A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, October 19, 2009 at 8:30 a.m. in Room 427A, Waterman Building

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

MEMBER ABSENT: John Snow

REPRESENTATIVES PRESENT: Faculty Representative Albert Joy, Staff Representative Renee Berteau, Alumni Representative Bill Cimonetti and Student Representative Julia Michel (for Hannah LeMieux)

PERSONS ALSO PARTICIPATING: Richard Cate, Vice President for Finance and Administration and University Treasurer; Francine Bazluke, Vice President for Legal Affairs and General Counsel; Gary Derr, Vice President for Executive Operations; Claire Burlingham, Controller; Christopher Lamson, Senior IT Auditor; Tanya Morehouse, State Auditor’s Office; and Renee Bourget-Place and Sara Timmerman, KPMG

*Via teleconference call

After a round of 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 September 21, 2009 meeting.

Update on Internal Audit Activates

Chair Botzow asked members of the Audit Committee if they had any questions regarding the report prepared by Erica Heffner, Interim Internal Auditor, who was unable to attend the meeting because of a death in her family. On behalf of the Committee, Chair Botzow expressed his condolences to her.

Update on Status of the Compliance Program

Vice President Bazluke updated the Committee on the progress made in setting up the compliance program defining its mission, goals and means, rules and structure and relationships with senior leadership as well as the General Counsel’s Office and the Audit Services Office. She stated that the posting for a Chief Compliance Officer has drawn about 145 applications thus far. She will pare this group down to the top 10-15 and form
a sub-committee to look at those applications. She hopes to have a Chief Compliance Officer on board early next year.

She emphasized this will be a service organization, not an enforcement agency. The Compliance Office will work closely with the Internal Audit Office and report regularly to this Committee. Training, sometimes mandatory, will be crucial, and may sometimes be on-line but user-friendly. The emphasis of this function will be as a resource, not an investigative or enforcement organization. The whistle-blower function will remain in the Internal Audit Office. Tanya Morehouse, of the Vermont State Auditor’s Office, suggested a measurement tool be set up and used annually to see the progress made thus far.

**KPMG Update on FY09 Financial Statement Audit**

Renee Bourget-Place, KPMG, reported that the FY09 financial audit is on target with the original timeline. It is now in the second partner review and she expects this to be finished in the next week or two in time for issuance on October 30th.

She cited four preliminary observations:

1. Journal entry self-approvers
2. Fundriver investment reconciliation.
3. Grant accounts receivable write off and reserve policy
4. IT observations.

All observations are being monitored closely. She expects no material weaknesses or significant deficiencies, but is always looking for areas of improvement. Vice President Cate stated that with the arrival of our new Controller, Claire Burlingham, the manual process of journal entry self-approvers was eliminated, but with her help, has now become electronic within the system adding another level of approval.

More time was spent on IT issues such as security, controls, change management, and program development. Vice President Cate mentioned the formation of an IT Security Team. Chair Botzow commented that the IT security issue has also been mentioned by the PricewaterhouseCoopers (PWC) auditors and by the Internal Audit Office.

Ms. Bourget-Place stated that there are not a lot of new accounting standards affecting higher education, but there are many in the FASB world. At the November meeting, she will discuss emerging issues. The University has received some stimulus money, such as ARRA funding and quarterly reporting by GCA was completed on time. Ms. Morehouse suggested Jan Westerville of the State Economic Stimulus and Recovery Office as a good resource in this area.

The NCAA audit, with an issuance of December 31, and the A133 audit, with an issuance date of January 25, 2010 are also on schedule. They will be on campus shortly to work on these two audits.
Overview of Management’s Certification Process for Budgetary Reporting

Vice President Cate reported that a quarterly budget vs. actual report is now presented to the Board of Trustees. The exercise began with the Division of Finance and Enterprise Systems (DFES) and by March will be embraced by the entire University. Vice Presidents, Deans, up through the Provost and President will have to certify their budgets up from a unit-by-unit basis. The goal is to focus on the budget and manage it better.

Update on the PricewaterhouseCoopers Follow Up Review of Internal Controls

Claire Burlingham, Controller, provided an overview of the two-week audit by PricewaterhouseCoopers started on October 5th and completed on October 16th. They were hired to follow-up on the Deloitte audit of 2008. They forwarded a work plan requesting materials and interviews while they were on campus. They met with trustees Bill Botzow and Deb McAneny, Vice President Cate, staff in Procurement, business managers, and an additional Vice President to get a feel for the culture and processes here at the University. Their IT auditor was here on the second week to discuss PeopleSoft applications, security, access rules and responsibilities with staff in our IT areas.

The exit interview on October 16th went well. A draft report will be delivered to management by October 30th, with an expected response by November 18th. A final report on findings and recommendations is due by November 30, 2009. The Audit Committee will review the report prior to presentation to the Board.

Open items are:

- User access/SOD
- Approval of check requests
- Vendor approval
- Automated budget check

They are still testing, but overall seemed positive about the University’s response to issues cited in the Deloitte audit and their commitment to take responsibility and correct them. PWC thanked everyone for their outstanding cooperation and full attention to their needs. They did comment on the Internal Audit function and their long search for the new Chief Audit Officer.

Update on Chief Internal Auditor Search Process

Chair Botzow stated the leadership profile was completed and posted by the search firm. The subcommittee will meet by phone with the search firm, Witt/Kieffer, on December 2nd to review candidates. In mid-December, the subcommittee will meet in person to select finalists. It is anticipated on campus interviews will occur in early January, 2010.

Other Business
Chair Botzow reviewed the revised work plan. In November, KPMG will present the FY2009 financial statement audit. The PWC follow up review of internal controls, progress on Enterprise Risk Assessment and a higher education act update are planned for the December meeting. The Chief Internal Auditor search update and internal audit activities will also be discussed at both meetings. In preparation for the Audit Committee’s review of management’s work on Enterprise Risk Management at the December meeting, a work group comprised of a subset of Audit Committee members will be formed to work with management on the Board’s responsibility to understand ERM and how it is applied at UVM.

Vice President Cate reported that John Evans, Special Advisor to the President, had been analyzing an organizational structure combining the offices Sponsored Programs and Grant and Contract Accounting into one organization, reporting to the Vice President for Research. The President and Provost are considering this recommendation. Best practice would be for the fiscal responsibilities to remain with the Controller’s area, even though they no longer report to them, for audit and compliance issues.

Julia Michel, attending on behalf of Hannah LeMieux, informed the Committee that the Student Government Association had passed a resolution regarding easier access to internal audit reports. Vice President suggested that he, Vice President Gary Derr, Interim Internal Auditor Erica Heffner and student representatives get together to discuss the best business practice to accomplish this. This may be an issue to be worked on by the new Chief Internal Auditor. Chair Botzow will ask a Trustee Audit Committee member to attend the meeting which should focus on the dissemination of Internal Audit reports and representative groups’ roles and responsibilities.

Adjournment

There being no further business, the meeting was adjourned at 9:45 a.m.

Respectfully submitted,

Bill Botzow
Chair