A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, November 16, 2009 at 8:30 a.m. in Memorial Lounge, room 338 Waterman Building.

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

REPRESENTATIVES PRESENT: Staff Representative Renee Berteau, Alumni Representative Bill Cimonetti and Student Representative Hannah LeMieux

REPRESENTATIVE ABSENT: Faculty Representative Albert Joy

PERSONS ALSO PARTICIPATING: Richard Cate, Vice President for Finance and Administration and University Treasurer; Gary Derr, Vice President for Executive Operations; Claire Burlingham, Controller; Erica Heffner, Interim Chief Internal Auditor; Lois Schuster, Assistant Controller for Financial Analysis and Reporting; Jennifer Gagnon, Director, Grant and Contract Administration Services; Tanya Morehouse*, State Auditor’s Office; and Renee Bourget-Place and Sara Timmerman, 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 October 19, 2009 meeting.

Update on Internal Audit Activities

Erica Heffner, Interim Chief Internal Auditor, gave an oral presentation on current internal audit activity. Exit meetings with the Controller’s office were recently held regarding the procurement card and travel audits. Management is drafting their response and she anticipates reporting the results of the purchasing card audit at the December meeting and the travel audit at the January meeting.

Athletics has provided a corrective action plan for the NCAA Compliance Audit report issued in May of this year. Much progress has been made to address the observations with priority given to the higher risk recommendations. Approximately a quarter of the recommendations are still open and audit services will follow up on these at the end of the academic year.
Current audit projects include a review of the new (passed in December 2008) Conflict of Interest and Commitment Policy as well as an audit of controls over hiring of temporary employees. The audit team has also met with the newly formed Information Security Team about our audit concerns and open issues. David Todd, Chief Information Officer, will present the team’s progress and priorities as well as the status of other active security projects at the January meeting.

External Auditing Update:

- The A-133 exit meeting with KPMG is scheduled for Wednesday, November 18, 2009 on campus.
- The Department of Defense (DOD) – Office of Inspector General Criminal Investigative Services Unit is coming for a site visit on Wednesday, November 18, with only a week’s notice. We should learn more about the extent of any review or audit during this site visit. We were informed they are reviewing award expenditures including effort reporting. The DOD agent noted that the University was selected at random and that the visit is not in response to any specific concern. Ms. Heffner will keep the Committee up-to-date on the outcome.

Renovations for the new audit space in Billings are scheduled to begin the week of November 16th. The project is anticipated to take 4-6 weeks to complete. The cost of the project has been estimated to be $110K.

KPMG Presentation on FY2009 Financial Statement Audit and Management Letter Findings

Claire Burlingham, Controller, presented the Fiscal Year (FY) 2009 financial statements to the Committee, pointing out significant changes from last year. She cited the shift of cash from the CommonFund to TD Bank showing $1 million more than the previous year. We are now approximately 93% withdrawn from CommonFund. She also mentioned the significant decrease in endowment earnings due to the current economic downturn.

Due to reporting standards of GASB 45, the University is now required to recognize the unfunded liability of the estimated post retirement employee benefit costs. This liability is being amortized over a thirty-year period with $25 million recognized this year. The total actuarial accrued liability at the measurement date was $320.2 million. Vice President for Finance and Administration Richard Cate noted that an actuarial firm is being retained to provide a new estimate and develop alternate scenarios based on new benefit models. This information will be presented to the Board at their May meeting. Committee members were interested in working closely with administration to implement this in the strategic financial plan going forward. Renee Bourget-Place, KPMG, reported that a majority of institutions have unfunded liabilities related to this accounting requirement.
It was reported that for the first time the University was required to expense pollution remediation activities related to capital projects in accordance with GASB 49. This GASB requires pollution remediation costs to be expensed rather than capitalized as well as accrual of estimated costs for these activities. Trustees John Snow pointed out that this prohibits bonding for these expenditures and suggested the University have a process to identify and budget for these expenditures.

Ms. Bourget-Place reported that the FY 2009 audit went very smoothly. Following a plan initiated in April, management was very responsive and materials were made available ahead of schedule. No opinion is given on UMEA or MD&A. Areas of emphasis included revenues, investments, contributions, expenses (including capital and debt) and personnel costs.

No material weakness or significant deficiencies were noted in this audit. Chair Botzow commended management for this outcome.

Areas still targeted for improvement include:

- **Self-approved Journal Entries:** After this was cited in the FY2009 financial audit, management implemented a manual process for approval of journal entries. Since September, 2009, a new journal approval workflow process has been implemented in the PeopleSoft system so that on-line approval will be required by someone other than the preparer.

- **Investment Account Reconciliation:** The endowment accounting investment reconciliation was not being reviewed by anyone other than the preparer. A system has been set up so that the preparer’s work is being reviewed by the Senior Staff Accountant in this area.

- **Grant Accounts Receivable:** Currently, the University does not have a formalized write off and reserve policy for grant accounts receivable. In 2009, the University wrote off approximately $634,000 in grant accounts receivable; however no reserve was previously established. KPMG recommends that the University develop a formal write off and reserve policy for grants account receivables. Also a policy should be put in place to periodically monitor unbilled grants accounts receivable to ensure billing to the funding agency occurs regularly and in accordance with the frequency allowed by the funding agency. Grant and Contract Administrative Services has drafted guidelines for AR write offs, reserve, and residual balances, which will be implemented by July 1, 2010.

- **Information Technology Observations:** Comments include:

  1. Lack of documented IT security policy specific to the financially significant applications.
  2. No formalized password policy in place, no formal management review of network users and user access rights.
  3. Potentially unnecessary user accounts and system administration privileges exist for users with full access to PeopleSoft applications.
4. Data base administrators use a common user ID to migrate changes to production rather than using their own individual accounts.

5. Changes to applications were not documented and approved by management prior to implementation in production.

6. The University does not perform restoration tests of off-site data back-ups on a periodic basis.

7. The University does not have a defined policy that outlines the requirements for making changes to operating systems and infrastructure providing control over financial reporting.

A new committee of four IT specialists has been formed to address these issues. They will develop best practices and apply policies to deal with the findings. A study will be conducted to determine ramifications of implementing additional staff and cost. This study will take from 9-12 months to complete. Mr. Cate says he is focused on this issue and will have David Todd, CIO, address this Committee in January on progress to date. Even though an Information Security Officer is not in the budget, the team will actively work on these issues in the meantime. Similar comments were noted in the draft PricewaterhouseCoopers report, which will be finalized with management responses in late November and reported to the Audit Committee in December. Many of these comments were noted in the PricewaterhouseCoopers report, to be issued in late November.

Ms. Bourget-Place reported the A-133 audit, due on January 15, 2010, and the NCAA audit, due to the President on December 31, 2009, are on schedule.

She noted that GASB 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB 53, *Accounting and Financial Reporting for Derivative Instruments* will have minimal impact, if any, on the University’s financial statements. The University, particularly the Grant and Contract Administrative Services area have done a good job in developing reporting procedures for the American Recovery and Reinvestment Act (ARRA) Funding. All reports were completed and submitted on time.

A motion was made, seconded and approved on the following resolution:

**Acceptance of Fiscal Year 2009 Annual Audit**

WHEREAS, the books and accounts of the University of Vermont and State Agricultural College for the Fiscal Year ended June 30, 2009, have been audited by KPMG LLP, Certified Public Accountants and the report of such audit published in detail in accordance with 16 V.S.A. Section 2281(a);

BE IT RESOLVED, that the Audit Committee accepts this audit and recommends it to the full Board for its acceptance.
PricewaterhouseCoopers Audit

Claire Burlingham reported no new changes since she presented the results of the draft report in October. Management is working on their responses and the completed report should be ready by the end of November.

Update on Chief Internal Auditor Search Process

The search firm Witt/Kieffer has received approximately fifty applicants to date. They are preparing a website with candidate information for use by the Subcommittee. In executive session today, discussion will focus on scope of salary and related issues for this position. Candidates should be interviewed in the December/January timeframe.

Other Business

At 9:55 a.m. Chair Botzow asked for time for the members to speak with both the internal and external auditors.

Executive Session

At 10:00 a.m., a motion was made, seconded and approved to go into executive session to discuss the Chief Internal Auditor search. Trustees and Vice President Gary Derr were invited to remain. All others in attendance were excused from the meeting.

Adjournment

The meeting was re-opened to the public at 10:05 a.m. There being no further business, the meeting was adjourned.

Respectfully submitted,

Bill Botzow, Chair