A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Friday, January 23, 2009 in Room 427A, Waterman Building.

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

MEMBER ABSENT: Samuel Bain

REPRESENTATIVES PRESENT: Staff Representative Beth Walsh (for Renee Berteau), Alumni Representative Bill Cimonetti, and Student Representative Ana Dru Ellis (for Benjamin Porter)

REPRESENTATIVE ABSENT: Faculty Representative Bud Meyers

PERSONS ALSO PARTICIPATING: Richard Cate, Interim Vice President for Finance and Administration and University Treasurer; Erica Heffner, Interim Internal Auditor, Jennifer Gagnon, Director, Grant and Contract Accounting, and Tanya Morehouse*, State Auditor’s Office

*Via teleconference call

Chair Edwin Amidon, Jr. called the meeting to order at 1:30 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the November 25, 2008 meeting with abstention by member Jeanette White.

Audit Restructuring Subcommittee Report and Chief Internal Auditor Search

Ed Amidon reported that the subcommittee of Bill Botzow, John Snow and himself met on Tuesday, January 6, 2009, to discuss restructuring of the internal audit function, including whether to keep the internal audit function in-house or to “farm out” the services. John Snow had a conversation with Bill Ruprecht, who has a lot of pertinent experience on this issue. An outside firm would require much less effort from the Committee and would be more insulated from management but deciding factors against hiring such a firm were that it would be less at UVM on a day-to-day basis, would not be familiar with the university and potentially would cost considerably more money. Mr. Cate estimated it would cost over $1 million annually for this type of service based on experience from similar institutions and would be roughly twice the cost of keeping the function in-house. The subcommittee ultimately decided to recommend keeping the
function in-house with an outside review in a year. Ed Amidon also reported that the restructuring committee concluded that the Chief Internal Audit position should report directly to and be supervised by the Board Audit Committee and that this was recommended by the Deloitte Report and is an emerging best practice. The Committee will, however, have discretion to delegate administrative functions to management. The subcommittee also decided that management’s institutional compliance program should not report to the Chief Internal Auditor because this reporting could compromise the audit office’s independence to audit the compliance program.

The following resolution was presented for approval:

**Resolution Establishing Reporting Line for the chief internal auditor**

RESOLVED, that the Board hereby directs that, pursuant to the recommendation of its Audit Committee, the chief internal auditor shall henceforth report directly to, and be supervised by, the Board Audit Committee; and

BE IT FURTHER RESOLVED that, pursuant to this direction, the Audit Committee shall have full authority with respect to the appointment, performance evaluation, and/or employment termination of the chief internal chief auditor; and

BE IT FURTHER RESOLVED that the Audit Committee is, within the exercise of its sound discretion, authorized to assign to the President, by written delegation, specific administrative responsibilities relevant to the routine operations of the office of the chief internal auditor; and

BE IT FURTHER RESOLVED, that the Audit Committee and the chief internal auditor are hereby authorized and directed promptly to revise the Audit Committee Charter and Guidelines, and the internal audit office Charter, respectively, in a manner consistent with the directions of this resolution; and

BE IT FINALLY RESOLVED, that the Audit Committee shall report to the full Board on the status of actions, taken in response to this resolution no later than the May 2009 meeting of the Board.

A motion was made, seconded, and the resolution was passed unanimously.

Mr. Cate discussed with the committee the job description he had assembled for the internal auditor director search, using AICPA and NACUBO standards. He emphasized that the internal audit function is to audit, not implement internal controls which are a management function. He explained that the department now consists of Erica Heffner, Compliance Program Officer, Christopher Lamson, IT Auditor and Jennifer Sheridan, half-time auditor. In his research, he has found that in an institution of our size, 4-5 auditors was the norm. Deloitte also reported that we were understaffed while Ms. Bazlute, in a survey of our peers, found we were light 1.5 to 2.5 people.
After several requests for clarifications by members of the Committee, including emphasizing that this person would work directly for and report solely to the Audit Committee, Mr. Cate made changes to the description and told the committee this would be a national search through publications such as the Chronicle of Higher Ed, AICPA, ACUA and NACUBO contacts without the aid of a search firm. The new model will result in a substantial increased workload for the Audit Committee. The annual work plan will need to be set up with a quarterly review, or even more frequently as unexpected situations arise. This is similar to the monthly meetings of the Investment Sub-committee.

It was decided that the posting must wait until after the above resolution is presented to the full board in early February. Mr. Cate will gather 8-12 qualified applications and then funnel them to the Audit Committee for discussion.

Mr. Amidon stated a need for a meeting in February to discuss and approve the NCAA and A-133 audit reports and at that time they could discuss a structure to deal with the internal auditor applications.

**Update on Management’s Response to the Deloitte Audit**

Mr. Cate referenced the matrix passed out to the Audit Committee in October highlighting Deloitte’s recommendations and management’s responses to them. The first update concerned the approval authority on vouchers. He is working with the University Business Council (UBC) and the Business Process Re-Engineering Team (BPRT) to implement controls within the PeopleSoft system to trigger notice when there is a need for further authority. In the meantime, manual controls are in place to ensure proper approvals are obtained from Mr. Cate, President Fogel, or as needed the Board of Trustees. Mr. Cate hopes the PeopleSoft controls will be in full use by July, 2009.

PeopleSoft also has a capability of raising red flags when the budget line is being overspent or otherwise nearing critical thresholds. He hopes this feature will be available in March.

With input from the Committee, an RFP will be issued for quarterly external review of our internal controls starting in July 2009 to determine progress on the Deloitte recommendations. That RFP will also provide for review in January 2010 of restructuring of internal audit.

An external review of our internal controls should take place in July as well as in January to see that adherence to policies, as recommended by Deloitte, has improved. Mr. Cate agreed to create a flow line for milestones to be presented at the next meeting.

The Audit Committee through the restructuring subcommittee is addressing the Deloitte report comments addressing internal audit.
Update on Grants and Contract Accounts Receivable

Mr. Cate reported at the December meeting a total of $12 million receivables in Grants and Contracts. Jennifer Gagnon reported the total is now at $5.5 million. About $3 million of the outstanding amount is over 120 days past due. Upon questioning regarding the risk of loss pertaining to the outstanding receivables he noted the potential exists that a portion of the oldest receivables may be uncollectable.

Other Business

John Snow, on behalf of the members of the Audit Committee, thanked Mr. Amidon for his leadership of two years. Mr. Amidon expressed gratitude to a very hard working committee, who not always agreed with each other, but were not afraid to let their views be known. He also acknowledged Richard Cate and Lois Schuster, Assistant Controller, for their efforts during this difficult time.

At 2:50 p.m. a motion was made, seconded, and approved to go into executive session to discuss contracts. The committee requested Richard Cate, Interim Vice President for Finance and Administration and Erica Heffner, Interim Internal Auditor remain at the meeting.

Adjournment

The meeting was re-opened to the public at 4:11 p.m. There being no further business, the meeting was adjourned at 4:12 p.m.

Respectfully submitted,

Edwin H. Amidon, Jr.
Chair