

- GASB 94 (P3 agreements) technically implemented in FY23 but had minimal impact then
- FY24 impact: \$24 million capital asset added to books with offsetting deferred inflow of resources for UMaine's Boutique Hotel P3 agreement
- Deferred inflow will be amortized over 99-year life of agreement as non-operating revenue

#### **OPEB Plan Impact (Slide 6):**

- System had net OPEB asset of \$34 million at fiscal year end (trust assets exceed liability)
- Net positive impact of \$6 million to net position

#### **Operating Results (Slide 7):**

- Total operating revenues: \$511 million (up 10% or \$46 million from prior year)
- All operating revenue lines increased (first time in several years)
- Net student fees increased nearly \$12 million, recovering prior year decrease
- Federal, state, and private grants/contracts increased \$24 million (over half of total revenue increase)
  - \$10 million of increase related to Harold Alfond Foundation grant supporting UMS Transform initiative
- Total operating expenses: \$850 million (up \$40 million or 5%)
- Operating loss: \$339 million (expected under GASB standards requiring key revenues to be classified as non-operating)
- Major expense drivers: \$24 million grant activity increase, negotiated compensation increases, inflation
- Instruction expense decreased as expected following special retirement incentive offered to faculty in FY22-FY23
- Operation and maintenance of plant expense increased \$8 million (15%), with 46% related to non-capital construction projects at UMaine

#### **Natural Classification of Expenses (Slide 8):**

- 70% (\$28 million) of overall expense increase in supplies and services line
- Includes increased grant activity and non-capital construction
- \$9 million increase due to full year of UMaine dining operation outsourcing to Sodexo (partial year in FY23)

#### **Non-Operating Revenues and Net Position (Slide 9):**

- Income before other changes in net position: \$8.2 million (significant improvement from \$23 million loss in FY23)
- Non-capital state appropriations and investment income combined increase of nearly \$21 million (84% of total non-operating revenue increase)
- Other changes in net position: \$74 million (up \$19 million or 36%)
- State capital appropriations decreased as fewer funds remain to be spent
- Capital grants and gifts increased \$20 million (primarily USM Center for the Arts and UMaine Athletics gifts for Alfond grant match)
- Endowment returns positive for second consecutive year
- **Total change in net position: \$82.3 million** (compared to \$31.4 million in FY23)

#### **Statement of Net Position - Assets (Slide 10):**

- Strong liquidity: \$266 million in cash and operating investments (73% of current assets)
- Positive investment returns of \$21 million during FY24
- Non-current assets: just under \$1.3 billion (up \$92 million)

- Deposits with bond trustees decreased \$22 million as System spent bond proceeds from FY23 issuance
- Capital assets net of depreciation increased \$81 million (net of \$139 million new investments, \$57 million increased depreciation, and \$1 million disposals)
- Includes \$24 million Boutique Hotel asset from P3 agreement
- Deferred outflows of resources: \$6 million (primarily OPEB-related)

**Statement of Net Position - Liabilities (Slide 11):**

- Total liabilities: \$468.7 million (basically flat with prior year)
- Deferred inflows increased \$15 million (net of \$13 million OPEB-related decrease and \$28 million increase for hotel P3 agreement)
- **Total net position: just under \$1.1 billion** (\$82.3 million increase from prior year)

**Components of Net Position (Slide 11-12):**

- Net investment in capital assets increased nearly \$60 million (differs from \$81 million capital asset increase because offset by related debt)
- Restricted expendable net position increased \$34 million:
  - \$13 million from net OPEB asset increase
  - \$9 million from expendable endowment portion increase
  - \$9 million from unspent restricted gifts increase
  - \$3 million from various other restricted funds
- Unrestricted net position decreased \$12 million (net of return on unrestricted operations, debt principal payments, and nearly \$15 million invested in capital assets)

**Unrestricted Net Position Detail (Slide 12):** Components include:

- Educational and general reserves
- Auxiliary reserves
- Risk management pool (self-insured)
- Budget stabilization fund
- Benefit pool carryover
- Internal designated projects (faculty startup funds, internal research grants)
- Quasi-endowment corpus
- True endowment appreciation
- Cost sharing reserves

**Fiduciary Financial Statements (Slides 13-15):** Two sets of fiduciary financial statements included as required.

**Discussion**

**Chair Michaud** asked how the University ensures compliance with uniform guidance for federal awards (2 CFR Part 200) and management of subrecipients.

**Ms. Reynolds** responded that larger campuses (UMaine and USM) have dedicated offices monitoring federal funds and ensuring compliance. Several smaller campuses have outsourced this work to UMaine. Staff attend conferences and stay current with regulatory changes.

**President Ferrini-Mundy** added that two UMaine offices are critical for compliance: the Office of Research Administration (post-award management and review) and the Office of Research Compliance. Both offices stay current with federal guidance and conduct reviews as needed. Some campuses receive assistance from UMaine on compliance matters. She offered to provide more detail on how they work with subcontracts.

**Chair Michaud** noted this is important given the significant federal funding and varying agency requirements.

**Chair Riley** suggested this might be an area for the Audit Committee to explore further as part of its risk management responsibilities, given emerging issues around research management and AI. She proposed adding this to the committee's work plan.

**Trustee McCarthy** requested more detail on the unrestricted net position components and what drove the \$12-13 million decrease year over year.

**Ms. Reynolds** explained the various categories on slide 12, noting that unrestricted net position includes both educational/general reserves and auxiliary reserves that drive day-to-day operations, plus designated funds for various purposes. The Statement of Revenues, Expenses and Changes in Net Position (SRECNP) shows results of all System funds (restricted and unrestricted) combined. Sometimes increases occur on the restricted side while decreases occur on unrestricted side. Factors include operational results, capital construction projects using unrestricted funds (which shift amounts to net investment in capital assets), and debt payments. When unrestricted funds are used for capital or debt, it doesn't reduce total net position but shifts between categories.

**Trustee McCarthy** asked about trends in this line over the past four to five years.

**Ms. Reynolds** agreed to provide that historical information.

Resolution:

On a motion by Trustee MacMahon, which was seconded by Trustee Martin, and approved by all Trustees present, the Audit Committee approved the following resolution:

That the Board of Trustees accepts the recommendation of the Audit Committee and approves the FY2024 Annual Financial Report as presented.

### **Auditor Communications to the Audit Committee**

CliftonLarsonAllen LLP (CLA) representatives Michael Johns, Principal, and Andy Kenderdine, Manager, reported to the Committee the 2024 UMS audit results and emerging accounting issues and opened the floor for discussion around their Required Communications Letter. Michael Johns, Principal, and Brian Crowley, Assurance Manager, from CliftonLarsonAllen (CLA) presented the auditor communications.

Mr. Johns noted this was Mr. Crowley's first year working on the University of Maine System engagement.

### **Audit Scope and Deliverables**

#### **Audit Engagement:**

- Express opinion on financial statements for fiscal year ended June 30, 2024
- Financial statements prepared by management
- CLA performs tests of balances, transactions, and statements to express opinion

#### **Other Deliverables:**

- Formal letter to audit committee with required communications
- Report any significant deficiencies or material weaknesses in internal controls
- Federal single audit under uniform guidance (ongoing, to be reported in spring)

### **Audit Approach**

**Risk-Based Audit Methodology:** CLA uses a risk-based approach considering:

- Higher education industry factors
- System-specific circumstances
- Economic environment
- Areas of higher risk receive more audit attention
- Iterative process that adjusts as audit progresses

### **Higher Risk Areas (examples):**

- Revenue recognition (proper period, grant eligibility requirements, allowable costs)
- Cut-off procedures

### **Lower Risk Areas (example):**

- Prepaid expenses (minimal year-over-year fluctuation)

### **Audit Procedures Performed:**

#### *Internal Controls:*

- Tests of controls over non-exchange revenue cycle (grants and contracts)

- Tests of controls over disbursement cycles (payroll and accounts payable)
- No opinion expressed on internal controls (only required for public companies under Sarbanes-Oxley)

*General Ledger Data Analytics:*

- Downloaded all System transactions for fiscal year into audit software
- Performed data analytics to identify anomalies and changes from prior years
- Tested manual journal entries for potential management override of controls
- Reviewed descriptions, dollar amounts, unusual account combinations

*Accounting Estimates:*

- Pension and OPEB liabilities (actuarially determined) - tested inputs and census data, used specialist procedures
- Allowances for uncollectible accounts receivable
- Insurance liabilities (claims incurred but not reported)
- Depreciation expense on capital assets
- No indication of management bias; estimates appeared reasonable and consistent with prior years

*Investments:*

- All investments reported at fair value
- Lower risk for common stock (readily available market prices)
- Alternative investments reported at net asset value require more audit work
- Used third-party specialist to review investment audit reports and market conditions
- Developed independent estimate and compared to provider valuations
- No issues identified

*Unpredictability Procedures:*

- Required to perform certain procedures annually that weren't performed in prior years
- May include changing sample sizes or examining immaterial areas

*Revenue Recognition:*

- Significant time spent on grants and appropriations
- Detailed testing of grant agreements, allowable expenses, revenue recognition

*Expenditures and Controls:*

- Tests of controls showed no observations or indications controls weren't operating as designed
- Analytical procedures and ratio analyses to identify unusual trends

*Debt and Liabilities:*

- Confirmed debt balances at year-end
- Verified no debt covenant non-compliance issues
- Tested completeness assertion for liabilities
- Reviewed subsequent period expenditures to ensure proper year-end accruals

*Capital Assets:*

- Sampled material additions for the year
- Reviewed cash disbursements, vendor invoices
- Verified amounts and capital asset definitions

**Audit Results**

**Opinion:**

- **Unmodified (clean) opinion** - highest level of assurance CPAs can provide
- Financial statements not materially misstated based on testing and procedures

**Materiality:**

- Four levels calculated based on total revenues, assets, and other benchmarks
- Range from highest (material misstatement threshold) to lowest (trivial amount)

**Internal Controls:**

- No material weaknesses identified

- No significant deficiencies identified
- Material weakness: control absent or ineffective to prevent/detect material misstatement
- Significant deficiency: less severe than material weakness but warrants governance attention

### **Required Governance Communications**

Mr. Johns reviewed the required communications (formal letter to be signed at audit conclusion):

#### **Audit Scope:**

- No changes from planned scope
- No significant new accounting policies or standards adopted
- Notes to financial statements audited - no issues identified
- Disclosures found to be neutral, consistent, and clear

#### **Management Preparation:**

- Management well-prepared at audit start (early September)
- Trial balance provided in good order
- **No material audit adjustments required**
- **Trial balance from September unchanged in final financial statements** - speaks to strong internal controls and management efforts

#### **Other Communications:**

- No disagreements with management on accounting treatments or auditing procedures
- No indication of management consulting other CPAs ("opinion shopping")
- Comfortable with management's estimation processes and resulting amounts
- No uncorrected misstatements
- No audit adjustments
- Management representation letter to be provided at audit conclusion

### **Federal Single Audit Status**

#### **Major Federal Programs (three programs being tested):**

- Student Financial Assistance Cluster
- TRIO Cluster
- State and Local Fiscal Recovery Funds

#### **Status:**

- Audit in process
- To be reported at next committee meeting
- No significant findings issued to date
- Significant headway made on Student Financial Assistance Cluster (most complicated program)
- Substantial compliance testing still to be completed

### **Accounting and Regulatory Matters**

#### **Student Financial Aid Compliance:**

- Compliance supplement requirements growing for student financial assistance
- Most other federal grant requirements shrinking and focusing
- Department of Education identifying additional material compliance areas annually
- Expanding beyond traditional eligibility testing to IT policies (Gramm-Leach-Bliley Act)
- Future may include security reporting and incident reporting to Department of Education
- More compliance testing expected after election

#### **Final Rules Issued:**

- More impact on private institutions than public institutions
- New disclosures and calculations required
- Reportable events regulations: certain financial events must be reported to Department of Education within 60 days
  - Examples: missing debt service payment, borrowing from employee benefit plan

### **Future Accounting Pronouncements:**

#### *FY2025 - Compensated Absences:*

- Clarifies which benefits do and do not need to be accrued
- More precise calculation methodology for vacation pay, sick pay liabilities
- Mr. Johns does not anticipate huge impact on System compared to current reporting

#### *FY2028 - Financial Reporting Standard:*

- Will change presentation geography of Statement of Revenues and Expenditures
- Not changing transaction recording or estimation rules
- Affects annual financial statement presentation
- New rules for Management's Discussion and Analysis content
- Goal: make documents more useful and consistent across entities

#### **Steps to Finalize Engagement**

##### **Quality Review Process:**

- Expected sign-off today or Monday at latest
- Subsequent events review to be performed (through audit report date)
- Management representation letter to be signed
- Signed audit report to be issued
- **Due date to State: October 31st (will be met)**

##### **Higher Education Conference:**

- CLA hosts annual two-day virtual conference
- QR code provided for registration
- Eight topics, only one on accounting/compliance
- External speakers from various institutions

Mr. Johns thanked management for cooperation, hard work, and excellent preparation.

#### **Discussion**

**Trustee MacMahon** asked what percentage of audits have a trial balance in September that remains unchanged as the final balance.

**Mr. Johns** responded that forcing a back-of-envelope calculation, he would say probably more than 60% have at least one audit adjustment. At the System level that ratio changes, but for all institutions he audits, those with no adjustments are in the smaller minority though not unheard of. It is an excellent compliment to management.

**Trustee MacMahon** emphasized this speaks very well to Tracy Elliott, Darla Reynolds and their staff, who deserve excellent credit.

#### **Executive Session**

On a motion by Trustee Martin, which was seconded by Trustee MacMahon, the Audit Committee went into Executive Session under the following provisions:

- 1 MRSA Section 405 6-A to discuss the evaluation of personnel and the consideration and discussion of appointments, evaluations, employment, and duties.
- 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.

On a motion by Trustee McCarthy, which was seconded by Trustee MacMahon, the 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.



Elizabeth Stickler, Clerk