A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Monday, September 21, 2009 in Room 427A, Waterman Building

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

MEMBER ABSENT: Carolyn Branagan

REPRESENTATIVES PRESENT: Faculty Representative Bud Meyers, Staff Representative Renee Berteau, and Student Representative Hannah LeMieux

REPRESENTATIVE ABSENT: Alumni Representative Bill Cimonetti

PERSONS ALSO PARTICIPATING: Daniel Mark Fogel, President, Richard Cate, Vice President for Finance and Administration and University Treasurer; Francine Bazluké, Vice President for Legal Affairs and General Counsel, Gary Derr, Vice President for Executive Operations, Claire Burlingham, Controller, Erica Heffner, Interim Internal Auditor, Christopher Lamson, Senior IT Auditor, Tom Salmon and Tanya Morehouse*, State Auditor’s Office and Renee Bourget-Place*, KPMG

*Via teleconference call

After a round of introductions, Bill Botzow called the meeting to order at 8:31 a.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the July 13, 2009 meeting.

Update on Internal Audit Activities

Interim Internal Auditor Erica Heffner summarized briefly the audit activity for the past fourteen months with the use of a matrix distributed in advance to Committee members. The report included Audit Services observations as well as external audit observations and external compliance review recommendations made. The internal audits included were the Development Office Business Meal Hospitality Amenity Expenses, 2008 Payroll Internal Control Review, 2008 Math and Biology Training Grant Internal Control Review, 2008 Visitor Parking Internal Control Review, 2008 VP Student Campus Life and Athletics Director Business Meal Hospitality Amenity Expenses, 2009 Workers Compensation Internal Control Review, and outstanding observations from prior years. External audits included the 2008 FY’08 A133 Audit (performed by KPMG), the Financial Statement Management Letter 2008 (performed by KPMG), and the 2009
NCAA Compliance Review (performed by the Associate Commissioner of the American East Conference).

Ms. Heffner was asked if she could rank the importance of these observations in the future. She noted she will continue to regularly provide audit results to the Committee and will work with members on the format. She reported that they try to revisit the pending observations at least twice a year and keep them open until satisfactorily addressed.

President Fogel mentioned that in the past he had requested an audit of the expenses of all Officers of Administration who travelled. Claire Burlingham, Richard Cate and Fran Bazluke will work on inserting sanctions in policies and repercussions for not following policy and bring forth conclusions to next meeting.

Mr. Cate reported he thought we were in much better shape than last year and expected the A-133 audit to go much smoother with fewer findings.

**Presentation of Internal Control Models**

Mr. Cate opened up the topic by saying the University was now following the COCO model, which had been informally adopted. He felt it was time to discuss the pros and cons of this and the COSO model.

Claire Burlingham gave a PowerPoint presentation on the differences between the COCO and COSO Models. The COSO (Committee of Sponsoring Organization) model was formed in 1985 and a survey in 2006 showed that 82% of companies polled used COSO’s framework for internal controls. COSO’s definition of internal control is:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Its characteristics are:

- Objective
- Quantitatively measurable
- Formal
- Becomes the “map” (guiding principles)

The COCO (Criteria of Control) Model was formed in 1995 and is predominantly used in Canada. The COCO Definition of Internal Control is as follows:

- Control comprises those elements of an organization (including its resources, systems, processes, culture, structure, and tasks) that taken together, support people in the achievement of the organization’s objectives.
- Internal controls are those actions that foster the best results for an organization.
The characteristics of the COC Model are:

- Subjective
- Informal
- Intangible
- Based on trust and competence

The COCO model is relies more heavily on “soft” internal controls such as trust. This model assumes that if the right employees are hired and given a proper environment to work in, there is not as much need for formal policies and procedures.

A motion was made, and unanimously accepted by the Audit Committee to adopt the more formal COSO model of internal controls.

**Selection of Firm to Perform Follow-Up Review of Internal Controls**

Chair Botzow reported that he, Harry Chen and Jeff Davis reviewed the responses received to the RFP for performing a follow-up review to last year’s review of internal controls related to specific transactions. Eleven firms responded and after input from management, Ms. Heffner, Mr. Cate and the State Auditor’s Office, the pool was narrowed down to three highly qualified proposals. After phone and personal interviews, taking into consideration size of teams, cost and other variables, the sub-committee recommended Pricewaterhouse Coopers with their great experience in internal controls and flexibility with bringing in a core group of people while adding experts in their field.

A motion was made and passed unanimously to engage PricewaterhouseCoopers for follow-up review of internal controls. They should be ready to start in October. The review completion date is November 30, 2009.

**Update of Chief Internal Auditor Search Process**

Gary Derr reported that he had contacted the search firms who responded in this search process and found them all to still be interested. After careful review and telephone interviews with Bill Botzow and Susan Hudson-Wilson, the Chief Internal Auditor Subcommittee selected Witt/Kieffer which was approved by the Executive Committee.

Witt/Kieffer representatives visited the campus and met with a number of individuals including management representatives, Audit Committee members and internal audit staff. They have composed and management and the Search Subcommittee reviewed a draft position advertisement. The advertisement will be web-based and placed on suitable higher education and auditor websites. Witt/Kieffer has also drafted a complete leadership profile which will be circulated for comments before review and final editing at next Tuesday’s Chief Internal Auditor Search Subcommittee meeting.

Trustee Snow suggested including in the leadership profile more detail on the expected size and location of the Internal Audit Office.
Other Business

At 9:50 a.m. members of the Audit Committee met with UVM’s internal and external auditors to offer them the opportunity to address any issues they might wish to discuss with the Audit Committee.

Adjournment

There being no further business, the meeting was adjourned at 10:02 a.m. followed by a tour of the new Audit Office space in Billings.

Respectfully submitted,

Bill Botzow
Chair