AUDIT COMMITTEE
BOARD OF TRUSTEES
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE

A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Wednesday, March 26, 2008 in the 427A Conference Room in the Waterman Building

MEMBERS PRESENT: Chair Edwin Amidon, Jr., Vice Chair Bill Botzow*, Jeffrey Davis*, Susan Hudson-Wilson*, Beth Rice, and John Snow

MEMBER ABSENT: Jeannette White

REPRESENTATIVES PRESENT: Staff Representative Renee Berteau, Student Representative Sarah Shackett and Alumni Representative Bill Cimonetti

PERSONS ALSO PARTICIPATING: J. Michael Gower, Vice President for Finance and Administration and University Treasurer, Charles Jefferis, Associate Vice President for Institutional Risk Assessment and Audit Services, Tom Salmon and Joe Juhasz, Vermont State Auditors Office, Renee Bourget-Place and John Moriarty*, KPMG LLP and Dave Klipa and Matt Faris, Huron Consultants

*Via teleconference call

Chair Amidon opened the meeting at 9:00 a.m. He thanked John Moriarty for his 15+ years of dedicated service to the University as Partner at KPMG and the committee members gave him a round of applause.

Approval of Minutes

The minutes of the February 21, 2008 meeting were unanimously approved.

Grant and Contract Accounting Progress Report

Matt Faris and Dave Klipa, Huron consultants, distributed a summary status report highlighting activities in the Grant and Contracts area, which will be e-mailed to phone participants and attached to these minutes. Mr. Gower opened the conversation by saying regular meetings have been held with Ms. Bourget-Place in attendance.

Financial Reporting – All reports are targeted to be completed by June 30, 2008. Constant contact has been maintained with the administrators including extensive training in PeopleSoft.

Invoicing and Cash Management – PeopleSoft billing went live on March 1, 2008 and the first invoice was issued out of PeopleSoft during the week beginning March 10.
Analysis on award by award basis is needed to “true up” with previous manual billing. Letter of Credit draws for $35 million are finalized and posted. An average monthly activity based on the present pace would be $1.6 million of monthly invoicing assuming an issuance of $6 – 11 million letters of credit.

**Award Set-Up** – This process is under control. Every award is set up within ten days and will move soon to a five-day setup. At this pace, we hope to have no backlog by May or June.

**PeopleSoft Processing Tasks** – A total of over 400 journal entries are awaiting approval, with over 1400 budget checking errors to be cleared. Listings have been provided to College of Medicine and Extension with a journal entry review memo distributed to departments across campus. As general cleanup continues, these numbers will continue to grow until year end.

**Organizational** – Within the next two weeks, every chair in the College of Medicine will have been contacted. A new file management approach and work plan has been put in place as well as two openings have been filled within the department.

Asked when Huron will be leaving this project, Mr. Gower stated they would be here through year end and gradually phase out after cleanup is completed. Mr. Gower said he will be responsible for this issue until the situation stabilizes. A great deal of training is planned for everyone, which all agreed was key. Renee Bourget-Place of KPMG reported that the growth of the budget checking error list appeared to be the only area of serious concern.

Dave Klipa stated the university is not unique in their struggles with PeopleSoft. There were underlying concerns in the Grants and Contracts operation that were exaggerated with the arrival of PeopleSoft. Mike Gower has shared his concerns with President Fogel, Provost Hughes as well as the Vice President for Research, Fran Carr. State Auditor Salmon indicated that the State had similar implementation problems.

**Grant and Contract Director Search Status**

With advice from Huron, Mr. Gower and Ms. Carr have agreed on a position description for the new director of Grant and Contract Accounting. A search firm has been chosen and they are in the early stages of recruiting. An update will be ready for the May meeting. The hope is to fill the position and additional staff positions by the time Huron leaves.

John Snow inquired about the status of the new IT security position as well as the status of the internal audit area. Mr. Gower stated they were both in the budget process for FY’09. The plan is to add a senior internal auditor position in FY ’09.
**A133 Audit Status Report**

Ms. Bourget-Place reported that the report in its final version was due to HHS on March 31 and we would meet that target. Test work is almost completed and a few more reviews are needed.

The KPMG findings as well as the severity of the comments were the same as those noted in the Financial Statement Audit. The audit for FY’08 will start in a couple of weeks.

When Mr. Cimonetti asked what the timeline for HHS reaction to this filing would be, Mr. Moriarty explained that the A133 report would be sent to HHS on March 31. Mike Gower would get a letter from HHS as far in the future as 1 to 1 ½ years requesting UVM management corrective actions. Because of the nature of the findings, a HHS letter may be generated sooner this time, demanding some kind of action and corrective plan, making sure the University is doing what it promised. Another possibility is that HHS may send someone up here to see for themselves. HHS is unlikely to be punitive as long as corrective actions have been taken.

**NCAA Report Observation Response**

Mr. Gower has enlisted help from Vice President Tom Gustafson and Athletics Director Bob Corran regarding non-cash gifts. They have decided it should be taken to a higher level taking a look at relationships between UVM and possible sponsors, giving definition to sponsorship versus gifts-in-kind.

On the issue of posting revenues versus expenditures for the NCAA report, Lois Schuster is working with Athletics to establish new codes which work better with the NCAA reporting structure. Coding of ’08 entries will be corrected to conform to NCAA requirements.

**State Appropriation Issue**

The problem of approximately $4 million of the state appropriation sourced from Medicaid funds was discussed extensively at the February meeting and Mr. Gower was asked to work on this issue and report back to the committee. The university was not made aware of the change in funding but because it was over the $3 million threshold, KPMG brought it to our attention. Mr. Gower and Karen Meyer, Vice President for State and Federal Relations, have been speaking with Mr. James Reardon, VT State Commissioner, to get agreement on language regarding use of money. As of this meeting, we have not received clarification.

This will cause a problem for the FY’08 A133 audit and if not corrected, it could be a problem for FY’09. If a response has not been received in two weeks, Chair Amidon and Vice Chair Botzow will send another letter to the Governor asking for proper language to
conform to new Medicaid regulations. Mr. Gower and Ms. Meyer will stay on top of this issue. Chair Amidon promised to keep members informed of progress on this issue.

Mr. Salmon reported that his office is auditing the five-year Medicaid waiver program of $4.7 billion. Both Florida and Vermont have waivers. There is some question whether “waiver money” is covered by new Medicaid regulations. It should be made clear that these funds were used to fund our original appropriation, not additional funds.

**IRS Audit Status Report**

Mr. Gower reported positive results in the IRS audit regarding use of commercial paper for the PeopleSoft implementation. The IRS decided to close the examination with “no change to the position that interest received by bondholders is excludable from gross income.”

**Independent Audit Competitive Bid Process**

At 10:40 a.m. a motion was made, seconded and approved to go into executive session to discuss a contractual issue.

**Adjournment**

The committee came out of executive session at 11:19 a.m. There being no further business, the meeting was adjourned at 11:20 a.m.

Respectfully submitted,

Edwin Amidon, Jr.
Chair
Summary Status Report
Grant and Contract Administrative Services
Reporting Period: November 1, 2007 – March 21, 2008

Major Highlights / Activities Completed

FINANCIAL REPORTING

- Statistics
  - 563 Financial reports with due dates through December 2007
    - 425 Financial reports (with due dates through December 2007) completed
  - 436 Financial reports projected to be completed through June 2008 (includes 298 reports with due dates of 01/01/08 - 06/30/08)

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<thead>
<tr>
<th>Summary</th>
<th>Total</th>
<th>Complete</th>
<th>% Complete</th>
<th>Pending</th>
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<tbody>
<tr>
<td>Reports due through Dec 07</td>
<td>563</td>
<td>425</td>
<td>75%</td>
<td>138</td>
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<tr>
<td>Reports due Jan – Jun 08</td>
<td>349</td>
<td>51</td>
<td>15%</td>
<td>298</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>912</strong></td>
<td><strong>476</strong></td>
<td><strong>52%</strong></td>
<td><strong>436</strong></td>
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- Process - Highlights
  - Established process to distribute monthly status report update to college business managers to communicate progress – next update to be mailed week commencing March 31, 2008
    - Distributed January – June 2008 outstanding report listing to departments for review, comments and prioritization
  - Continue to meet with departments to provide updates on financial reporting progress and answer questions: Department of Medicine, Social Work, Pathology, EPSCOR Cost Share, Continuing Education, Admissions & Enrollment Management, Office of Primary Care, Vermont Advanced Computing Center, RSENR (Rubenstein School)
  - Initiated the closing of aged accounts

INVOICING AND CASH MANAGEMENT

- Statistics
  - 134 Interim invoices prepared to date
    - $7.4 M Total amount of invoices prepared to date
  - $10.8 M Total amount of cash - checks received to date
  - Letter of Credit draws continue to be performed on a monthly basis.
  - Estimated monthly activity based on a steady state for Invoicing and Letter of Credit draws
    - Monthly Invoicing ~ $1.6 M
    - Letter of Credit ~ Monthly $6 – 11M

- Process - Highlights
  - Finalized and posted PHS LOC draws for $35M
  - PeopleSoft Billing went live on March 1, 2008 and first invoice was issued out of PeopleSoft the week commencing March 10, 2008
  - Prepared 60 invoices the week of March 21 that were sent to the sponsors. These invoices are also necessary to reconcile billing for cost reimbursable invoices to position for eventual invoicing directly from PeopleSoft
<table>
<thead>
<tr>
<th>Major Highlights/Activities Completed</th>
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<tbody>
<tr>
<td><strong>AWARD SET-UP</strong></td>
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<tr>
<td>• <strong>Statistics</strong></td>
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<td>o 724 Awards received for set-up in FY08</td>
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<tr>
<td>▪ Approximately 687 award set-ups completed – 95% complete</td>
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<td>▪ 37 Awards set-ups to be processed</td>
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<tr>
<td>• <strong>Process - Highlights</strong></td>
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<tr>
<td>o Developed a “New Award Setup” checklist and a “No Cost Extension” checklist which was reviewed and shared with the PeopleSoft team and GCA staff</td>
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<td>o Developing job aids for award set-ups to assist in process going forward</td>
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<td>o Met with OSP and Department Administrators on March 11th to present on sub-recipient management and budget checking errors policies and procedures</td>
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<tr>
<td><strong>PEOPLESOFRT PROCESSING TASKS</strong></td>
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<tr>
<td>• <strong>Statistics</strong></td>
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<tr>
<td>o 447 Journal entries awaiting approval</td>
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<tr>
<td>o 1433 Budget checking errors to be cleared</td>
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<tr>
<td>• <strong>Process - Highlights</strong></td>
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<tr>
<td>o Prepared listing of outstanding journal entries for review and provided the listing to the College of Medicine, College of Arts &amp; Sciences, and Extension</td>
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<td>o Distributed journal entry review memo to departments</td>
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<td><strong>ORGANIZATIONAL</strong></td>
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<td>• Provided a summary status report to College of Medicine Dean and Chairpersons</td>
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<td>o Plan to meet with each Chairperson to discuss GCA progress to date as it relates to financial reporting, award setup and other GCA duties</td>
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<td>• Initiated Institutional Cost Sharing Validation project</td>
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<td>• Developed a file management approach and workplan</td>
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<td>o Initial phase resulted in locating over 70 missing files</td>
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<td>o Next phases to include archiving of inactive project files, organization of active project files and standardization of file content</td>
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<tr>
<td>• Filled “Administrator” and “Specialist positions within GCA</td>
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