



AUDIT COMMITTEE
OCTOBER 19, 2017

KEENE STATE COLLEGE
KEENE, NEW HAMPSHIRE

MEETING MINUTES

Committee members present: Chairman Todd Black, Wallace R. Stevens, Frank Edelblut and Cathy Green

Other Trustees present: President Donald Birx, President Mark Huddleston, President Mark Rubinstein, Interim President Melinda Treadwell, James Burnett, Ricky Fife, Adam Geddis, Todd Leach, Kenneth Moulton, Christopher Pope, J. Morgan Rutman, John Small, Speaker Shawn Jasper and Cassandra Arding

Others in attendance: (KPMG) David Gagnon and Barbara Cevallos; (USNH) Ashish Jain, Carol Mitchell, Ron Rodgers, Kara Bean and James McGrail; (Governor's Office) Rhonda Hensley.

A number of faculty, staff and students were also in attendance.

Call to Order

The Audit Committee convened at 10:47 AM.

Chairman Black welcomed the committee and reviewed the agenda.

Chairman Black informed the committee that there is no quorum of the Audit Committee; therefore, no votes will be taken at this meeting. The Board of Trustees will vote on the USNH and UNH Foundation Financial Statements at their meeting tomorrow.

I. Audit Committee Members

Todd Black, Chair, Alexander Walker, Vice Chair, M. Jacqueline Eastwood, Frank Edelblut, Cathy Green, Scott Mason, Lorraine Merrill, Wallace Stevens, and Governor Christopher Sununu.

II. Approval of Consent Agenda Items

Chairman Black asked the committee members if they had any comments or questions on the Consent Agenda Items and there were none. A vote on the Consent Agenda (other than the UNH Foundation Financial Statements) will be taken at the next meeting.

III. Items for Committee Consideration and Action

- A. University System of New Hampshire FY2017 Financial Statements
- B. Review FY17 audit report and comments from KPMG

USNH Controller Carol Mitchell discussed financial highlights including statements of net position by year and by campus, statements of revenues, expenses and changes in net position by year and by campus, components of operating margin, change in recurring revenues from FY13 to FY17 and grants and contracts revenue, fall full-time equivalent (FTE) enrollment, State appropriations and resident tuition vs. nonresident tuition, financial aid by type of award and source of funds, student aid trends, change in recurring expenses from FY13 to FY17, and net asset growth. The statement of net position and statement of revenues, expenses and other changes in net position are also now presented by campus as required by recent New England Association of Schools and Colleges accreditation standards.

Ms. Mitchell also discussed GASB 75 (OPEB) compliance and provided a brief background. USNH will adopt GASB 75 in FY18 and restate prior years to reflect impact of additional liability of approximately \$60M, resulting in an equivalent reduction in UFR. David Gagnon added a detailed explanation of GASB 75 and contrasted these obligations to the industry. Mr. Gagnon noted that USNH has been using full accrual of benefit obligations and a conservative actuarial valuation methodology; therefore, USNH will have a lesser impact of GASB 75 than peers. Trustee Small further added that it is not unusual for this obligation to be unfunded; Mr. Gagnon agreed.

Mr. Gagnon noted that the USNH audit resulted in an unmodified opinion on the financial statements; no material weaknesses or significant deficiencies were noted; and there were no uncorrected or corrected audit adjustments. He also noted that USNH and UNH Foundation will each receive a timely unqualified auditors report with no management letter.

Ms. Cevallos detailed the process and focus areas for the USNH audit including cash and investments (a major focus area); contribution revenue, related receivables and net assets; debt, debt issuance and related items; capital assets and related depreciation; tuition and fees, and related receivables; grants and contracts revenue, sales of auxiliary services and NH appropriations; compensation and benefits and related liabilities; and commitments and contingencies. Furthermore, analytical procedures are performed over these focus areas. Commitments and contingencies are confirmed with legal counsel.

Ms. Cevallos noted the significant risks that could result from fraud and management override. This term refers to the ease with which management could override existing controls and commit financial statement fraud. Mr. Gagnon explained that audit standards require examination of this area for all entities, not just higher education. KPMG performed appropriate procedures and there were no concerns raised from the audit.

The Uniform Guidance (formerly known as A-133) audit is ongoing. The audit will include the student financial assistance cluster at UNH, GSC and KSC, and NCAA compliance. Grants and contracts will include a sample of payroll and non-payroll expenditures.

Trustee Small commented on the positive results from working with KPMG on the UNH Foundation audit.

KPMG Partner, Dave Gagnon, offered high praise for the work of Carol Mitchell and Ashish Jain and their teams.

Trustee Stevens noted that Ms. Cevallos is leaving KPMG and thanked her for her work at USNH.

IV. Items for Committee Consideration and Discussion

A. ERM Follow-up: Campus Safety and Security

Ashish Jain updated the committee on this topic to follow up on their discussion at the June meeting.

UNH Police Chief Paul Dean presented to Administrative Board on these risks and related preparedness which resulted in cross campus security communication. The Administrative Board discussed campus safety and security issues (including active shooter and race relations). The Administrative Board agreed that the likelihood of such events is sufficiently low and decided not to include it in top 10 risks. The Administrative Board recommended that crisis response and campus climate (diversity, free speech, intolerance, and student protest) should be considered. Mr. Jain informed the committee that both topics will need campus feedback and will be evaluated for mitigating activities. The annual ERM report is due at the next meeting. Both of these topics will be evaluated as a part of the annual ERM update.

Management has reviewed current insurance coverage for active assailant event with our Insurance Advisor/Broker, who did not recommend obtaining such insurance as it duplicates existing coverage. The Insurance Advisor recommended that we continue to participate in training, table top exercises, and other risk management preparedness activities.

Trustee Ardinger noted that there was a lengthy discussion on this topic at today's Governance Committee meeting. They plan to discuss this topic at the next committee meeting as well.

B. ERM Process and Roles Update

Mr. Jain noted that the ERM champions for the top 10 system wide risks have been selected. A kick-off meeting of ERM champions was held in August 2017. The ERM champion will gather information on a periodic basis to determine whether the magnitude of the risk has changed significantly and report on primary activities that are occurring to manage or mitigate the risk. The champion will then report results to the appropriate committee.

C. Cybersecurity Assessment Update

The cybersecurity assessment kick off occurred in June.

Mr. Jain stated that Baker Tilly's (BT) assessment is nearly two-thirds complete and they expect to have final results by Thanksgiving break. BT has completed all process walk-throughs, gathered and reviewed process and control documentation, and conducted external and internal vulnerability scanning at all institutions. BT has obtained some preliminary results. Many of their findings are being validated with process owners. The majority of the project elements are over 65% complete.

Pending unforeseen circumstances, the expectation is that BT will present assessment results at the February 1, 2018 Audit Committee meeting.

Chairman Black noted that his understanding is that the US Department of Education is contemplating a cybersecurity audit requirement for higher education in the near future, to which Mr. Gagnon agreed.

VI. Other Business

Chairman Black discussed the recent "Pay-for-play" scandal and asked Mr. Jain and the Administrative Board to discuss the impact of this issue for USNH. A report on the topic is expected at the next Committee meeting.

The Committee adjourned at 11:32 AM.

-- End of Audit Committee Meeting Minutes --