



AUDIT COMMITTEE
OCTOBER 22, 2020

BY ZOOM MEETING:

[HTTPS://UNH.ZOOM.US/J/96908255913?FROM=MSFT](https://unh.zoom.us/j/96908255913?from=msft)

MEETING MINUTES

Committee members present: Chair Alexander Walker, Vice Chair Wallace R. Stevens, Amy Begg, M. Jacqueline Eastwood

Other Trustees present: George Hansel, Marjorie Smith, Melinda Treadwell

Other participants: (CLA) Andy Lee, Luke Winter; (USNH) Catherine Provencher, Francine Ndayisaba, Ashish Jain, Kara Bean, Tia Miller, Jim McGrail; (USSB) Michael Fazi

I. Call to Order

At 12:32 p.m., Committee Chair Walker called the meeting to order. Chair Walker called the roll and noted the presence of a quorum sufficient for the conduct of business.

II: Determination of Conditions Necessary for the Conduct of a Telephonic Meeting

Mr. Jain made the following announcement regarding the conduct of a telephonic meeting and counting all members toward the quorum requirement whether or not physically present in the meeting location:

This meeting is being held by electronic means in conformance with the Governor's emergency declaration of March 13, 2020, and subsequent emergency orders, as well as the applicable provisions of the New Hampshire Right-to-Know Law, RSA 91-A. If during the conduct of this meeting, anyone has difficulty connecting or staying connected to the video or audio feed please contact Tia Miller at 603-862-0918 or email tia.miller@usnh.edu.

III. Approval of Consent Agenda Items

Chair Walker noted that the UNH Foundation financial statements were approved by the Foundation's Board of Directors.

Mr. Jain noted that the audit reports are primarily related to operational issues. He is available for any questions or concerns from the committee.

Chair Walker asked the committee members if they had any comments or questions about the consent agenda items; there were none. On motion offered by Trustee Stevens and duly seconded, the committee voted to approve the consent agenda.

Items on the consent agenda appear below:

- A. Minutes of June 25, 2020 Meeting
- B. Accept FY20 Financial Statements and audit report/comments for UNH Foundation
- C. Internal Audit Reports Issued:
 - 1. UNH Effort Reporting Audit Report
 - 2. UNH Financial Aid Data Security Review Report
 - 3. UNH Business Services Data Security Review Report
 - 4. KSC Advancement Operations Audit Report
 - 5. USNH Independent Contractor Process Review Report

IV. Items for Committee Consideration and Action

- A. Approve FY20 University System of New Hampshire Financial Statements**
- B. Review FY20 audit report and comments from CLA**

Prior to discussion regarding the consent agenda, Cathy Provencher introduced Francine Ndayisaba, USNH Assistant Controller and acting Controller. Ms. Provencher expressed appreciation to Ms. Ndayisaba and her team for their exceptional work on the financial statements and audit, especially during such a challenging time. Ms. Provencher then left the meeting to attend the Investment Committee meeting.

Ms. Ndayisaba discussed financial highlights including statements of revenues, expenses, and changes in net position since FY16, statements of net position since FY16, and Fall full-time equivalent. Notably, in FY20, USNH:

- Reversed \$3.7M in revenue from the federal Cares Act institutional share due to a late directive from GASB, resulting in a loss of \$3M rather than breakeven.
- Instituted an internal campus-level management representation letter signed by campus CFO and president as USNH audited financial statements rely heavily on work done by campuses. This practice will continue.
- Used an alternative methodology to calculate vacation liability due to stay at home order that challenged our historical process of manually collecting vacation balances from employees and supervisors. This resulted in management letter comments.

- Postponed the adoption of certain new standards to FY 2021 as allowed by GASB.

Ms. Ndayisaba drew the committee's attention to sales of auxiliary services, grants and contracts, supplies and services, and endowment gifts and returns on the statements of revenues, expenses and changes in net position. Sales of auxiliary services were down as a result of room and board refunds given to students. The slight increase in grants and contracts revenue was a key factor in mitigating COVID-19 costs. Supplies and services expenses decreased due to issuance of a travel ban, closing of the residence and dining halls, and limits on purchasing card purchases. Market losses contributed to the decrease in endowment gifts and returns. Pursuant to GASB guidance, institutional CARES dollars can only be recognized as revenue in FY20 up to the level of student CARES dollars distributed in FY20 which resulted in a \$3M loss rather than breakeven.

On the statements of net position, Ms. Ndayisaba highlighted the cash and short-term investments and other liabilities and deferred inflows of resources. Cash and short-term investments were stable from FY19. The increase in the other liabilities and deferred inflows of resources line was a result of students leaving their room and board refund in their accounts to use for the next semester.

Finally, Ms. Ndayisaba noted that the mix of residential and non-residential students is the same as last year (51% and 49% respectively); however, the total number of students has declined by 7% since 2016.

There were no questions or comments from the committee.

Chair Walker introduced Andy Lee and Luke Winter from CLA.

Mr. Lee briefly reviewed the engagement scope which includes issuance of the following reports: required supplementary information, required governance communications letter, internal control communication letter, and a management letter, if necessary.

The Uniform Guidance Audit is also in progress. Compliance Supplement (Part II) is expected to be released by December. This may delay the timing of the Uniform Guidance Audit. Testing of student financial aid at each campus is in process. CLA will perform Major Program Determination and Risk Assessment to identify other major programs for testing.

Mr. Lee stated that the USNH Financial Statement audit resulted in an unmodified opinion ("clean opinion") on the financial statements.

CLA found no material weakness or other deficiencies, no non-compliance with laws and regulations regarding internal controls over financial reporting, compliance and other matters. A Management letter regarding compensated absences and information technology (compliance with the Gramm-Leach-Bliley Act) was issued. Identification of the issue regarding compensated absences was in large part due to the unique circumstances of this year. To mitigate these issues, an automated time management system (Kronos) is being implemented and a plan regarding cybersecurity awareness training is being developed.

Mr. Winter briefly discussed the footnotes in the financial statements, specifically management's significant accounting policies (Note 1), outstanding commitment and contingencies (Note 15) and disclosure around the COVID-19 pandemic (Note 15).

There were no corrected misstatements, errors or adjustments noted. There was one uncorrected misstatement regarding OSRP Pension Investments. There were no disagreements with management on accounting/auditing matters.

Regarding internal controls and compliance, there were no material weaknesses or significant deficiencies identified. There are no compliance findings to report. Mr. Winters reminded the committee that CLA does not express an opinion on the effectiveness of the System's internal controls because it is not required under GAAS.

GASB 95 postponed effective dates of several standards by one year. Statement No. 87 regarding Leases has been postponed 18 months. It will be effective year-end June 30, 2022.

In response to a question from Chair Walker, Mr. Lee stated that all audit work was done virtually. There was no on-site work.

Mr. Lee praised Ms. Ndayisaba and her team for the work done on the audit, especially during this challenging year. The committee thanked CLA and Ms. Ndayisaba and her team for their outstanding work on the audit.

The following motion was made by Trustee Stevens, duly seconded, discussed, and approved with no votes abstained or dissenting.

***VOTED**, on recommendation of the Chancellor, that the USNH Financial Statements for the fiscal year ended June 30, 2020 be approved and forwarded to the Board of Trustees with the following recommended action:*

***MOVED**, on recommendation of the Audit Committee, that the USNH Financial Statements for the fiscal year ended June 30, 2020 be accepted and forwarded to the Governor, the Legislative Fiscal Committee, and others as specified in state law RSA 187-A:22.*

V. Items for Committee Consideration and Discussion

A. ERM Discussion – Change Management

Jim McGrail, USNH Chief Human Resource Officer, stated that change management has been a top 10 risk for a number of years and likely will continue to be. Due to the implications of COVID-19 and the USNH restructuring effort guidance in this area is imperative.

The USNH Change Management Playbook has been distributed to the committee members. The Playbook is a guide designed primarily to assist teams tasked with planning and managing organizational changes that impact USNH.

Despite what is known about the importance of change management, organizational change has a high failure rate for many reasons including assumption that past successes ensure future success and failure to ensure accountability and follow-through.

To mitigate the change management risk, USNH has developed two risk management initiatives: System-wide project management capability and change management framework. A System-wide project management capability creates a cohesive unit to provide standard practice, establishes rigor around project approval, and improves cost management of projects. Development of a change management framework provides a consistent lasting way of going about change and tools and processes to apply to every change, facilitates a faster pace of change, and keeps stakeholders informed throughout the process.

Bill Poirier, UNH and USNH Chief Information Officer, led the effort to consolidate the UNH and USNH Project Management Offices. This consolidation has created standard practices and rigor to project management as well as saved \$100,000 in personnel costs.

Beginning in FY21 every project proposal requires a cost benefit analysis for approval by the Administrative Board. This ensures consistency and that the Administrative Board has visibility to projected savings or value from the investment as part of the decision-making process.

Also beginning in FY21, USNH began to itemize budgets, load project schedules, and track time and spend against schedule for Long Range Technology Projects (LRTP). This enables flagging of projects with cost overruns or time slips and business engagement to conduct project reviews to address project actions up to and including cancelling projects. It will also improve transparency for the Administrative Board.

A project management training and mentoring program is being developed for project managers. The training will include change management principles.

Changes to track workload are being implemented to effectively load balance resources with operational duties and project related commitments. This will allow USNH to perform project portfolio planning in the future and manage areas where reallocation or investment of resources may be required.

Mr. McGrail discussed each step of the change management framework.

Step 1 is identifying the need for change (business case). Inputs include leadership imperatives, key business strategies and market forces. Strategies regarding guiding principles, benefits of change and measures of success, and scope, timeline and stakeholders are developed. Lastly, work teams, charter/mission, work plans/tools, and project approval are finalized.

Step 2 is analyzing impact including return on investment, cost, current cost and loss in productivity. The current state is evaluated, the future state alternatives and impact are noted, and listening strategies/customer input and sharing are initiated. The Banner/ERP project is currently on this step in the process.

Step 3 is articulating the business case. Upon completion of this step, a decision is reached.

Step 4 is implementation to include charter/leadership accountability, workstreams, project management, detailed implementation project plan, issues tracking and management, and metrics/data benchmarks. Communication during this step is crucial.

Step 5 is ongoing measurement of results – metrics, benchmarks, data tracking, and process and timing review.

Chair Walker noted the importance of communication and awareness of the organizational culture. Mr. McGrail agreed, noting that engagement with the various councils and committees seemed to bring a comfort level to the Kronos project. Involvement in the project and socialization of the problems and solutions gave employees some ownership in the project.

B. Discussion on Audit Committee’s role in legal risks, reputational risks, and risks related to race and diversity

This item was added to the agenda as a follow up to discussions at the June Audit Committee meeting. The Audit Committee charter has been distributed to facilitate the discussion.

Chair Walker noted that the Audit Committee charter primarily addresses financial risks. Section 4. Oversee Risk Management Processes appears to give the Audit Committee authority to monitor risks other than financial risks. Trustee Stevens asked if the Audit Committee is doing enough on monitoring the assigned ERM risks.

Mr. Jain presented the ERM Board Oversight Responsibilities document which shows the risks that have been assigned to each committee from the Executive Committee. Compliance, Information Technology and Security, Change Management and Campus Safety are assigned to the Audit Committee. The committee discussed management of those risks and the best way to determine if and how the risk is being managed. The committee agreed that it needs to report to the Executive Committee whether a risk is being managed appropriately.

Trustee Treadwell noted the risk mitigation mechanisms that are submitted to the Audit Committee such as the Title IX reports and the recent campus safety assessment. Both are valuable to the campus presidents and have effected positive change. In response to a question from Trustee Eastwood, Trustee Treadwell stated that the Administrative Board reviews ERM risks. Mr. McGrail added that red flags are brought to the Administrative Board.

The committee agreed that they need to understand their assigned risks and how they are being mitigated at a higher level as their role is “overseeing” risks. The Audit Committee recommends that the Administrative Board submit a quarterly update to the committee on mitigation of their assigned risks.

VI. Other Business

There being no further business, the meeting adjourned at 1:51 p.m.

-- End of Audit Committee Meeting Minutes --