A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Thursday, November 9, 2006 in room 427A Waterman Building.

MEMBERS PRESENT: Chair Mark Young, Vice Chair John Snow, Edwin Amidon, Jr., Bill Botzow, Frank Cioffi, and Kami Patrizio

REPRESENTATIVES PRESENT: Staff Representative Renee Berteau and Student Representative Jessica Banks

OTHER TRUSTEES PRESENT: Clair Ayers

PERSONS ALSO PARTICIPATING: Carl Lisman, Board of Trustees, Chair, J. Michael Gower, Vice President for Finance and Administration and University Treasurer, Bonnie Cauthon, Associate Vice President for University Financial Services and Controller, Ted Winfield, Associate Vice President for Budget and Resource Management, Charles Jefferis, Associate Vice President for Institutional Risk Assessment and Audit Services Offices, Renee Bourget-Place and John Moriarity, KPMG, and Tanya Morehouse, State Auditor’s Office

Chair Mark Young called the meeting to order at 1:30 p.m.

Approval of Minutes

After a change reflecting Edwin Amidon’s absence at the September meeting, a motion was made, seconded and voted to approve the minutes of the September 7, 2006 meeting.

Review and Approval of FY 2006 Financial Statement Audit

J. Michael Gower, Vice President for Finance and Administration and University Treasurer, presented the 2006 Financial Report to the Audit Committee members for comment. He then introduced Renee Bourget-Place and John Moriarity from the independent audit firm of KPMG who gave their presentation on the 2006 Audit. Mr. Moriarty noted that the University received an unqualified opinion.

The Committee unanimously passed the following resolution to accept the audited FY 2006 financial statements:

Acceptance of Fiscal Year 2006 Annual Audit

WHEREAS, the books and accounts of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2006, have been audited by KPMG LLC, Certified Public Accountants, under the supervision of the Auditor of Accounts, State of
Vermont, and the report of such audit published in detail in accordance with 16 V.S.A. Section 228 (a);

BE IT RESOLVED, that in accordance with authorization contained in the Bylaws, the Board hereby accepts such audit in lieu of the annual audit, and that the same be considered as the report of the Audit Committee.

Review of the FY 2006 Management Letter

John Moriarity and Renee Bourget-Place presented the management letter observations:
1) Alternative Investment Valuation; 2) Accounts Payable Cut-Off; and 3) Actuarial Review of Self-Insurance Reserve. The complexity of satisfying the alternate valuation requirement was discussed at length. Mr. Moriarity suggested that rules will become more complex and stringent in the coming year. UVM is a relatively small player at $62 million invested in alternative investments. It was reported that Cambridge is looking at an add-on product offering to assist institutions to gather more valuation information, likely for an added fee.

Two large construction invoices paid after year-end were not accrued in the proper fiscal year which resulted in the Accounts Payable cut-off observation. It was suggested that the cut-off period for this type of invoice be delayed until the end of August. Management accepted this recommendation; the invoices in question were included in the financial statements.

The self-insurance reserve actuarial review is underway and the report is due soon; this review is used both for financial statement purposes as well as by the Risk Management department. Management will use the more conservative estimates from this annual review for financial statements. A prior-year observation on compensated absences will be addressed when the attendance detail is loaded into PeopleSoft by the fiscal year 2007 year-end.

Mr. Moriarity commented that the A-133 audit is approximately 75% complete as well as the NCAA audit being substantially complete at this time.

Introduction of the upcoming SAS 112 regulations, effective for the June 30, 2007 audit, included discussion of internal controls and the need for communication. We should be prepared for additional findings next year. A message should be sent to the university community emphasizing the importance of following procedures with no shortcuts and fewer exceptions. Procedures need to be streamlined so that no steps will be overlooked. Charles Jefferis noted that he and Michael Gower had begun the SAS 112 implementation plan which mirrors John Moriarity’s suggested approach.

Review of Outstanding Audit Observations and Management Action Plan Report

Charles Jefferis presented the current Audit Observations and Open Management Corrective Action Plan report as initially requested by the Committee at their May 2006 meeting. He emphasized four construction cost audits which to date reflect a recovery of approximately $400,000. He recognized the work of Paula Carlaccini of Architecture and Engineering Services for her diligent efforts in improving our business relations with the construction management.
firms. Going forward there will be an audit presence on every construction project, pre-contract auditing of labor rates, and improved audit and cost language in the University’s construction contract.

The Committee will continue to receive this report (with modifications) at their future meetings.

Mr. Jefferis noted the report’s purpose is to assist the Committee’s governance responsibilities. As such, he looks to the Committee for suggested modifications.

**Evaluation and Appointment of Audit Firm for FY 2007**

At 4:35 p.m. it was moved, seconded and voted to go into executive session. The Trustee voting members of the Committee met to discuss the FY 2007 contract for professional services with the independent audit firm, KPMG LLC. The Committee asked Michael Gower and Charles Jefferis of the University’s management team and Ms. Morehouse, the representative from the State Auditor’s Office, to attend the executive session. The meeting was re-opened to the public at 4:50 p.m.

The Committee then unanimously passed the following resolution approving contracting with KPMG for FY 2007:

**Audit Firm for Fiscal Year 2007 Audit**

RESOLVED, that the Board of Trustees authorizes the Vice President for Finance and Administration to negotiate and execute a contract with KPMG LLC, Certified Public Accounts, to conduct the annual audit of the University and other related audits for and during the fiscal year ending June 30, 2007. The annual audit shall be conducted in compliance with the requirements of the University Bylaws and state and federal law.

**Other Business**

Michael Gower asked the legislative trustees to look into changing the open meeting law so that the Committee can meet privately with the independent auditors and with the internal auditors. Mr. Gower was asked to work with General Counsel Fran Bazluke to suggest appropriate language. Committee members also asked Mr. Gower to arrange another review of the University’s insurance programs at an upcoming Committee meeting.

**Adjournment**

There being no further business, the meeting was adjourned at 5:00 p.m.

Respectfully submitted,

Mark Young, Chair