A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, March 30, 2009 in Room 351, Waterman Building

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

MEMBERS ABSENT: Samuel Bain and Jeannette White

OTHER TRUSTEES PRESENT: Carolyn Branagan and Harry Chen*

REPRESENTATIVES PRESENT: Alumni Representative Bill Cimonetti and Jeff Bukowski for 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; Erica Heffner, Interim Internal Auditor, Tom Salmon, Vermont State Auditor, Tanya Morehouse, State Auditor’s Office, and Sara Timmerman and Renee Bourget-Place, KPMG

*Via teleconference call

Chair Bill Botzow called the meeting to order at 2:30 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the February 20, 2009 meeting.

Update on Internal Audit Activities

Mr. Botzow requested that regular reports from the Internal Audit Office become a feature of future meetings. Ms. Heffner stated she was developing a format for this purpose. She reported that the Vermont Department of Education was conducting its regular fiscal monitoring review of federal funds and also the AAMC (American Association of Medical Colleges) was conducting a site visit next week meeting with OSP and GCA including a review of our effort reporting practices.

The Information Technology auditor is presently conducting an information security and business continuity review over Police Services information technology operations. In
addition, Internal audit received a whistleblower complaint regarding alleged inappropriate travel by a member of the administration that is being investigated.

The demo of the new web/phone based anonymous reporting line for whistleblowers was held recently with positive feedback from departments, implementation would begin once the contract is approved.

Review of Draft Amended Audit Committee Charter and Internal Audit Charter

Chair Botzow asked the Committee to review the marked-up version of the draft charter, which showed highlighted sections related to SOX best practices. Fran Bazluke, General Counsel, reviewed the document and the Chair asked that the committee review and make comments now in anticipation for acceptance at the next meeting.

These revisions will address the Audit Committee’s new authority and oversight of the internal audit function. Ms. Bourget-Place made a few technical corrections to the document. Much discussion centered on whether the Vermont public meeting laws would preclude the committee from meeting with the external auditors and internal auditors without management representatives present. Legislators on this committee advised that it would require a change or exemption for UVM to the Vermont public meeting law, which would be a lengthy process with an uncertain outcome. It was recommended that the draft charter be revised to clarify that meeting separately with the internal as well as external auditors would recognize Vermont’s open meeting laws.

John Snow inquired about how the Committee would monitor the compliance portion of the draft charter and get the necessary information to do due diligence in this new responsibility. There seems to be a gap and it would be nice to look at how other institutions handle this matter. Ms. Heffner suggested that if the Committee instructed internal audit to carry out the compliance reviews, this responsibility could be outlined in the Internal Audit Charter and periodic reporting of compliance review results would be reported to the Audit Committee.

With the help of Ms. Heffner, Chair Botzow will bring the document with newly suggested revisions back to the attention of Ms. Bazluke for legal review and then bring it forward for approval at the next meeting. Ms. Morehouse suggested viewing the AICPA website for tips for self-assessment. It was suggested that Board Governance, chaired by John Snow, would also take a look at it.

The Institutional Risk Assessment and Audit Services Charter also needed to be changed to align with the board resolution. Members felt that the presented draft changes were aligned with the Board resolution but more detailed operational and practical pieces needed to be worked on as the Audit Committee and management review UVM’s audit environment.
Approval of External Auditor Service Agreement with KPMG

Chair Botzow asked Committee members to review the documents supporting the University’s agreement with KPMG for external audit services, before he, as Chair of the Audit Committee, signs this document.

Ms. Hudson-Wilson expressed her concern that KPMG is not obligated to notify us of any weaknesses outside the realm of the financial reporting arena. Since the Deloitte audit, she felt additional explicit language should be added to the engagement letter requesting that KPMG communicate to the Audit Committee any problems or control weaknesses encountered during the audit that were not necessarily germane to the financial audit. After much discussion, including the possibility of an addendum or MOU after signing the engagement letter, Ms. Bourget-Place and Mr. Cate agreed to work with KPMG’s legal counsel and Ms. Bazluke to add a sentence requesting this extra responsibility. This work will be shared with the Committee before the document is signed. Mr. Cate also plans to sign the personal service agreement with KPMG.

KPMG’s FY2009 External Audit Plan

Sara Timmerman, KPMG, introduced the engagement team for the University’s FY 2009 required external audits. She reviewed KPMG’s, management’s and the Audit Committee’s responsibilities for the audit. KPMG’s audit methodology includes planning, control evaluation, substantive testing and completion.

Critical areas noted in the engagement overview were valuation of investments and the impact of the economic environment on the financial statements. Other areas of emphasis include the implementation of GASB 49, issuance of new debt, underwater endowments and their impact on spending and ongoing information technology matters.

Update on Chief Internal Auditor Search

Chair Botzow reported that Vice President Gary Derr had been handling the search and reported seven applications so far. He presented three options available to obtain more interest including more advertising, using an executive search firm, or hiring an external firm to perform the internal audit function.

Costs for the various options and their timing was discussed. Mr. Botzow appointed a subcommittee of himself, Susan Hudson-Wilson, John Snow and Mark Young. Vice President Derr will arrange for members of this committee to look at the applications through a secure website. An initial meeting will be set up to update the subcommittee on UVM hiring policies and to establish a timeline. Mr. Botzow noted that he and Board Chair Mr. Boyce had discussed recruitment and suggested spending another $1,000 to targeted periodicals to enhance present advertising.
**Update on Higher Education Act**

Due to time constraints, this item will be discussed at the next meeting.

**Other Business**

Mr. Cate announced that the outstanding accounts receivable in Grants was down from $12 million to $2.5 million with $1.1 million over 120 days old. Of that amount, only approximately $500,000 may have to be written off.

Chair Botzow told the members that two informational documents from KPMG would be circulated to the Committee for background on current auditing best practices and discussion at the next meeting. Also, the annual work plan and matters for the May Board meeting will be a topic of discussion at that time.

**Adjournment**

There being no further business, the meeting was adjourned at 4:15 p.m.

Respectfully submitted,

Bill Botzow, Chair