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 Friday, February 20, 2009 in Memorial Lounge, Waterman Building.

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

REPRESENTATIVES PRESENT: Faculty Representative Bud Meyers and Staff Representative Renee Berteau

REPRESENTATIVES ABSENT: Alumni Representative Bill Cimonetti and Student Representative Benjamin Porter

PERSONS ALSO PARTICIPATING: Richard Cate, Interim Vice President for Finance and Administration and University Treasurer; Erica Heffner, Interim Internal Auditor, Tanya Morehouse, State Auditor’s Office, and Sara Timmerman and Renee Bourget-Place, KPMG

*Via teleconference call

Chair Edwin Amidon, Jr. called the meeting to order at 3:00 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the January 23, 2009 meeting.

Review of the FY 2008 OMB Circular A-133 Audit Report and the NCAA Audit Report and Management Responses

Sara Timmerman of, KPMG, reported on the FY2008 NCAA audit report. An audit observation, originated as a prior year comment, relates to coding of revenues and expenses within the general ledger. She noted great improvement from last year with a recommendation that the University continue to reduce the number of reclassifications required to properly prepare the statement. A suggestion was made that management test transactions at a lower level. Summer sports camps continue to cause problems since they are administered by coaches, not centrally. Mr. Cate stated he would look into this and reconstruct the budget process so that the transactions will be formatted like the statements.
Renee Bourget-Place, KPMG, summarized the four major programs audited for the A-133. These were:

- Student Financial Aid Cluster - $85,935,555
- Research and Development Cluster - $85,192,522
- Medicaid Cluster - $7,338,544
- Smith Lever Cluster - $3,452,363

The A-133 report included the three significant deficiencies in internal control over financial reporting that were identified during the University’s FY2008 financial statement audit. There was one material weakness noted in their report on compliance in accordance with OMB Circular A-133. The opinion on compliance and internal control at the program level in accordance with OMB A-133 was qualified with respect to the material weakness noted for the Research and Development, Medicaid and Smith Lever Clusters. The material weakness concerned the late filing of reports. Ms. Bourget-Place stated improvement was noted in the posting of late cost transfers and clearing of journal entries. She stated that they will start the audit earlier this year to check to make sure all reports are filed in a timely manner. In answer to a question raised about how this looks to outside organizations, Mr. Cate responded that NIH and NSF were already asking for information. It was suggested that the full Board needed to hear these concerns and that resources are now available to keep reports on schedule. Mr. Cate agreed to keep the Audit Committee apprised of NIH and NSF requests and responses.

The report on compliance requirements also noted two additional significant deficiencies regarding compliance. One of these findings was due to insufficient back-up materials for cost transfers. This finding would be corrected through tightening up of auditing procedures and training.

There were three compliance-related findings in the student aid area which are:

- Return of Title IV Funds in a timely manner (classified as significant deficiency)
- FISAP Report did not agree to the general ledger or third party servicer.
- Exit counseling notification not received by students within the 30-day limit.

**SOX Best Practices Follow-up**

Fran Bazluke, General Counsel reported on SOX (Sarbannes-Oxley) best practices.

The Governance Committee forwarded to the Audit Committee for their consideration several SOX recommendations. The Audit Committee SOX best practices priorities are reviewing the scope of internal audit services, internal auditor reporting lines, and the adequacy of office resources. Two additional SOX categories for Audit Committee consideration are the establishment of standards and protocols for financial due diligence certification by appropriate institutional officials and consideration of required management disclosures.
The periodic review of institutional policies within the scope of the Audit's Committee purview will be included in the committee's work plan for the coming year.

A request was made for the Audit Committee work plan to be presented visually. Richard Cate and Al Turgeon will work on this for future meetings.

**Update on Chief Internal Auditor Search Process**

In addition to posting the position of Chief Internal Auditor, Mr. Cate stated that he had also been proactively reaching out by phone to possible candidates. Within a few weeks he will report on the responses to the position posting and arrange to present these to the Audit Committee or a sub-committee appointed to oversee the recruitment process.

**Update on Audit Services Office Activities**

Erica Heffner, Interim Internal Auditor summarized projects that the Internal Audit Office had been working on for the past year. These projects include:

- Four investigative audits were performed, two of these exceeded the $10,000 loss threshold that requires reporting to the Audit Committee, one involves a federal grant that is ongoing, and one resulted in a negligible financial impact. Internal control findings related to investigative audits are reported on separately and include management’s action plan for corrective action.

- The final two executive expense audit reports have been completed.

- The Information Technology Auditor has been working on an assessment of the University’s compliance with rules for acceptance of credit cards known as PCI-DSS (Payment Card Industry Data Security Standards). This review has focused on the three major users: the Bookstore, Development and Athletics. Preliminary findings indicate that development and implementation of University standards and practices are needed to protect data and meet compliance. In addition a follow up of the IT environmental exposures audit was performed.

- In construction auditing the final Living/Learning construction project audit realized a recovery of approximately $27,000.

New projects planned for the remainder of the fiscal year include an effort reporting compliance audit and the set up of a web/phone based anonymous reporting line for whistleblowers. In addition the NCAA rules compliance evaluation is due this year. Internal audit has arranged for the American East Conference to provide this year’s evaluation, historically this review had been performed by internal audit. There is no fee charged by the American East Conference for this evaluation outside of reimbursable travel expenses.
Internal audit is also working with management to finalize the required contract and engagement letter for the FY2009 required external audits.

Ms. Heffner will work with the committee members in developing regular reporting of internal audit activities to the Audit Committee.

**Other Business**

Bill Botzow expressed gratitude to Mr. Amidon for his leadership of the Committee. Mr. Amidon then thanked the committee members for their diligence and expressed appreciation to Tanya Morehouse and Lois Schuster for their extra effort.

**Adjournment**

There being no further business, the meeting was adjourned at 4:40 p.m.

Respectfully submitted,

Edwin H. Amidon, Jr.
Chair