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 Monday, June 15, 2009 in Room 351, Waterman Building.

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

MEMBER ABSENT: Carolyn Branagan

REPRESENTATIVES PRESENT: Staff Representative Renee Berteau and Student Representative Hannah LeMieux

REPRESENTATIVES ABSENT: Faculty Representative Bud Meyers and Alumni Representative Bill Cimonetti

PERSONS ALSO PARTICIPATING: Daniel Mark Fogel, President, Richard Cate, Vice President for Finance and Administration and University Treasurer; Francine Bazlute, University Counsel, Claire Burlingham, Controller, Erica Heffner, Interim Internal Auditor, Tom Salmon*, State Auditor and Renee Bourget-Place and Sara Timmerman, KPMG

*Via teleconference call

Bill Botzow called the meeting to order at 8:38 a.m. A round of introductions was made.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the April 28 and May 14, 2009 meetings.

Update on Internal Audit Activities

Acting Chief Internal Auditor Erica Heffner provided an update. The purchasing card and travel audit is progressing with a temporary person hired from Spherion for four weeks. The sample has been expanded to about 150 cardholders, which represents approximately 2,400 transactions. The samples represent approximately $800,000 in procurement card expenditures. The travel review includes approximately 150 transactions totaling over $120,000.

The effort reporting auditing is progressing including interviewing of employees. A few code of conduct issues trickled in, with none reaching the $10,000 threshold. The NCAA compliance assessment draft report was received last week. Once the America East
Conference issues the final report, Audit Services will follow-up with the Athletics office to determine corrective action taken. The Ethics and Compliance Reporting line, using Ethicspoint, is on schedule to be up and running by early August.

Ms. Heffner reported that the Vermont Agency of Natural Resources is here this week on a regularly scheduled visit, looking at a small sample of grants. The U. S. Department of Education will be performing a program review for Clery Act Compliance beginning early July. UVM was randomly selected and the review concerns right-to-know information on campus.

**Code of Business Conduct**

Ms. Heffner stated that edits to the Code incorporate provisions of the Fraud policy and include increased reporting requirements and whistleblower protections. Once included in the Code of Business Conduct, the Fraud policy will be retired. Members of the Audit Committee suggested slight revisions such as addressing leave recording, timeliness of reporting, and institutional endorsements. The Committee asked Ms. Heffner and Ms. Bazluke to make the suggested revisions and bring the document back at the July meeting for Committee endorsement and forwarding on to the Executive Committee.

**KPMG Report on Interim Audit Work**

Ms. Bourget-Place, KPMG, stated that the audit plan timeline, presented at an earlier meeting, was on target with the review of general IT controls to be completed in July. The following findings for the interim test work, using samples from July, 2008 through March 31, 2009, for the A133 Audit include:

- Three out of twelve cost transfers tested did not have a late cost transfer rationale memo as required by University policy
- Two out of twelve cost transfers tested were not approved by Grant and Contract Administrative Services (GCA) prior to being posted
- Ten out of sixteen federal 269 reports tested were submitted late
- One instance of a late payroll cost transfer that was not approved by Cost Accounting Services as required by University Policy

Mr. Cate responded that many of these findings occurred during the first half of FY09 before Grant and Contract Accounting was fully staffed. He expects a higher compliance rate starting on January 1, 2010. These are not the same circumstances as the findings from last year’s audit, which have been corrected. The testing of transactions from April 1 through June 30, 2009, should show significant improvement. While the ideal benchmark would be no late reports, many times information is not received from the Deans and P.I.s on grants to close them in a timely manner. There is an educational component that is ongoing to inform the P.I.s of their responsibilities. The impact of the federal stimulus dollars makes the A133 Audit a high risk for audit next year.
Ms. Bourget-Place was asked to design a matrix identifying the major program anticipated to be audited for the A-133 audit for the next five years. This preliminary schedule will help management plan and budget for future year’s audits. The proposal submitted by KPMG was based on the audit of a single program, the Research and Development Cluster, for each of the years proposed. Due to a number of factors including past audit findings and the stricter audit requirements of Federal stimulus funds, at least two or three major programs will likely be required to be audited for four out of the five years represented.

The interim financial statement audit is on schedule. Two issues are:

- Journal entry self-approvers
- Fundriver investment reconciliation

The first issue has been fixed in the system with no more self-approvers. These journals will be approved by the Controller, Claire Burlingham, with back up by Richard Cate or Ted Winfield in her absence. A new employee has been hired to catch up on the Fundriver reconciliation.

Additional External Auditing to Follow-up on Deloitte Audit

In response to a follow-up to the Deloitte Report which appears on the work plan, an RFP is due to be sent out shortly, with bids back in July and the review of results in August. Erica Heffner and Richard Cate will draft an RFP. The Chair requested that Harry Chen, Jeff Davis, Bill Botzow and Tom Salmon and/or Tanya Morehouse of the State Auditor’s Office review the RFP and return their comments.

Reporting Structure of the Compliance Program

Erica Heffner provided some background information on the compliance program for discussion. This is an evolving field without a single model prevailing in higher education. President Fogel voiced that he felt compliance should run in parallel with but separate from internal audit to create checks and balances and that this position should report to senior leadership.

Ms. Bazluke stated she also felt it should be separate from the Internal Audit Office reporting with a dotted line to the Audit Committee. She didn’t feel it appropriate for the Compliance Officer to report to the Chief Financial Officer, because of potential conflicts. Fran Bazluke, Richard Cate, Erica Heffner and President Fogel will craft a preliminary design and bring it back to this Committee for further discussion.

Update on Chief Internal Auditor Search Process

Chair Botzow updated the committee on the search for a new Chief Internal Auditor. A total of 22 applicants applied, eight candidates were selected for telephone interviews, one candidate dropped out at that time. Three were chosen for campus interviews but,
one withdrew. Two candidates were brought to campus and the sub-committee is now working with one of the candidates on reference checks and writing samples. Sub-committee members Hudson-Wilson and Botzow will be making the calls. Gary Derr has been coordinating and assisting the sub-committee with the search.

**Other Business**

Chair Botzow asked committee members their availability to move the July meeting up one week to coincide with the Executive Committee meeting on July 13. Three Committee members present confirmed their availability. Trustee Coordinator, Corinne Thompson, will reschedule and confirm logistics.

At 9:48 a.m. a motion was made, seconded and approved to go into executive session to discuss contracts and evaluation of a public officer.

**Adjournment**

The meeting was re-opened to the public at 10:12 a.m. There being no further business, the meeting was adjourned at 10:13 a.m.

Respectfully submitted,

Bill Botzow  
Chair