A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Tuesday, April 28, 2009 in Memorial Lounge on the third floor of the Waterman Building.

MEMBERS PRESENT: Chair Bill Botzow, Vice Chair Mark Young, Carolyn Branagan, Harry Chen*, Susan Hudson-Wilson*, and John Snow

MEMBER ABSENT: Jeffrey Davis

REPRESENTATIVES PRESENT: Alumni Representative Bill Cimonetti and Staff Representative Renee Berteau

REPRESENTATIVES ABSENT: Faculty Representative Bud Meyers and Student Representative Benjamin Porter

PERSONS ALSO PARTICIPATING: Richard Cate, Interim Vice President for Finance and Administration and University Treasurer; Francine Bazluke, University Counsel, Erica Heffner, Interim Internal Auditor, and Tanya Morehouse*, State Auditor’s Office,

*Via teleconference call

Bill Botzow called the meeting to order at 8:04 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the March 30, 2009 meeting.

Update on the Higher Education Act

Ms. Bazluke presented the Higher Education Reauthorization Act, a wide reaching, complex legislative document over 1,000 pages long. She created a matrix from this document outlining major compliance provisions, identifying University administrators responsible for compliance, and compliance status including actions required.

Chair Botzow commented it would be helpful to have quarterly updates on this matrix outlining administrative progress on these points. A point of focus to make sure timelines are being met should be the responsibility of the compliance officer. Follow up reports should be placed on the committee annual work plan. A live update from the VP for Enrollment Management would be desirable since that position is responsible for the majority of compliance requirements.
Update on Internal Audit Activities

Erica Heffner, Interim Internal Auditor, distributed to members and representatives updated Audit Committee Orientation Manuals. Chair Botzow thanked Ms. Heffner for all her work as interim Chief Internal Auditor. She outlined the changes since the last orientation manual and encouraged members of the Committee to contact her with comments and questions.

Ms. Heffner mentioned in her report of the day-to-day operations of the Internal Audit Office that the U.S. Department of Labor had requested for review payroll documentation from the 2007 opening of the Dudley Davis Center. She would know more details about this request following their visit this week.

Ms. Gagnon, Director of Grants and Contracts Accounting Services, stated she had met with a representative from Association of American Medical Colleges (AAMC) recently and they left pleased with the results of the meeting.

Review of Progress on Response to Deloitte Audit

For the newer members of the Committee, Mr. Cate gave a brief history of last April’s events that triggered the need for the Deloitte audit. He assured the members that it wasn’t a fraud that initiated this audit, but large contracts that were initiated without the President’s or Board’s approval. Trustees Branagan and Young asked that copies of the Deloitte and Touche report be sent to them for their review.

The unapproved contracts referred to above were with Huron Consulting. They were hired to assist Grants and Contracts Accounting Services, which was understaffed, and significantly behind in federal reporting requirements. The contract grew to be more than $10 million. This area is now staffed appropriately. Mr. Cate announced that Ms. Jennifer Gagnon has been appointed Director of Grant and Contracts Administrative Services.

Mr. Cate has asked his staff to respond to the Deloitte report including the status of their corrective actions. He will regularly report progress to the Audit Committee and full board. He stated he would like to be further along in staff responses.

Mr. Cate reported that after six months without a controller, Claire Burlingham would assume the position on May 4th. He has also proposed a steering committee, which he will head, to address enterprise risk management. He has charged members of his division to perform an overall risk assessment for each of their areas. He mentioned potential use of software that helps identify and measure risks as a valuable management tool. John Snow suggested that the Board should also be solicited for their risk assessment input.
Red Flag Rule Program Approval

The Federal Trade Commission has issued a regulation known as the “Red Flag Rule”. It is meant to reduce the risk of identity theft. The rules apply to a specific set of activities of the University, mainly tuition payment plans, financial aid programs, Federal Perkins Loan program and background checks. The University has enacted a compliance program to meet the requirements.

Ms. Bazluke has reviewed the rule requirements and deemed that the Audit Committee is the appropriate entity to approve it. The Vice President for Student Enrollment will be the University official responsible for the ongoing oversight of the program.

The following resolution was approved unanimously by the Committee for recommendation to the Full Board:

Approval of Red Flag Rule Program

BE IT RESOLVED, that the Audit Committee approves the attached Red Flag Rule Program as developed by the University in compliance with the Federal Trade Commission (FTC) regulation (Sections 114 and 315 of the Fair And Accurate Credit Transactions Act) aimed at reducing the risks of identity theft and that the Board further delegates ongoing oversight of the program to the Vice President for Enrollment Management.

Approval of Amended Audit Committee Charter

Mr. Botzow led a discussion regarding changes made to the Audit Committee Charter. The new version incorporates the reporting of the internal audit function, recommended Sox best practices and includes the final revisions recommended by the committee at the March 30, 2009 meeting.

A motion was made, seconded, and approved to approve the revised Audit Committee Charter and send it to the Full Board at the May meeting for their approval.

Review of FY10 Audit Committee Work Plan

The Committee reviewed the draft work plan for next fiscal year inclusive of the remainder of FY09. In addition, Ms. Heffner provided a grid illustrating how the ongoing responsibilities as outlined in the Committee’s Charter would be scheduled throughout the year. This document may assist in guiding future years’ work plans.

A suggestion was made that the Committee establish a default meeting time to meet each month except for the months in which the Full Board meets. The Committee determined the best time would be the third Monday of each month, at 8:30 a.m. Corinne Thompson, Trustee Committee Coordinator, was asked to schedule the meetings.
Update on Chief Internal Auditor Search Process

Chair Botzow reported that the Chief Internal Auditor Search Sub-Committee had met twice. Currently there are twenty candidates. They plan to review the twenty applications and to forward the top eight names to Gary Derr to ascertain if the candidates were still interested and set up phone interviews.

The Committee also intends to keep the option open to hire a search firm. The Sub-Committee is committed to hiring the right person for the position.

Considering the possible length of time to satisfactorily complete the search and that the office continues to be short-staffed as cited in the Deloitte report, the Committee discussed appropriate support for the Interim Chief Internal Auditor. Ms. Heffner stated that the effort reporting audit is extensive but ongoing. The IT auditor could be reassigned temporarily, if necessary, to do other audit work. Ms. Heffner said she will keep the Audit Committee informed of its activities. She also stated that the initiatives put forward by Mr. Cate’s staff, including the new procedures manual, and his commitment to best practices have formed a base line and kept things moving forward. The new Code of Business Conduct and new Whistleblower Hotline are recent assets for the office.

Discussion continued on whether more audit resources were needed on a temporary basis to supplement current staffing before the Chief Internal Auditor is hired. When asked what she would audit if she had additional staff, Ms. Heffner replied she would potentially audit late cost transfers on grants or procurement card activity. Mark Young initiated a motion to authorize the audit of the procurement card and business travel by an outside audit firm, not KPMG. This was amended to include a request for Ms. Heffner and Richard Cate to provide a proposal for performing this auditing including exploring co-sourcing with external audit resources. Richard Cate and Erica Heffner would submit a proposal for auditing these activities, including cost projections for external assistance and a timeline for completion, and report back at the next meeting, to be scheduled around the May board meeting. This motion passed unanimously. Mr. Young commented that the issue had historically been of interest to the Audit Committee and the time had come to address it.

Other Business

The Audit Committee requested time to meet independently with Ms. Heffner at the end of the meeting keeping in mind the Vermont Open Meeting Law.

Adjournment

There being no further business, the meeting was adjourned at 10:00 a.m.

Respectfully submitted,
Bill Botzow, Chair