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**REQUEST FOR PROPOSALS #
2019-018 External Audit Services
Response Addendum # 1
November 30, 2018**

The University of Maine

CLARIFICATION

University of Maine
at Augusta

This addendum responds to initial questions submitted by respondents.

University of Maine
at Farmington

QUESTIONS

University of Maine
at Fort Kent

Q1: How long has the University utilized the services of the current CPA firm?

University of Maine
at Machias

A1: Based upon an RFP process, we selected a new CPA firm for a 7-year contract period covering FY12 thru FY18.

University of Maine
at Presque Isle

Q2: What is the reason that the University is bidding out the audit engagement?

A2: It is our policy/practice to bid out audit services at the end of a contract period.

University of
Southern Maine

Q3: A copy of the 2017 Single Audit is available on the website, it appears that the 2018 engagement may not be completed. In regards to the 2018 engagement, what is the status of the 2017 findings? Any potential findings for 2018?

A3: The 2018 Single Audit remains in progress. The findings from the 2017 audit have been resolved. A draft finding has been noted for the 2018 audit related to the Student Financial Aid cluster. This finding relates to the timeliness of certain reporting at one campus and does not involve questioned costs.

Q4: Is the prior year required communication letter provided by the CPA firm available to review?

A4: The required communications letter associated with the audit of the 2018 financial statements is attached.

Q5: There was a mention in the RFP that there were no adjustments during the prior year engagement. As a result, is it safe to assume that management adjusted the statements for the effects of GASB 75?

A5: System accounting staff made all journal adjustments and disclosures related to the implementation of GASB 75.

Q6: Has there been any timing issues in the past with the receipt of the Foundation's final financial statements? Any likelihood going forward that the CPA firm awarded the University contract would also audit the component unit?

A6: The timeline has sometimes been tight; however, the Foundation has historically provided us with their final financial statements in time for us to meet our deadline. Currently, there are no plans to utilize the same auditor for the University and the Foundation audits.

Q7: Were there any special projects outside the scope of the regular audit engagement performed by the current CPA firm during the past three years?

A7: No special projects were performed; however, the auditors did provide sporadic requested feedback on some accounting and/or tax issues as part of the standard audit services contract.

Q8: Do you have an estimate of the number of hours that were spent by the firm at each campus?

A8: Virtually all hours spent on the financial statement audit were spent at the Orono or Bangor campuses. Time spent at the campuses other than Orono for the Uniform Guidance audit will vary depending on whether or not it's an R&D year and which awards are selected for testing. With regard to the Financial Aid cluster that is audited every year, you should plan on at least 1 week at our Southern Maine (Portland-Gorham) campus, a couple of weeks at the Orono campus and 3-4 days at one of our smaller campuses.

Q9: Is the time at each campus outside the Orono campus strictly related to the Single Audit compliance work?

A9: The auditors' time spent at campuses outside of Orono is typically related to the Single Audit.

Q10: What were the prior fees for the annual financial audit and the single audit engagements?

A10: Total audit fees for the FY2018 audit are \$255,400 (\$189,900 for the financial statement audit and \$65,500 for the single audit.

Q11: Does written documentation exist for current processes and related internal controls for the universities, centers and central administrative office?

A11: We have copies of the following process documents the current auditors have annually asked us to update: cash management, fixed assets, journal entries, payroll, purchasing and accounts payable, receivables and revenue, and travel.

Q12: Is the internal control structure centralized, or do different policies and procedures exist within the different entities? For example – payroll, cash and debt management, purchasing and accounts payable, student accounts.

A12: See <http://www.maine.edu/about-the-system/system-office/finances/administrative-practice-letters/> for the University of Maine System's administrative practice letters (APLs) that address a wide array of topics. Also, the Board of Trustees Policy Manual may be reviewed at <http://www.maine.edu/about-the-system/board-of-trustees/policy-manual/>.

Cash and investment management and issuance of University of Maine System revenue bonds is centralized in the System Controller's Office, working as needed with the System Treasurer. Campuses are responsible for collecting and depositing cash in System controlled bank accounts. Individual campuses may directly acquire debt such as capital leases which is centrally coordinated.

Payroll/HR and Purchasing/Accounts Payable are centralized at the System Office with personnel residing centrally and on certain campuses. Personnel within individual campus departments are, however, authorized to initiate purchases following applicable APLs. Payment of employees and vendors is centralized within the System Payroll Office and the System Strategic Procurement Office, respectively.

Student accounts and student financial aid functions are centralized at the campus level although there are certain APLs and Board of Trustees policies that govern these functions. All campuses use the same system – Peoplesoft Campus Solutions, but there is some variation in actual day-to-day procedures. The FISAPs are prepared and filed at the campus level. The Controller's Office reviews the FISAPs prior to the campuses' final submission in December.

Q13: Are there separately issued audited financial statements issued for the individual universities, centers and central administrative office?

A13: We issue audited financial statements only for the University of Maine System as a whole.

The System Controller's Office prepares an unaudited Statement of Net Position and an unaudited Statement of Revenues, Expenses, and Changes in Net Position for each university and the central administrative office. These statements support each university's financial reporting to IPEDS and NEASC.

Q14: In the prior year the University of Maine Foundation was audited by a component auditor, should it be assumed that the Foundation is outside of the scope of this RFP?

A14: The Foundation is outside the scope of this RFP.

Q15: Page 8 of the RFP notes that the controller's office prepares the financial statements. Are these statements based on multiple trial balances by entity that require eliminating journal entries or is the system as a whole accounted for on a combined basis?

A15: Data for all universities within the University of Maine System are contained in a single general ledger system. Accounting staff in the Controller's Office can easily pull data for a single university or for all combined and utilizes a reporting tool known as nVision to generate reports formatted for the Statement of Net Position (SNP) and the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). With manual adjustments for rounding, these reports are easily dropped into the Word file for the audited financial statements. This nVision tool also provides a supporting Excel 'working file' that shows the SNP and SRECNP by major fund type: unrestricted, restricted, loan, endowment, unexpended plant, plant debt service, invested plant, agency, reclassifications, and total all funds.

Q16: Page 7 of the RFP notes that requests lists should be provided approximately 6 weeks prior to the start of on-site field work as some of the supporting documentation is located at the campus level. Related to that statement;

- I. How much of the on-site fieldwork is currently performed at the central office in Orono? Does the Controller's office gather all financial information required by the audit from the other locations?
- II. How much time have the current auditor's currently spent at the locations other than Orono?
- III. Does the request list provided 6 weeks in advance of final fieldwork generally include any samples the auditor may need to make? If so, are the related general ledger detail reports (for example, fixed asset additions, accounts receivable, accounts payable) generally finalized 6 weeks prior to the start of final fieldwork?

A16: Please see our responses to Q8, Q17, and Q19.

Q17: Related to the audit of compliance required by the Uniform Guidance, for the Student Financial aid cluster and any other programs that are administered by the individual universities, does the audit take place at each university location or centrally at Orono?

A17: The Student Financial aid cluster is audited by visiting the applicable campuses. A visit to the Orono and Southern Maine (Portland/Gorham) campuses will be required each year. A visit to one of the other campuses will also be required each year on a rotating basis. For example, during the FY18 audit a visit was made to the University of Maine at Farmington.

The majority of the Research cluster would be applicable to the Orono campus, but may include federal programs from the other campuses. The need to travel to a campus other than Orono would depend on the facts and circumstances of the programs being audited. With Bangor/Orono as a central base, a visit to Portland, Augusta, Farmington, or Machias would easily be a day trip. The Fort Kent and Presque Isle locations may require an overnight stay depending upon the work schedule for the day.

Q18: Required Cost Evaluation Exhibit on page 25 of the RFP; instructions note that the R & D cluster should be considered to be audited in fiscal years 20 and 23 and that all years should be considered to include 2 major programs; are these prices determined to be fixed? If any additional major programs are required to be tested in any given fiscal year, should pricing for additional major programs be included with the final proposal?

A18: Please provide the pricing that would apply for each additional major program in the event the number of major programs to be audited in a given year is more than two.

Q19: In the most recent audit completed, generally how many weeks does the current auditor spend on-site, and what is the composition of the audit team in term of how many professionals by level?

A19: A couple of auditors spend approximately one week in early to mid-June performing interim fieldwork for the financial statement audit. This interim work is performed partially on-site and partially in the auditors' office and focuses on updating procedural memos and selecting test samples based on activity through the end of May. The auditors leave the test sample requests with us and we gather the supporting documentation and provide it to them the first day they arrive for post year-end fieldwork. They also do some system walk through procedures during interim fieldwork.

Leading up to the first day of post year-end fieldwork, we provide the

auditors with complete transactions for the fiscal year for the areas they are testing and they expand their prior test samples accordingly. We gather the documents for the additional test items with the goal of also having them ready for the first day of fieldwork.

Fieldwork for the FY18 financial statement audit began September 4th and the draft financial statements were ready for mailing to the Audit Committee in mid-October. Approximately 3-4 auditors (combination of staff and senior auditors) are here for the duration of fieldwork, with the Senior Manager and Partner on site as needed.

Q20: What was the annual fee for the most recent audit cycle? Were any out-of-scope invoices rendered in recent audit cycles and if so, what were they related to?

A20: Total audit fees for the FY2018 audit are \$255,400 (\$189,900 for the financial statement audit and \$65,500 for the single audit. No out-of-scope invoices were rendered in recent audit cycles.

Q21: Page 44 of the RFP notes that audited financial statements or other approved financial documents must be presented once a contract is awarded. What are appropriate other approved financial documents?

A21: We will require financial documentation that will help us to analyze the financial stability of your company.

Q22: The notes to the 2018 financial statements state that there are other related organizations that are not included in the financial reporting entity as discretely presented component units – was that decision based upon materiality or other factors?

A22: The University of Maine System has several affiliated foundations that are not included as component units due to their immaterial size.

Q23: How has the System assessed the impact of the adoption of new accounting standards in the past? Internal analysis or use of outside consultants?

A23: Generally, the System's accounting staff determine the impact of new accounting standards and provide their analysis to the auditors. We did engage the assistance of our actuary in determining the impact of recent GASB standards related to pensions and other postemployment benefits (health).

Q24: Has any work begun on assessing the impact of GASB 87 – Leases?

A24: We have not started this analysis, but based upon our current operating leases, the impact is estimated to not exceed \$1 million.

Q25: Is there anything new or different since the June 30, 2018 audited financials that would have an impact on the FY2019 audit?

A25: On July 1, 2018, a new related 501(c)(3) entity began operations. Although not currently material based upon revenues or net position, this entity is controlled by the University of Maine System. Working with our current audit firm we determined that this entity qualifies to follow GASB standards rather than FASB standards and if included in the University of Maine System's financial statements it would be included as a blended component unit without need for separately audited financial statements.

Q26: Are you aware of any new federal grants/funding that would be required to be audited as a major program for FY2019?

A26: We are not aware of any at this time.

Q27: Do you foresee significant new funding in the research and development cluster that would require more testing within the program? Alternatively do you foresee less funding in that cluster in the future?

A27: Our hope is that the research and development cluster will grow. The University of Maine, our flagship campus, has a new VP for Research who is focused on expanding the University of Maine's research portfolio.

Q28: Do you have any plans to liquidate the Perkins loan portfolio at some point during the contract period? If you are not certain, would it be acceptable to quote the potential additional audit work that would arise from liquidation separately, similar to the cost of auditing an additional federal program as major?

A28: Each of our campuses has separate awards from the US Department of Education; thus, the decision to liquidate the Perkins loan portfolio will be made campus by campus. As of late November, personnel from the System's Shared Processing Center, which administers our Perkins programs along with a third party vendor, were working to schedule a time to meet collectively with the financial aid directors to discuss liquidation of their respective Perkins loan portfolios.

It would be acceptable to separately quote the potential additional audit work that would arise from liquidation.

Q29: Any issues with any regulatory bodies? Any noncompliance with laws and/or regulations? Noncompliance with bond covenants?

A29: We are not aware of any such issues.

Q30: Is there anything about the audit process you would like to change?

A30: At our request, our current auditors have tried to assign the same team to our audit each year, limiting new members to just one each year whenever reasonably possible. We would like to continue with this approach. We would like the Uniform Guidance Audit to be completed earlier than it has been in the past which has typically been February or March.

Q31: Appendix C question 7, page 24: How do you define an enterprise solution in the context of audit services?

A31: The reference to an enterprise solution appears to be standard RFP language that we should have omitted for this RFP. Please ignore the reference.

Q32: Appendix C, Required Cost Evaluation Exhibits – Additional Related Audit and Non-audit Services, page 25: Given the staff mix on a particular project will vary depending on the nature of the project, would you prefer rates be quoted by level or are you requesting a fixed rate per hour regardless of staff level involvement?

A32: Please provide rates by level.

Q33: Appendix C Question 26, page 32: Would you please confirm that if the piggyback option was elected, it would involve a separate quote regarding those services that would be negotiated separately?

A33: This language is part of our standard Contract for Services agreement, included in the RFP as an evaluation criterion. The responses to this section will be evaluated using the guidelines stated in Section 2.1.2.2 Contract for Services. If revisions to standard language are submitted in the response proposal, they will be evaluated at the University's discretion based on the University's risk assessment. Generally speaking, a piggyback on the agreement would require a separate agreement, mutually agreed upon Scope of Services and associated costs.

Q34: May we send the proposal and related attachments via our secure server? It would require you to log in to download the documents.

A34: All responses must be submitted according to Section 1.3.8 Response Submission in the RFP.



October 29, 2018

To the Board of Trustees
University of Maine System

Dear Board Members:

We have audited the financial statements of the business-type activities and the discretely presented component unit of the University of Maine System (the System) for the year ended June 30, 2018, and have issued our report thereon dated October 29, 2018. Professional standards require that we communicate to you the following information related to our audit.

PART I – REQUIRED COMMUNICATIONS

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and Title 2 of U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter dated June 12, 2018, our responsibility, as described by professional standards promulgated by the American Institute of Certified Public Accountants, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in the discretely presented component unit, is based on the report of other auditors. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the System's compliance with the types of compliance requirements described in the OMB Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the System's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the System's compliance with those requirements.

Our responsibility with respect to the Schedule of Expenditures of Federal Awards is described in the last paragraph of our Uniform Guidance Reports.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 1 to the financial statements.

During the year, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to the System's postemployment health plan, or OPEB. The System also adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which provides a mechanism for measuring and recording split-interest agreements as assets, deferred inflows and revenues. The 2017 financial statements have been restated to reflect application of these changes. The System also adopted GASB Statement No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*, which requires interest costs incurred during the construction period to be recognized as expense in the period incurred rather than be capitalized as part of the historical cost of the constructed asset. GASB Statement No. 89 has been applied on a prospective basis.

Except as described in the preceding paragraph, there were no new accounting policies that were adopted and the application of existing policies was not changed during the year ended June 30, 2018. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- The estimates used in the calculation of pension and OPEB obligations, related deferred inflows and outflows, and disclosures, which are based on actuarial studies.
- The estimate of liabilities for self-insured health insurance, which is based on current experience and historical data.
- The allowances for uncollectible receivables, which are based on historical collection data.
- The calculation of depreciation expense, which is based on the expected lives of the related capital assets.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 3 – Investments
- Note 11 – Commitments and contingencies
- Note 13 – Pension plans
- Note 14 – Postemployment health plan
- Note 18 – Prior period adjustments

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of this report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” in certain situations. If a consultation involves application of an accounting principle to the System’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System’s auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management’s Discussion and Analysis and the supplementary information related to the System’s retirement plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit RSI and do not express an opinion or provide any assurance on the RSI.

We audited the Schedules of Activities and the Schedule of Expenditures of Federal Awards, which may accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles or the Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. Our procedures included comparing and reconciling the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

PART II – INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of the System as of and for the year ended June 30, 2018, in accordance with U.S. generally accepted auditing standards, we considered the System’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a

combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Restriction on Use

This communication is intended solely for the information and use of the Board of Trustees and management of the System and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
October 29, 2018