A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, December 14, 2009 at 8:30 a.m. in the 427A conference room in the Waterman Building.

MEMBERS PRESENT: Chair Bill Botzow, Carolyn Branagan*, Harry Chen*, Jeffrey Davis*, Susan Hudson-Wilson* and John Snow

MEMBER ABSENT: Vice Chair Mark Young

REPRESENTATIVES PRESENT: Faculty Representative Albert Joy, Staff Representative Jeff Bukowski (filling in until new representative is appointed in February), and Student Representative Hannah LeMieux

REPRESENTATIVE ABSENT: Alumni Representative Bill Cimonetti

PERSONS ALSO PARTICIPATING: Richard Cate, Vice President for Finance and Administration and University Treasurer; Chris Lucier, Vice President for Enrollment Management, Keith Williams, Registrar, Claire Burlingham, Controller; Erica Heffner, Interim Chief Internal Auditor; Jennifer Gagnon, Director, Grant and Contract Administration Services; Tanya Morehouse*, State Auditor’s Office; John Hand and Duaine Smith, PricewaterhouseCoopers, and Renee Bourget-Place, KPMG

*Via teleconference call

After introductions, Chair Bill Botzow called the meeting to order at 8:30 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the November 16, 2009 meeting.

Update on Internal Audit Activities

Erica Heffner, Interim Chief Internal Auditor, gave an update on internal audit activities. She reported on the results of the Purchasing Card audit. Since the prior audit of this program in 2003, the purcard program has grown to over 1,800 cards. FY’09 activity exceeded 100,000 transactions and $26 million in purchases. The card is now open to many additional types of transactions including business meals and travel expenses while the resources in Procurement Services have not increased accordingly.

The audit observations that were prioritized included recommendations for enhanced controls over adequacy and timeliness of documentation, compliance with University
policy and guidance, and greater accountability for cardholders with late or missing support.

Management’s correction action plan addressed all the observations noted in the report. Vice President Cate stated that he welcomed this audit to see if any red flags would be uncovered. Claire Burlingham stated that more training may be needed and that controls would be tightened around the discovery of a lack of signatures and documentation. The travel and business meals policies are currently being worked on with an emphasis on resolving inconsistencies between them. Enforcement of the policy to shut off cards delinquent for 60+ days will be enforced from now on. Ms. Burlingham will bring a status report of corrective actions back to this committee in approximately six months.

The Internal Audit Office is continuing audits on the Conflict of Interest Policy compliance and controls over hiring of temporary employees. Also, management met with Lynn Mulligan, Special Agent with the Defense Criminal Investigative Service unit of the Department of Defense (DOD) Office of the Inspector General. They will conduct an audit of DOD grant activity in January and/or February. DOD reiterated that this review is not the result of any complaint or report received.

As a result of a discussion at the October meeting regarding access to internal audit reports, a meeting was held with Julia Michel (SGA), Albert Joy, Harry Chen, Richard Cate, Erin St. John and Erica Heffner. A process was agreed upon to provide members of internal constituent groups’ easier access to non-investigative audit reports. Greater transparency of internal audit activity will be provided by identifying current assignments on the Audit Office’s web site.

The renovations of the Internal Audit Office’s move to Billings are proceeding on schedule. The move into this new space is scheduled for mid-January.

**Higher Education Opportunity Act 2008 (HEOA) Update**

Chris Lucier, Vice President for Enrollment Management, summarized enrollment management compliance status with the Higher Education Opportunity Act (HEOA) by presenting an updated compliance matrix that was originally prepared by Fran Bazluke, General Counsel, last winter. The final guidance from the Department of Education and tools for reporting are still under development (e.g. tuition calculators). A great deal of training is proceeding in the Student Financial Services (SFS) area to be better able to interpret and enforce the compliance requirements. Representatives from Sunguard and Banner visited recently and will keep in touch regarding automated tools to meet our new standards. John Snow encouraged the use of industry-wide technology. SFS will monitor and evaluate the technology based compliance tools as they become available. Chair Botzow inquired about UVM’s ability to meet the compliance requirements. Mr. Lucier expressed concern that resources allocated to meet new compliance requirements could impede SFS’s ability to meet its service and retention objectives. He was looking forward to the assistance that the incoming Compliance Officer may provide in keeping up with new regulations.
Mr. Lucier stated that the two issues he is most concerned about now are 1) immigration and 2) Student Financial Services issues such as adequate staffing for the increased number of students and compliance with the new regulations.

Mr. Lucier also reported that the Red Flag Program has been implemented within the required timeframe.

**PricewaterhouseCoopers (PWC) Report on Follow-up Review of Internal Controls**

Dwaine Smith, PWC, explained to the Committee that the focus of the audit was to perform a review of the adequacy and effectiveness of actions taken by the University of Vermont and State Agricultural College in response to observations and recommendations noted in the 2008 internal controls assessment conducted by Deloitte and Touche LLP. He noted a strong commitment by management in the last year to take significant steps to address the Deloitte findings. In conducting the follow-up review, many relevant stakeholders were interviewed in Procurement, Governance and Internal Audit as well as the Chair of the Audit Committee, Budgeting, Finance and Investment Chair, Senior University Management and various process owners.

John Hand, PWC, emphasized the newly drafted Financial Operations Manual due to be introduced in February 2010 combined with training and a certification program as a very positive step. PWC noted that other areas of improved controls planned and underway include a proposed shift to a Business Service Center model, reinforcement of competitive business policies with a “Sole/Single Source Justification Form”, planned enhancement to vendor monitoring of payments via the Check Warrant Review, the implementation of a quarterly process to cleanse and review vendor data, and enhancements to automated controls configured in PeopleSoft.

Improved Governance includes changes to existing reporting lines to the Controller’s Office, increased transparency through additional reporting to the Board, and redeployment of the University Business Council as an advisory board to the Vice President for Finance as well as a vehicle for communicating and vetting changes to financial policy. PWC noted broad awareness across the University Finance community of the Deloitte report and the importance of improving controls including the enterprise risk management (ERM) proposal, adoption of the COSO framework and the new “Ethics and Compliance Reporting and Help Line”. John Hand advised that successful ERM programs should have support from the top of the organization and not be over-engineered.

Regarding concerns noted by Deloitte regarding the Internal Audit function, PWC cited changes to the reporting structure and the Internal Audit Charter and Audit Committee Charter. Richard Cate noted that the proposed budget for internal audit has been increased. PWC also observed a new quarterly budget reporting process with detailed analysis and aggregation of budget to actual results at the college and departmental levels and a planned requirement for Vice Presidents/Deans to certify quarterly reported financial information, a pilot program was instituted in November, 2009.
Recommendations by PWC for improvement in Procurement include review and establishment of controls over validity and accuracy of invoices under $25,000. Also a formalized process is needed for approving manual check requests. PWC recommended focusing on cleansing the vendor master file to reduce the volume of active vendors related to one-time payments. PWC observed that it should be around 8,000-10,000 vendors for an institution of this size. Regarding invoices under $25,000 Richard Cate indicated the need for further analysis and stratification of invoice activity prior to implementing specific additional controls.

In the Information Technology (IT) area, there is a need to enhance governance over various Information Security practices, including the granting and monitoring of system access in PeopleSoft. Using a risk-based approach, an evaluation of the existing change in management process should be used as well as consideration of increasing the level of documentation retained.

The University should continue its search for a new Chief Internal Auditor. In the interim the University should explore additional co-sourcing options, as a means of performing a Risk Assessment, establishing an Audit Plan and performing audits. Currently the budget for Internal Audit at UVM is somewhat less than that of other comparable public higher education institutions.

Harry Chen requested that PWC follow-up their recommendation by providing information on specific co-sourcing suggestions for internal audit.

PWC encouraged management to continue with the plans to enhance the quarterly budget reporting process by incorporating a forecast of results through the end of the fiscal year. Management will provide a follow-up to the findings and corrective actions in 6-12 months.

Both Mr. Smith and Mr. Hand reiterated the strong commitment and significant progress made toward improving the control environment within the affected areas.

Chair Botzow concluded that PWC met the objectives of the audit.

**Update from Enterprise Risk Management (ERM) Work Group**

Jeff Davis reported the work group met the previous Tuesday to review the University’s outline for implementing ERM. A July 2010, implementation is proposed. The Trustee Coordinator will set up a follow-up conference call in the near future to review the document revisions suggested by the work group and discuss next steps.

**Update on Chief Internal Auditor (CIA) Search**

Chair Botzow reported that the sub-committee reviewed 70+ applications and narrowed the field down to nine. Seven candidates will be interviewed off campus this week, and
the Search Sub-committee plans to invite three to campus. He will have an update for the January meeting. The goal is to hire a new CIA by spring.

Other Business

Timing for regular meetings during 2010 was discussed. Chair Botzow stated that he hopes that the Audit Committee will be able to meet every other month in 2010. It was noted that the University will be closed on Monday, January 18, 2010 in observance of the Martin Luther King Holiday. The Trustee Coordinators Office will poll Committee members regarding their availability to meet on Tuesday, January 19, 2010, at 8:30 a.m.

Issues to be discussed at the January, 2010 meeting include: internal audit activity update, evaluation of performance and appointment of external audit firm for FY2010 and an update from the newly formed Information Security Team. Also, the subcommittee will provide an update on the Chief Internal Auditor search.

Adjournment

There being no further business, the meeting was adjourned at 10:12 a.m.

Respectfully submitted,

Bill Botzow
Chair